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Don't Expect Scrapped Astoria Merger to Stop Trump-Era Bank Deals

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Don't expect the collapse of the merger between **New York Community Bancorp** and **Astoria Financial** to stop mid-sized banks from attempting similar deals during President-elect Donald Trump's administration.

The two banks cancelled the transaction, announced in October 2015, after it **became clear the Federal Reserve** wasn't going to approve it this year. Neither company provided further details about the move, which may had more to do with an activist hedge fund's agitations than regulatory concerns.

Basswood Capital Management, a 9% Astoria stakeholder, first pushed for a deal in August 2015, suggesting that substantial opportunities exist "in a business combination or sale." Then, after the Astoria-NYCB Fed review lingered, the fund sent a letter Dec. 9, disclosed Wednesday, that urged the two banks to cancel the combination, noting that "market conditions and the regulatory landscape have significantly changed."

Astoria's stock price had dropped about 1% since the deal was announced, while the S&P Regional Banks Index had risen 29%, the fund noted, suggesting that Astoria was worth "significantly" more than what New York Community was paying for it.

That's not to say regulatory issues weren't a factor, since the review went on for more than a year, but the incoming Trump administration -- and whoever the White House picks as top bank supervisor at the Fed -- will likely be more amenable to mid-sized and regional bank deals in the months to come.

"Regulators understand the need for consolidation and want to see more deals," Cowen Washington Research Group analyst Jaret Seiberg said in a report explaining that the merger's demise doesn't suggest Federal Reserve opposition to such deals in general.

"Nothing we have heard suggests the deal could not have eventually won Federal Reserve approval," he wrote.

Separate issues, such as those raised by Basswood in its Dec. 9 letter, are more likely causes for the outcome, he said, citing higher interest rates and a rally in bank valuations.

The deal would have taken New York Community Bancorp from $49 billion in assets to $64 billion, putting it in a tougher regulatory category that would have subjected it to closer scrutiny and higher capital requirements as a Systemically Important Financial Institution (SIFI).

Banks with more than $50 billion in assets are designated by regulators as SIFIs, a requirement of the post-crisis Dodd-Frank Act.

While the creation of another systemically important bank might have concerned the Fed, the regulator has approved at least one such combination -- **CIT Group** $3.5 billion acquisition of **OneWest Bank** in 2015, which formed an institution with nearly $70 billion in assets.

And there is a strong possibility that lawmakers on Republican-controlled Capitol Hill will pass legislation next year to raise the SIFI threshold to $100 billion or higher -- a move that could prompt some additional deal-making activity in the mid-sized bank space, especially if regulatory costs decline.

Banks that could escape SIFI status and **possibly engage in deals** include **Zions Bancorp** , **Comerica** and **Regions Financial**

"If shareholders are looking at two banks that are considering merging, it is better for them to not be SIFIs when they complete their deal because investors will know they have lower costs," said Donald Lamson, a former assistant director in the Office of the Comptroller of the Currency.

Even those costs may decline, however, under the likely deregulatory disposition of Trump's pick for the Fed.

Potential candidates include two libertarians -- Paul Atkins, a former commissioner at the Securities and Exchange Commission and John Allison, a member of the Cato Institute's board who was CEO of regional bank **BB&T** between 1989 and 2008, a period of significant acquisitions.

"The change in administration helps those banks considering mergers because there will be a fresh set of eyes on the deals," said Lamson. "While the regulatory staffers don't change, the government appointees change. The bank merger market has been atrophied for the last eight years so we'll see more bank mergers and bank-merger regulatory approvals."

For example, Lamson said, he would expect Atkins, if chosen as the Fed's banking supervisor, to be more inclined to "let markets rule."