AMERICAN BANKER

Patriot National Scouts Opportunities Despite Sale Speculation

by John Reosti
NOV 14, 2014 3:35pm ET

To hear Michael Carrazza, Patriot National Bancorp's chairman, tell it, the Stamford, Conn. Company's comeback is nothing special.

But to those familiar with the $624 million-asset company's recent history, Carrazza is being modest. Four years ago, Patriot National looked more like a zombie. It seemed to be on its last legs, with nonperforming assets making up 16% of total assets. And classified assets were hovering around 350% of capital.

"We're a relatively small community bank that's now healthy," Carrazza said in an interview Thursday, though he admits that the company was in bad shape. "By all metrics, this bank would not have survived had we not stepped in to rescue it."

Patriot National survived, mostly because Carrazza and the investor group he leads closed a $50.4 million deal to buy and recapitalize the company in October 2010. The investment paid its first big dividend — figuratively speaking. Patriot National's third-quarter earnings skyrocketed to $17.3 million after it recaptured nearly $17 million in deferred-tax assets.

In comparison, the company earned $525,000 in the second quarter and lost $2.4 million a year earlier.

The recaptured DTA, an accounting instrument that can reduce a company's tax bill, provides evidence that Patriot National's profitability should be sustainable after it lost $66 million from 2008 to 2013. Companies can only tap into DTA benefits after executing a turnaround and demonstrating that they are once again a going concern. After three straight profitable quarters, management decided the time had come.

As part of the turnaround, management has largely remedied past asset-quality issues. At Sept. 30, nonperforming assets made up just 1.26% of total assets. Last month, the Comptroller of the Currency terminated a five-year-old formal agreement against the company.

The only obstacle remaining is a June 2012 formal agreement with the Federal Reserve Board that bars Patriot National from taking on debt, declaring dividends or buying back stock without the Fed's blessing. The company has asked the Fed to review the agreement, and is hopeful it will be terminated soon, said Kenneth Neilson, Patriot's president and chief executive.

Termination of the OCC agreement, followed by the realization of the deferred-tax asset, sends a strong message that Patriot National's repair job is all but done.

So what is next for the 20-year-old company? For some industry observers, the obvious end game is the company's sale.

"It's run by a private equity guy," said Mark Fitzgibbon, research director at Sandler O'Neal, referring to Carrazza's day job as CEO of Solaia Capital Advisors. "It's logical to assume they'll sell."

Several private equity firms that entered the banking sector in the aftermath of the financial crisis have already cashed in their chips.

Thomas H. Lee Partners and Warburg Pincus earlier this month exited their positions in Umpqua Holdings, selling shares they gained when Umpqua bought Sterling Financial. (The firms led a large recapitalization of Sterling in 2010.) Earlier this year, four investors who helped buy the failed BankUnited sold the last shares they held following the Miami Lakes, Fla., company's initial public offering.

Fitzgibbon is hardly alone in speculating about Patriot National's sale, and there is more than a little logic behind such a hypothesis. The company would be a tempting target for an acquirer. It has a clean balance sheet, a substantial pile of capital and operations in the affluent markets of Fairfield County in Connecticut and Westchester County in New York.

Many of the communities where it does business "are among the wealthiest zip codes in the world — forget about counties and states," said Christopher Bruhl, president and CEO of the Business Council of Fairfield County.

Carrazza, however, said management is not looking to sell the bank, though he said the board would continuously evaluate all options, including organic growth and buying other banks.

"We're looking at all the possible permutations in the light of what works best for shareholders," he said, adding that there is no predetermined timeline for PNBK Holdings, the vehicle used to invest in Patriot National, to cash out.

A lack of a definite end date allows for plenty of strategic flexibility, which might come in handy since Carrazza and Nielson seem far more enthusiastic about expanding operations rather than selling them.

Patriot would be looking at "all opportunities that may arise," including acquisitions, Nielson said, adding that the primary goal is continued momentum. "Certainly in this business, consolidation is very important to us," he said.

Neilson has experience buying banks, having average more than two deals a year during his 17 years at the helm of Hudson United Bancorp in Mahwah, N.J. He is also familiar with selling; Toronto-Dominion Bank's TD Banknorth bought Hudson United in 2006 for $1.9 billion.

Patriot National will pursue "an aggressive plan to create value," Carrazza said. It took a step in that direction in the third quarter, buying a $47 million pool of commercial loans in a deal that helped increase the company's loan portfolio at Sept. 30 by 14% from a quarter earlier, to $459 million. Total loans had declined over the five prior quarters.

One thing that is certain: Neilson, 65, will continue managing day-to-day operations.

Patriot National said in January that it would seek a successor for Neilson, who joined the board in 2010 and became CEO in March 2013. That search has been suspended indefinitely.

Nielson "is the best banker I know," Carrazza said. "Everyone's busy and we're doing a lot of good things."
