

Good CEOs Hard to Land; Will M&A Change That?

American Banker | Tuesday, January 11, 2011

By RACHEL WITKOWSKI

The mergers and acquisitions revival in banking is likely to increase chief executive turnover. But putting more senior bankers on the streets won't necessarily help institutions that have been struggling to recruit leaders.

In the past two years much fewer CEOs in the financial sector left their banks than in the tumultuous days of 2008, according to data from the search firm Challenger, Gray & Christmas Inc. The relative inertia has made it harder for those banks that have openings to find qualified replacements.

"There's a shortage of capable bank CEOs in place today," said Charles Thayer, the chairman of Chartwell Capital Ltd., a private investment firm in Fort Lauderdale, Fla., that advises banks. That means there should be opportunities for talented CEOs who get displaced — though "it may not be the one they want," he said.

Thayer said about half of the dozen chiefless banks he works with have been looking for a CEO for up to nine months. Many still struggle to find a banker ready, willing and able to take on the challenge. Even harder: finding a banker who can secure regulatory approval to pilot a troubled bank.

Recruiters and analysts expect turnover to accelerate this year as more mergers close in coming quarters. Because of this, many executives will either have to accept a change in

position — possibly a demotion — at the combined bank; find the same position elsewhere; or just retire.

As larger companies and private-equity groups with cash "begin to step up, inevitably, by default this will create turnover at the bank, because you just don't need two CEOs," said John Challenger, chief executive of the executive outplacement firm Challenger, Gray & Christmas Inc.

There were 112 CEO departures in the financial sector last year through Nov. 30 (the latest date for which data is available), according to Challenger Gray. That's on par with the 116 that took place for the full year in 2009 and down from 156 CEO departures for 2008.

Though Challenger would not predict what that number could be in 2011, he said he expected it to rise because of a spike in M&A. A number of acquisitions unveiled last year have yet to close, indicating that the merging institutions may still be working out leadership roles from both banks.

Center Financial Corp. in Los Angeles, which is selling to Nara Bancorp Inc., said last week that it had terminated Jae Whan Yoo, its CEO, replacing him with industry veteran Richard Cupp, who will hold the post until the sale closes.

The agreement between the \$2.3 billion-asset Center and Nara, however, was a rare case in that the parties are attempting to combine similar-sized institutions, which analysts said can create all sorts of social issues, especially when both CEOs have strong wills.

"These things happen all the time" in bank mergers, said Alvin Kang, president and CEO of the \$3 billion-asset Nara.

Kang said Yoo's departure "wasn't a total surprise," and should not derail the deal. The companies are "very committed to completing the merger," he said.

Then there are cases where executives agree to leave as part of the acquisition.

When Kearny Financial Corp. announced in May that it had agreed to buy Central Jersey Bancorp, the buyer worked out change-of-control deals with several Central executives, including James Vaccaro, the seller's chairman, president and CEO.

In October, Peyton Patterson, the CEO of NewAlliance Bancshares, said she would leave after her bank is sold to First Niagara Financial Group Inc. Patterson has not yet revealed her future plans.

The most disheartening aspect of turnover is that the industry loses veterans — at a time when some ailing banks need those leaders the most, recruiters said.

Retirement became much more prevalent last year, accounting for about 40% of last year's turnover, reflecting a combination of fatigue from the financial crisis and the aging of experienced bankers.

"There's a shortage of credit skills in what I call the missing generation of bankers," said Rod Taylor, president of Taylor & Co.

The main reason for an executive departure in 2009 was resignation, which accounted for 32% of the turnover while retirement accounted for 24%.

Thayer said one problem is that most banks looking for senior management have issues with regulators. Many are operating under supervisory orders that restrict a CEO's decisions, for instance.

Taylor said others have pay limits tied to the Troubled Asset Relief Program. As a result, he said, terminations will likely occur in bank deals where either one or both banks have Tarp.

Thayer said part of the problem is that most of the banks that are looking for senior management are under some form of regulatory issue. Center, which is under a memorandum of understanding, must obtain regulatory approval before permanently filling any senior executive position. And recruiters said many such executives with the capability to turn around a bank who are favored by regulators are now either retired, joining private-equity-type groups or are consultants, like Cupp.

"The regulatory process makes it very difficult for an institution under a regulatory order to recruit a qualified CEO," Thayer said. "The combination of [regulatory] roadblocks and a lack of experienced successful people is making recruiting difficult."