

By Robb Soukup

Nashville, Tenn.-based [CapStar Bank](#) (\$711.2 million) will continue to look for more merger targets in the wake of its deal to buy Hendersonville, Tenn.-based [American Security Bank and Trust Co.](#) (\$168.9 million).

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CapStar Bank	Nashville, TN
American Security B&TC	Hendersonville, TN

"It would be fair to assume that we'll be considering other acquisition opportunities," Claire Tucker, president and CEO of CapStar, told SNL during a Feb. 10 interview to discuss the deal. Tucker said CapStar examined a number of other companies as it searched for franchises to acquire but that ultimately American Security proved to be the best fit. The footprints of each company occupy contiguous counties, Tucker said, and the two banks shared a similar culture and penchant for banking with similar customers. "It has very similar demographics and the bank itself has a strategy, in terms of their target market, that is very similar to us," she added.

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According to SNL data, CapStar will enter Sumner County, Tenn., with two branches and will be ranked seventh in market share. The company will hold about 5.90% of about \$2.36 billion in total deposits in that market. The banks did not provide details on the consideration involved in the cash-and-stock deal, though they announced they would do so in a proxy statement to be provided to shareholders of both companies.

Tucker told SNL that CapStar was comfortable with the credit mark it would take as part of the acquisition, and its effect on the overall deal price. American Security, which reported nonperforming assets made up 5.59% of total assets at the end of 2009, had reduced that ratio to 4.76% of total assets by the end of 2011. "They've done a really nice job of working those numbers down to a level we believe will be manageable," Tucker added.

She said that rising expense costs, mostly driven by regulatory changes occurring throughout the industry, factored heavily into both companies' decision to agree to the deal. For CapStar, Tucker said, the deal represented a way for the company to continue making progress toward its earnings goals, which she said the company revises as part of a strategic planning process each year. Rising expenses were likely an even more important factor for American Security, which had total assets of just a little under \$169.0 million at the end of 2011, and had seen its balance sheet shrink 2.53% during the year.

"When you think about all the requirements that are coming down for reporting, it can just smother you. I think that was certainly ... a factor," Tucker said. She added that "the debate continues about what size you need to be to sustain yourself. ... I don't know [what it is], but it's not \$170 million."

Though many in the industry have predicted that rising regulatory expenses would fuel a merger boom, wide-scale [consolidation](#) has [yet to emerge](#). Tucker agreed, like many observers, that the lack of activity stemmed in part from unreasonable seller expectations. But she also said that in talks with other institutions it had become clear that "there have been some reality checks," and that the company did not walk away from any potential deals because of pricing disagreements.

The company will hope to take advantage of that sooner rather than later, she said. Though she admitted regulators will probably ask the company to close the American Security transaction before it undertakes another deal, she said the company will keep its eye out for other targets — and she believes regulators could grant it some leeway to acquire another company because of its past performance if it finds an attractive-enough target.

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