AMERICAN BANKER.

Best of Both Worlds: Wedbush Looks to Expand Bank with M&A

By Kate Berry
DEC 2, 2011 4:03pm ET

LOS ANGELES — R. Scott Racusin gets tired of hearing that banks are not lending.

"It drives me crazy. It's like saying a grocery store doesn't want to sell groceries," says Racusin, the president and chief executive of Wedbush Bank. "Banks are making every loan that they possibly can."

The search for loan growth has led the small but profitable Wedbush Bank, whose sister company is brokerage firm Wedbush Securities, to scout for an acquisition along the West Coast. (Both companies are owned by Wedbush Inc. in Los Angeles.)

Couplings of brokerage firms and banks have been mixed at best, often stumbling in their efforts to cross-sell financial products and increasingly drawing regulatory scrutiny. But in its nearly four years of existence, the $218 million-asset Wedbush Bank has established itself as a rare exception. It has carved out a niche selling bank products to a built-in referral base of more than 100,000 brokerage clients, and now it is looking to expand beyond those customers.

"We see tremendous opportunities going forward in the acquisition of other banks," Racusin told American Banker in an interview late last month.

Wedbush Bank posted a 67% year-over-year increase in total loan growth for its fiscal year ended June 30, to $80.2 million, and profits in the same period more than doubled. The bank added three loan production offices this year, and in recent months it started a government lending division offering "small-dollar" loans to municipalities that were referred by Wedbush Securities' public finance group. About 40% of the bank's customers are clients of the securities firm.

Edward Wedbush, the parent company's founder and chairman, says his firm wants to buy another bank to take advantage of the cyclical nature of California banking. The state was a hotbed for start-ups before the financial crisis: many de novo banks could easily raise the necessary initial funding of about $20 million, with the goal of turning around and selling themselves within three to five years.

Now those bankers, fed up with the effects of the crisis and the high costs of complying with new regulation, are increasingly looking to throw in the towel.

"They're tired now and ready to move on," says the 79-year-old Wedbush, who founded the family-run brokerage firm in 1955 with $10,000.

The difficult operating environment for many banks - and the relatively cheap valuations of most bank shares - has created a buyer's market for companies like his, according to Wedbush: "You buy your straw hats in winter," he says.

Observers say there is plenty of room in the market for more buyers with the money to spend.

Rick Levenson, the president of San Diego investment bank Western Financial Corp., says some banks are willing to sell for just slightly above book value - a far cry from a few years ago when multiples reached three or four times book value.

"There are still a number of well-run banks that would be willing to exit the market, particularly for cash," Levenson says. "Multiples are nowhere near where they were five years ago, and won't get back to those days unless there is a pickup in economic activity."

Plenty of acquirers have raised capital expressly to buy California banks during the downturn. Those companies include Grandpoint Capital Inc. in Los Angeles, Opus Bank in Redondo Beach and Carpenter & Co., the Irvine, Calif., private equity firm that agreed earlier this month to merge two banks that it controls.

"Right now everybody is looking for deals," says Wedbush Bank CEO Racusin, adding that his company placed a bid with the Federal Deposit Insurance Corp. for a failed bank in the past year. (The bid was not accepted, and he did not identify the bank.)

"My sense is that in 12 to 24 months, there will be some great opportunities, and [the Dodd-Frank Act] is creating some of that because of the cost of compliance," he says.

Wedbush got its charter in February 2008, before the height of the financial crisis. It took less than nine months for regulators with the Office of Thrift Supervision to approve the charter, but after that "everybody was stalled," Racusin says.

Before the financial crisis, many brokerage firms acquired small depositories to expand in specific areas such as trust services. But no brokerage firm has received approval to buy a bank since Wedbush got its charter.

Sterne Agee & Leach applied for a charter in May, when it announced a deal to buy an unidentified community bank outside Alabama. The brokerage firm did not return calls for this story.

Until Wedbush finds a suitable target, Racusin is concentrating on niche markets that overlap with the bank's securities firm sister company. Wedbush Securities is one of the largest clearinghouses for small trading firms and has built a reputation for municipal and public finance.

"We're trying to find a niche within the securities group," Racusin says, adding that while competition for loans is still stiff, "big banks don't like small transactions."

Wedbush Bank can offer loans to municipalities and colleges that "have a lot of the same attributes of a bond," he says.

Chairman Wedbush says that for years the securities firm operated "just like a bank" without the actual credentials of a depository.

In 1980, Wedbush Securities raised the ire of competitors when it started paying interest to clients who had cash balances in their accounts. Then competitors like Merrill Lynch & Co. (now part of Bank of America Corp.) filed petitions with the Securities and Exchange Commission, complaining that paying interest gave Wedbush an unfair advantage.

"I got to thinking at the time that we were a bank, because our clients could borrow on margin, get interest and have a debit card," Wedbush says. "We had this experience where we realized we already are a bank, and then we decided to start one."
