

Bank Bailout Money Used to Buy Out “Ailing” Financial Competitors

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PNC's \$5.2 Billion National City Purchase Is Takeover Template

By Elizabeth Hester

Oct. 25 (Bloomberg) — [PNC Financial Services Group Inc.](#)'s taxpayer-backed \$5.2 billion purchase of [National City Corp.](#) is a blueprint for regional bank takeovers pressed for by U.S. Treasury Secretary [Henry Paulson](#), investors said.

PNC, led by Chief Executive Officer [James Rohr](#), becomes the fifth-largest U.S. bank by deposits with its fourth acquisition in less than two years. Pittsburgh-based PNC announced the deal yesterday after getting \$7.7 billion in government funds, part of the \$125 billion the Treasury is doling out to regional banks to thaw frozen credit markets.

“It’s going to start to become the template,” said [Michael Yoshikami](#), president of YCMNet Advisors in Walnut Creek, California, which manages \$1 billion.

Paulson already handed \$125 billion to nine of the largest U.S. lenders, and says the remaining money can recapitalize ailing banks, fund takeovers and benefit the economy. The Treasury may also take stakes in insurance firms, a person briefed on the plan said yesterday.

Rohr, 60, began combing through Cleveland-based National City’s books “months ago,” he said on a conference call yesterday. The all-stock purchase of National City is on “solid footing” because of the Treasury funding, the bank said yesterday. Buying National City with stock instead of cash means PNC can use the government funds to boost Tier 1 capital ratio, measuring the ability to absorb losses, from 8.2 as of Sept. 30.

Tier 1 Capital

Rohr is taking advantage of a weaker rival to expand his reach into the Midwestern U.S. The deal will bring PNC to more than 2,500 branches in 13 states and Washington, D.C.

“Speed is of the essence now,” said [Roger Cominsky](#), a partner at law firm Hiscock & Barclay in Buffalo, New York. “Everybody has a target on their back. A suitor one day can be a target the next day.”

PNC expects about \$20 billion in losses from National City’s lending portfolios, or almost 18 percent of the total. It anticipates \$2.3 billion in merger-related charges and will cut \$1.2 billion in costs in the combined bank.

A total of 22 banks, including Capital One Financial Corp. and SunTrust Banks Inc., will get Treasury funds, the Wall Street Journal reported yesterday, citing unidentified people familiar with the matter. [Steven Thorpe](#), a spokesman for Capital One, and [Barry Koling](#), a spokesman for SunTrust, didn't return calls seeking comment on the report after business hours.

'Strong Banks'

Koling said earlier yesterday that his bank "perceives the current environment is one of opportunity for strong banks like SunTrust," while saying the bank had no further announcement on whether it plans to participate in the Treasury program.

[Regions Financial Corp.](#) and First Horizon National Corp., the biggest banks in Alabama and Tennessee, respectively, said yesterday they won preliminary approval to receive capital from the Treasury. Regions is selling \$3.5 billion in preferred stock and warrants and First Horizon is slated for an \$866 million injection, the companies said.

Lenders such as [U.S. Bancorp](#) said this week they may be interested in taking over ailing rivals. [Richard Davis](#), CEO of the Minneapolis-based bank, is "more active and more interested than we might have been before," he said on an Oct. 21 conference call to discuss USB's 47 percent decline in third-quarter net profit.

"One of the buyers I think you have to look to now is U.S. Bank," whose targets may include [Colonial BancGroup Inc.](#) in Montgomery, Alabama, said [Gerard Cassidy](#), an analyst at RBC Capital Markets in Portland, Maine. "They will probably be looking to do deals," he told Bloomberg TV.

[BB&T Corp.](#), [KeyCorp](#) and [Regions Financial Corp.](#) have all expressed interest in raising funds by selling stock to the government, as PNC did when it sold preferred shares. Regions, Alabama's biggest bank, said it will raise as much as \$3.5 billion. KeyCorp, the No. 3 Ohio lender, will seek between \$1.1 billion and \$3.3 billion.

Goldman, Morgan Stanley

"If this is the model, it's something we can live with," said [Douglas Ciocca](#), who oversees \$1.8 billion as managing director at Renaissance Financial Corp. in Leawood, Kansas. "I like it in that it puts a little bit of a predatory undertone in this industry."

[Goldman Sachs Group Inc.](#) and [Morgan Stanley](#), newly converted to bank holding companies from investment banks, may also be on the hunt for deposits, a stable source of funding. Goldman spokesman [Michael DuVally](#) said last week that the bank "intends to grow its deposit base both organically and through acquisitions."

Morgan Stanley spokesman [Mark Lake](#) declined to comment. The firm's CEO, [John Mack](#), told CNBC last week that he wanted to expand his asset management and retail financial advisory businesses.

Canadian Lenders

Another savior for struggling lenders could be Canadian banks, which have said they may take advantage of the crisis to expand in the U.S. [Royal Bank of Canada](#), [Toronto-Dominion Bank](#) and [Bank of Montreal](#) already operate U.S. consumer banks.

Royal Bank has spent more than C\$2 billion (\$1.57 billion) on U.S. acquisitions in the past two years, including Atlanta- based Flag Financial Corp. and Alabama National BanCorporation.

Toronto-Dominion, the No. 2 bank in Canada after Royal Bank, completed its \$7.5 billion purchase of Cherry Hill, New Jersey- based Commerce Bancorp Inc. in March. The acquisition doubled the bank's U.S. branch network. CEO [Edmund Clark](#) said in June he'd add to his U.S. business if he found a "compelling" target.

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