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Midwestern Values Boston's NBH Finds Value Far From Home

Despite CEO Tragedy, Group Proves Successful In Kansas City

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National Bank Holdings (NBH) Corp. is a Boston-based company dedicated to buying distressed banks and making them profitable again. Sounds great – but, as has been widely noted, its home base is hardly a hotbed of failed banks.

With troubled institutions rather thin in New England, NBH decided to look west. And, as of the start of 2011, it seems to have struck gold.

Since its founding in 2009, it purchased two troubled Midwestern banks – with \$4 billion and \$1.6 billion in assets, respectively – and now has 500 employees. Locally operating in Kansas City, Mo., the group is headed largely by ex-Citizens Financial Group executives and funded prominently by East Coast money.

Out Of Region Play

But the company's history hasn't been easy. NBH had to overcome an early tragedy after its founder and CEO, James Connolly, died of a heart attack at age 49 in January 2010. Connolly had previously served as president of Citizens Financial Group.

"It was a very difficult loss for us," said Don Gaiter, NBH's chief of acquisitions and strategy. Connolly had personally recruited the NBH team, and most had worked with him previously, Gaiter added. But the company was Connolly's vision, and the group was able to continue on despite the loss, recruiting former Bank of America executive Tim Laney to act as CEO.

After closing on its two acquisitions in the fourth quarter of 2010, NBH is already the fourth-largest in the Kansas City metropolitan statistical area, according to Gaiter, with 6 percent of the local market share and designs on taking 10 percent market share in the future.

The recent downturn has brought a flood of private equity money to the marketplace, and NBH, with money and a good pedigree in hand, is making big moves in the Heartland.

It takes a lot of money to launch a plan like this, and NBH has it, according to Matt Pieniasek, president of Newburyport-based Darling Consulting Group. The Citizens Financial Group alumni have New England ties, and the company's private equity money also largely hails from here, he said.

BNH raised \$1.15 billion from the likes of Boston-based Putnam Investments and Fidelity Investments. Pieniasek said savvy investors figure plenty of distressed banks are seriously undervalued and can bring a big payoff if a well-funded turnaround artist can get in and right the ship. And in addition to money, NBH has an experienced team that can identify good prospects for recovery amid hundreds of troubled banks.

But New England doesn't contain the right environment for this kind of work, Gaiter said. Out of the more than 300 recent bank failures in the U.S., only one has been in Massachusetts. Missouri, on the other hand, has had 11.

"We knew this was going to be an out-of-region play for us," Gaiter said.

The group looked for markets with more opportunity – in this case, more distressed banks – and found that it liked Kansas City as a launching-point. Kansas City, with a city population of roughly 450,000, has a highly educated population, a diversified business market and is a major regional transportation hub. It's also one of the least consolidated banking markets in the country, he said, which will offer plenty of buying opportunities in the future.

Welcome Business

But NBH now extends far beyond the borders of Missouri. It first purchased Bank Midwest, with \$4 billion in assets and 38 branches, in a deal announced last July. That deal was done without FDIC assistance; its later acquisition, of nearby Kansas-based Hillcrest Bank, was facilitated by the FDIC after Hillcrest failed.

Hillcrest, which will be folded into Bank Midwest, has nine full-service branches in Kansas, Missouri, Texas and Colorado, and 32 in scattered regional retirement centers.

It's common for companies like NBH to crop up during periods of bank failures, said John Carusone, president of Hartford-based Bank Analysis Center, and regulators welcome their presence – an investor group willing to buy will minimize the loss to the FDIC insurance fund after the bank fails. But regulators take a hard stance on such groups, too, he said, making sure their plans are sound and their cash arsenal well-

stocked. New England hasn't seen much outright failure, but several troubled Connecticut banks have had to seek outside investors who could provide cash in exchange for a controlling interest in the banks.

Patriot National Bancorp in Stamford, Conn. for example, got a \$50 million investment offer, he said. Darien Rowayton Bank also got \$10.5 million after its Tier 1 capital ratio sank to below 2 percent – at which time regulators start a 90-day clock that demands the bank find investors or be taken into receivership.

Despite New England's occasional troubles, Don Musso, president of New Jersey-based bank consultancy FinPro, agreed that northern Missouri has had far more disruption in the market. NBH is taking on a giant task in combining and running these distressed banks, he said, but the former Citizens executives are well-respected in the financial industry.

The company got off to a running start based on the good reputation of its CEO, James Connolly, and it's impressive that the group Connolly assembled was able to continue with his plan.

"You've got to appreciate a team being able to do that," he said.