

Indiana Bank & Thrift Stock Update

quarterly analysis for IBA members courtesy of Michael A. Renninger, Renninger & Associates

Stock Analysis as of March 31, 2024

Clouds Form as Spring Arrives



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Indiana banks and thrifts traded on the NASDAQ and Over-the-Counter markets continued to underperform the bank stock indices in the first quarter of 2024. Indiana's NASDAQ-traded banks modestly declined a median 0.3% YTD and the state's OTC/Pink Sheet-listed banks were flat. The big mover is First Internet Bancorp, whose shares are up 43.6% YTD but are trading at a comparably low 85.5% of tangible book value and a comparably high 36.6 times LTM earnings.

For comparison the four selected bank indices increased an average of 6.7% YTD, while the four selected broad indices increased 8.6%. It is interesting to note that shares of the seven out-of-state banks with significant operations in Indiana with assets over \$100 billion increased a median 8.6% YTD while the seven out-of-state banks with assets under \$100 billion decreased 5.6%.

The notable outlier in the group of 14 out-of-state banks is New York Community Bancorp, whose shares are down 68.5% YTD. The dramatic fall is attributed to the revelation that increased reserves were needed for their commercial real estate portfolio and subsequent reports that internal controls are inadequate. To buttress shareholder and depositor confidence, the bank promptly secured a \$1.05 billion equity investment from several investor groups, one of which is led by former U.S. Treasury Secretary Steven Mnuchin. The new common and preferred equity was issued at \$2.00 per share, resulting in substantial dilution to existing shareholders. At this writing, NYCB shares are trading below \$3.00, down from \$3.22 on Mar. 31, 2024.

In conjunction with the capital injection, the composition of NYCB's Board of Directors was also significantly changed, with Mnuchin serving as Lead Independent Director. These actions did not forestall employee defections, as there have been reports in recent days of numerous customer-facing teams leaving to join competing banks. It is not clear what impact this might have on NYCB's deposit base over time.

At \$114 billion in assets, NYCB has nearly doubled its asset size since Dec. 31, 2021 (\$60 billion), largely due to its acquisitions of Flagstar Bancorp (\$25 billion in assets) in December 2022 and

Signature Bridge Bank (\$38 billion in assets) in March 2023. The latter increased NYCB's assets to more than \$100 billion, resulting in increased regulatory scrutiny. After the first acquisition, NYCB adopted the Flagstar Bank name for its banking subsidiary. Flagstar operates 31 Indiana branches with \$1.4 billion in deposits.

This situation appears to be another cautionary tale of the confluence of rapid growth, negative economic circumstances and inadequate internal risk management and controls. It has been almost exactly one year since the Silicon Valley Bank, Signature Bank and Silvergate Capital failures. While the circumstances that undermined depositor, shareholder and regulatory confidence in each situation differ, NYCB's ability to raise capital at a size and speed to avoid a devastating deposit run may prove to be the difference between survival and failure.

NYCB's troubles are playing out just as the banking industry seems to have recovered the trust of depositors after the 2023 failures. Based on the improvement in the bank stock indices above, banking industry stock prices had a relatively good quarter, in part due to an expectation that several Federal Reserve interest rate cuts in 2024 seemed imminent. However just announced inflation figures suggest further delay in any cuts. The "higher for longer" interest rate scenario is expected to have a dampening effect on bank stock prices of potential bank buyers, the value of loans and investment securities of banks considering sale and, by extension, merger and acquisition activity.

The Size, Pricing and Profitability Reports for Indiana banks and thrifts as of March 31, Feb. 29, Jan. 31 2024, and Dec. 31, 2023, are available by [clicking here](#). These reports present stock price changes for the 29 Indiana banks and thrifts that are traded on the NASDAQ and Over-the-Counter markets over the prior two years, one year and year-to-date, in addition to pricing and performance metrics. Selected banks headquartered outside Indiana, four broad market indices, and four bank and thrift indices are also tracked.

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