

## Has Deal Put Mercantile's Staff in Play?

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With its \$6 billion deal to acquire Mercantile Bankshares Corp. of Baltimore, PNC Financial Services Group Inc. would gain about 240 branches stretching from Fredericksburg, Va., to Baltimore, instantly establishing the Pittsburgh company as one of the region's major players.

But area community bankers are not losing sleep over the prospect of competing against yet another large out-of-market bank. As they see it, many bankers would rather work for local banks and this merger is a unique opportunity for them to scoop up talent.

The \$17 billion-asset Mercantile provides considerable autonomy to its 11 subsidiary banks, allowing each to function under its own president and management team.

If PNC does not give its lenders the same sort of freedom, "one would surmise that there may be disaffection among employees, where they would feel more comfortable with a bank like ours," said Peter A. Converse, the chief executive of the \$1.7 billion-asset Virginia Commerce Bancorp Inc. in Arlington.

Edwin F. Hale Sr., the CEO of the \$1.3 billion-asset First Mariner Bancorp in Baltimore, said, "We're going to try to get as many of those people as we can."

Acquisitions often lead to some customer runoff as well, and local bankers say this one could

produce more than usual amount of it after the banks are rebranded. Some customers, they say, simply prefer to bank with community banks.

"Even at \$17 billion of assets ... Mercantile could still say that they were a community bank," said Bernard Clineburg, the chairman and chief executive of the \$1.6 billion-asset Cardinal Financial Corp. in McLean, Va. "Now they will not be able to say that, so that's \$17 billion of assets up for grabs."

No one is predicting that kind of runoff, and Mr. Converse pointed out that the \$89 billion-asset PNC kept customer defections to a minimum when it entered the Washington market last year by buying the \$6 billion-asset Riggs National Corp.

Still, Jeff Davis, an analyst at First Horizon National Corp.'s FTN Midwest Securities Corp., said that "even in well-executed deals, there tends to be some market leakage."

Mr. Hale said First Mariner would review the accounts his company has lost to Mercantile to "see if they might be amenable to us again."

Mr. Clineburg said large acquisitions like this one almost always have a positive impact on local banks. "You look a year out after any of these deals, and every time you'll see that community banks have grown bigger," he said. Cardinal plans to tailor a marketing campaign to "play on the fact that we're a community bank and they're not," he said.

But most local bankers say they will not make any radical strategic changes in an attempt to pick up talent or market share.

"I think these transitions tend to play out more patiently than we think," said Gary N. Geisel, the chairman and CEO of the \$6.1 billion-asset

Provident Bankshares Corp. in Baltimore, which stands to become the largest Maryland-based banking company as a result of the PNC deal.

"What you won't see is us turn our strategy upside down," Mr. Geisel said. "Will we push some things? Sure. But we feel like we've got a pretty good strategy in place and let's not change that."

The Mercantile deal is expected to close next quarter. PNC spokesman Brian Goerke said the company would start converting branches in the months after the deal's completion.

To minimize customer and employee defections, Mr. Goerke said, PNC plans to appoint a regional president for the Washington/Baltimore area, hire a community development officer, and establish a local advisory board. It is also establishing a charitable foundation for the region, and plans to appoint a local distribution committee for the foundation.

"So there will definitely be a local feel to the management of what's going on down there," Mr. Goerke said.

He said PNC management is confident that Mercantile customers will stick with PNC. "We feel that we bring a greater product capability

that relationship-people should be pleased to utilize," he said.

PNC has allotted \$8 million for employee retention, but Christopher Marinac, an analyst at FIG Partners LLC in Atlanta, said that would not be nearly enough to entice talented lenders to stay. Mercantile has 3,667 employees, he said, so the retention bonuses would work out to less than \$2,200 per person.

"I don't know how many loan officers are going to stay for two grand," he said.

**Rod Taylor, the founder and CEO of the Atlanta consulting and recruiting firm Taylor & Co., said it is unlikely PNC would spread retention bonuses evenly among all employees.**

And money alone will not determine whether employees stay or go, Mr. Taylor said. More important to retention, he said, is that acquiring companies treat employees of the selling company fairly, not like "second-class citizens."

It is in PNC's best interests to make Mercantile employees feel welcomed, Mr. Taylor said. The banking industry has a "critical shortage" of employees with skills and experience in commercial credit, he said, and "PNC understands that."