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Florida Bank's Effort to Make Itself 'Pristine' Pays Off

By Robert Barba
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John Tranter knew he had a rare gem. But no one was shopping for gems during the financial crisis, so he decided his time was best spent really polishing it up.

The move paid off. In the week since his bank, Gulfstream Bancshares, announced it would sell itself for $77 million to CenterState Banks (CSFL), the transaction has been the buzz of their home state of Florida.

CenterState's stock has risen 10% since the announcement. Meanwhile, the deal price of nearly 1.5 times Gulfstream's tangible book value has probably renewed the M&A hopes of sound banks in the Southeast that, like Gulfstream, kept getting passed over as buyers sought bargains for the dented, damaged and distressed.

"To me, this is truly the first healthy-bank deal in Florida in five or six years, where you have a healthy buyer buying a healthy target — and they are paying a decent premium for it," says Brady Gailey, an analyst at Keefe, Bruyette & Woods. "There are a lot of small, healthy banks in Florida, but I think they and the buyers have been skeptical about trying to get out and do a deal. With the market rewarding this deal the way it is, I think it could lead to more healthy-bank M&A in Florida."

With credit quality being the banner issue in Florida, one of Stuart-based Gulfstream's most distinct features is its asset quality. At the end of the first quarter, noncurrent loans made up 1.12% of the bank's total loans. While the state's 203 banks had an average noncurrent ratio of 5.32%, 54 banks had a ratio equal to or less than 1.5%, according to data from BankDATAWORKS, a Chicago bank-analytics firm.

Gulfstream sought to be a rebel from its inception. Tranter said that he and his colleagues are mostly former Barnett Bank employees, but as Gulfstream was forming in 1998 they made a concerted effort to be different.

"Barnett was all things to all people, but as we were putting the concept together I thought you probably have a better chance of long-term profitability by focusing on a few things," Tranter says. "It took longer to grow and took more focus, but it was great once we got critical mass."

The bank focuses on small businesses, entrepreneurs, professional businesses and affluent investors. The $572 million-asset company's loan portfolio is 27% commercial and industrial, and 75% of its commercial real estate is owner-occupied.

Meanwhile, nearly 40% of its deposits are demand accounts. That percentage "is high in any market," says Michael Rose, an analyst at Raymond James, the investment bank that is representing Davenport-based Center State in the deal. "That is approaching Texas bank levels."

The decision to sell was largely based on a desire to have liquidity, Tranter says.
"We are 15 years old, and the traditional de novo tends to do a liquidity event much sooner than that," Tranter says.

M&A in Florida was hot in the years before the downturn, but Tranter says he was busy focusing on expanding south into Palm Beach County, not selling the bank. Then the downturn hit, and nearly 70 banks failed in Florida. Even though the pace of failures has slowed considerably, last week regulators seized a bank in Florida. Traditional M&A all but dried up, largely because of skepticism about credit marks.

"It was like trying to catch a falling knife," says Jim Cassel of Cassel Salpeter, an investment bank in Miami.

Unable to control the larger economy, Tranter says he decided to get the bank in the best shape it could. It increased its loss allowance for noncurrent loans to at least 200%, and it aimed to build its capital ratios to twice the regulatory minimums for well-capitalized institutions through retained earnings. If it could clear up any questions surrounding capital and credit, his theory went, potential buyers could focus on strengths like its average deposits of $120 million at its four branches.

"We wanted our metrics to be pristine," Tranter says. "My goal was to have a deliverable book that was visible. Our earnings visibility is as good as ever. A buyer wouldn't have to mess around with provision or our efficiency."