BANKING FINANCIAL SERVICES

A PERIODIC REVIEW OF SPECIAL LEGAL DEVELOPMENTS AFFECTING LENDING AND OTHER FINANCIAL INSTITUTIONS

Vol. 41 No. 8 August 2025

THE 2025 COMMUNITY BANK M&A LANDSCAPE: WILL THE DAM BREAK?

In recent years, a number of factors, including higher interest rates, likely resulted in fewer banking M&A closing celebrations than many expected. However, at the beginning of 2025, many industry professionals predicted that the incoming Trump administration, generally perceived to be business-friendly, would produce conditions favorable to getting banking M&A deals across the finish line. Although there continue to be reasons to remain optimistic about the 2025 banking M&A landscape as we reach the middle of 2025, uncertainties and risks remain, including those resulting from tariff policy and DOGE efforts. In this evolving environment, a potential party to a transaction may be able to mitigate risks and reduce uncertainty by negotiating a comprehensive definitive agreement tailored to address current conditions.

By Beau Hurtig *

In what many industry experts would consider an era of pent-up demand, many entered 2025 with a sense of optimism regarding banking M&A activity, especially following President Trump's inauguration on January 20, 2025. As we reach the approximately halfway point of 2025, the impetus for this optimism has not fully materialized. However, certain conditions are continuing to evolve, and the verdict for 2025 activity is not yet rendered. Those considering transactions in the near term should understand the historical impediments, potential changes on the horizon, and methods by which they can mitigate associated risks, including through the definitive agreement negotiation process.

PRE-2025 CONDITIONS

At least one major development hindered banking M&A in the years leading up to 2025, which arose from

required transaction-related adjustments to target balance sheets. Beginning in March of 2022, the Federal Open Market Committee raised interest rates in an effort to fight inflation. Not surprisingly, following approximately 20 years of a relatively low and stable interest environment, these changes resulted in consequences for financial institution balance sheets, especially in the context of M&A.

As part of the M&A application process, regulators require the potential acquirer to submit pro forma financial statements that include purchase accounting adjustments, a subset which is known as mark-to-market, or fair value, accounting. Using this methodology, assets and liabilities must be valued based on their current market prices. Purchase accounting has the potential to significantly impact a target's balance sheet in the form of other comprehensive income or

* BEAU HURTIG is of counsel in Ballard Spahr, LLP's Minneapolis office and a financial services attorney with extensive experience in bank mergers and acquisitions and bank regulatory matters. His e-mail address is hurtigb@ballardspahr.com.

August 2025 Page 95