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Three's Company: How to Structure a Deal We Can All Live With

Many children of the 1970s and earlier will recall the classic American sitcom, *Three's Company*. The story revolved around three single roommates—Janet, Chrissy, and Jack—who lived together platonically in a Santa Monica (CA) apartment. Each week brought a new comedy of errors, with a seemingly never-ending (and inevitably awkward) parade of social escapades, hijinks and misunderstandings.

More than 30 years after its series finale, *Three's Company* still resonates—in the least likely of all places—the world of M&A. Many dealmakers will agree that selecting a partner with which to transact is like finding the perfect roommate. It's not easy. Add a third party to the mix, and hijinks can ensue if a rigorous and thoughtful deal process is not followed.

Silver Lane recently advised on two multi-party transactions that required a delicate balance of potentially competing interests: (1) Hudson Valley's divestiture of its wholly-owned asset management subsidiary, and (2) FirstBanCorp.'s acquisition of select assets of Doral Bank, a large failing competitor in Puerto Rico. In both cases, it took more than two to tango.

Hudson Valley's Divestiture of ARS

In the case of Hudson Valley Holdings (NYSE: HVB) and its wholly-owned asset management subsidiary, A.R. Schmeidler ("ARS"), there was a mutual decision to find a new living arrangement but not a complete break-up, as a co-dependence existed between the two organizations — the bank's trust assets drove a meaningful portion of ARS's revenue, while ARS's wealth management capabilities were an important component of Hudson Valley's broader service offering. Any future partner of ARS would need to maintain this ongoing cooperation long after the deal closed.

Like many banking organizations, Hudson Valley was attracted to the non-capital intensive, fee income business of ARS when it acquired the platform in 2004. But with continued margin compression in the ongoing environment of low interest rates, banks are looking to drive costs lower and/or augment recurring fees. To that end, Hudson Valley analyzed a "go big or go home" strategy in asset management. After a decade of a successful partnership, the profitability of ARS was starting to wane: additional capital was required to grow the business and the needs of the bank's customer base had expanded beyond ARS's services.

Hudson Valley's options were fairly straightforward: (1) milk the earnings stream; (2) reinvest heavily into the platform for growth; or (3) partner with a third party.

The bank hired Silver Lane to evaluate these options. At the conclusion of Silver Lane's strategic assessment, Hudson Valley's board elected to find a new partner for ARS that could also potentially provide additional services to the bank in the future.

Divesting an investment platform is unlike selling a branch or loan through a generic auction process. To avoid the fate suffered by roommates Jack and Janet — the three-peat replacement of the last roommate — a culturally compatible party was requisite to facilitate the recapitalization process. By carefully meshing the bank's and management's partner criteria, Silver Lane was able to create a competitive process and transaction structure that excited management, achieved the bank's valuation objectives, plus left room to equitize key employees (a must-have for the buyer).

FirstBank's Acquisition of Select Doral Assets

Shortly after the Hudson Valley transaction closed, Silver Lane jumped into action to help another client navigate a multi-player deal — specifically, the FDIC-assisted acquisition of Doral Bank in February 2015. With $6 billion of assets, Doral posed a multitude of challenges for the FDIC leading up to the bank's failure on February 27: the sheer size of the company, its geographic footprint, a bilingual customer base and substantial asset quality issues.

Doral's financial problems and branches stretched across noncontiguous markets in New York, Florida and Puerto Rico, making it difficult to find a single buyer willing to acquire the entire company. Instead, interested parties created an alliance to optimize the values of Doral's pieces. Silver Lane was hired by FirstBanCorp. (NYSE: FBP) to explore various possible deals with its bank subsidiary FirstBank Puerto Rico and examine the outcomes with a buyer consortium. Additional parties to the deal included Centennial Bank and Banco Popular de Puerto Rico.

Doral truly was a unique transaction. The largest U.S. bank failure in almost five years, Doral represented the first FDIC-assisted transaction since the financial crisis in which the FDIC divided a bank's deposit franchise among multiple buyers. In an unconventional transaction such as this, an advisor must be creative enough to find an optimal solution, and the buyer must be incredibly flexible.

The deal ultimately required four parties, each taking down selected portions of Doral's business. With much collaboration between the buyers, each was able to create the optimal portfolio carve out, strengthening respective presences in existing markets.

In this one-of-a-kind deal, four's company too!