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Acquisitive Calif. bank envisions consolidation wave

By [Kevin Dobbs](#)

[Mission Community Bancorp](#) is on the hunt.

The San Luis Obispo, Calif.-based company, bruised by the troubled commercial real estate credits in the wake of the 2008 financial crisis and ensuing recession, is on the rebound with the support of an emboldened parent company and new management.

And the management team — led by Chairman and CEO James Lokey, a California banking veteran, and CFO Mark Ruh, a banker with a proven private equity background — is pushing hard to grow the small community banking operation into a regional power, starting with deals.

"If all the stars lined up ... we eventually could be a \$2 billion to \$2.5 billion bank," Lokey told SNL Financial in an interview this week.

Lokey and company already have taken their first big step. In October, Mission Community (\$225.3 million prior to the deal) completed an [acquisition](#) of Atascadero, Calif.-based [Santa Lucia Bancorp](#) unit [Santa Lucia Bank](#) (\$242.1 million), and in doing so, doubled in size. At the close of business Oct. 21, Santa Lucia Bank was merged into Mission Community Bancorp unit [Mission Community Bank](#).

It could be the first of multiple deals.

"We need to get this first one under our belt and prove we know what we are doing," Lokey said. But following an integration, "if all goes well, then we'll be on to our next deal" in 2012.

Mission Community Bancorp is a portfolio company of [SCJ Inc.](#)'s [Carpenter Community Bancfund-A L.P.](#), which is investing in the bank's expansion. It brought Lokey on board in 2010 to transform the bank from a struggling community lender, stung by California's real estate slump, into a leading consolidator in the state's Central Coast banking market. Lokey previously was president and CEO of Arroyo Grande, Calif.-based Mid-State Bank and Trust from 2000 through its sale in 2007 to [Rabobank NA](#). While at Mid-State, Lokey grew the bank from about \$1 billion in assets to more than \$2.4 billion. After advising Rabobank for a transition period after the sale, Lokey retired.

But the opportunity to build another community banking stalwart, starting with the small Mission Community, proved appealing enough to lure Lokey out of retirement and back into the executive suite.

Carpenter Community and Mission Community executives view consolidation as a way for them to not only grow and diversify the bank's lending platform but also to gain scale necessary to absorb new compliance costs. Lokey sees a community banking landscape ripe with potentially profitable customers, particularly in the region's agriculture sector, yet one scarred by small banks with battered stock prices and back-office infrastructures that are too small to handle a spate of new compliance hurdles tied to the Dodd-Frank financial reform legislation.

Dealmakers have emerged with some force elsewhere in California, including in the southern part of the state. Among them: Chula Vista, Calif.-based [First PacTrust Bancorp Inc.](#), which announced two bank deals this year, including the [acquisition](#) of Manhattan Beach, Calif.-based [Beach Business Bank](#); and Irvine, Calif.-based [Opus Bank](#), which closed two deals this year. In October, Opus said it [raised](#) about \$100 million in new equity capital to, in part, support further acquisition pursuits.

There are a handful of bank deals pending in California involving targets with assets under \$5 billion.

Pending whole-bank deals in California with target assets under \$5B							
Buyer				Target			Deal value/ capital infusion (\$M)*
Ann. date	Company (ticker)	City, state	Assets (\$M)	Company	City, state	Assets (\$M)	
10/12/11	ATBancorp	Dubuque, IA	941.3	United American Bank (UABK)	San Mateo, CA	285.3	10.0*
09/14/11	AltaPacific Bancorp (ABNK)	Santa Rosa, CA	92.9	Stellar Business Bank (SLRB)	Covina, CA	85.4	17.4
08/30/11	First PacTrust Bancorp Inc. (FPTB)	Chula Vista, CA	863.6	Beach Business Bank (BBBC)	Manhattan Beach, CA	304.2	37.1
06/29/11	First Foundation Inc.	Irvine, CA	456.2	Desert Commercial Bank (DCBC)	Palm Desert, CA	153.0	20.1
06/03/11	First PacTrust Bancorp Inc. (FPTB)	Chula Vista, CA	835.0	Gateway Bancorp	Santa Ana, CA	187.1	17.0
04/28/11	Investor group**	Los Angeles, CA	NA	Pan American Bank (PAMB)	Los Angeles, CA	42.0	2.0*
03/22/11	Embarcadero Bank	San Diego, CA	72.6	Coronado First Bank (CDFB)	Coronado, CA	83.2	9.3
12/09/10	Nara Bancorp Inc. (NARA)	Los Angeles, CA	2,985.0	Center Financial Corp. (CLFC)	Los Angeles, CA	2,267.4	286.3

As of Oct. 31, 2011
 * Indicates capital infusion
 ** Minority interest deal where an investor group increased its ownership stake of Pan American Bank to 62%.
 All metrics are at the time of announcement.
 Source: SNL Financial

But Lokey said that, in the Central Coast region, the field of consolidators is not yet crowded, and he is intent on making his bank a front-runner.

Lokey said that, since taking on the new job, he has hired seasoned agriculture lenders, including a chief credit officer with extensive ag lending experience, to beef up that platform's strength, and he has reached out to several banks in the region to gauge their interest in selling. "There are a number of banks that are interested," he said.

Lokey envisions a bank focused on commercial lending, with a quarter or more of the loan portfolio made up of agriculture credits. Vineyards and row-crop operations have weathered the downturn exceptionally well, and loan demand to support crop production is stable, Lokey said. So while the Central Coast economy, dependent in part on tourism and state government employment, has taken its lumps, Lokey is confident that agriculture can bridge his growing bank to better days ahead.

Agriculture is "the one real bright, shining star for us," he said.

Organic growth, he said, will be important, but to grow substantially — and relatively quickly — deal-making is also key. That is one reason why Ruh was brought on as finance chief. Ruh was previously a principal at Bowsprit Advisors LLC, providing recapitalization and restructuring advice, merger and acquisition due diligence services and litigation support services to financial services companies. From 1998 to 2009, he was a director at Castle Creek Capital LLC, a private equity firm specializing in control investments in financial services companies.

One of his chief responsibilities now: Identify potential acquisition opportunities. Ruh told SNL in an interview that Mission Community is working to establish itself as the region's "consolidator of choice," making it known that it is not simply out for growth, but trying to grow as a responsibly profitable bank that will provide top-notch service to targets' customers and an inviting working environment for staff. "We're going to treat their people right," he said.

Ruh said that while Mission Community could eventually become a \$2.5 billion bank, executives would much rather be a superbly run \$1 billion bank than a middle-of-the-pack larger bank. So growth initiatives, while aggressive, will be carried out carefully, he said.

Mission Community is looking to grow in San Luis Obispo, Santa Barbara, Ventura and Monterey counties. Ruh said competition on the deal front is bound to build. Some community banks will no doubt look to do "one-off" deals, and other active consolidators could emerge in the region.

But he said Mission Community's early and consistent efforts to reach out to would-be sellers is paying off, with some making it known that, if the details can be worked out, they would like to partner with Mission Community.

And more banks are bound to become sellers, Lokey said. "The banks have taken a huge hit to their stock prices" amid a sell-off this year within the sector, he said. What's more, in terms of regulatory headaches and profit potential, the boards of many banks do not see "a return to the heydays anytime soon."

Lokey and company, meanwhile, are looking to create a new heyday, one built around a strong and growing community bank that can lend both to small businesses and take share from larger agriculture lenders such as Rabobank. Lokey said targets for Mission Community could range in size from \$100 million to \$500 million, perhaps larger down the road.

"We like our potential," Lokey said.

Patrick Sims contributed to this article.