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Hypo Venture Capital Zurich Headlines: HSBC to Sell 195 Branches to First Niagara for $1 Billion by Hypo Venture

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HSBC Holdings Plc (HSBA), Europeâ€™s largest bank by market value, agreed to sell its upstate New York branch network to First Niagara Financial Group Inc. (FNFG) for about $1 billion as it pares U.S. operations.

The price amounts to a 6.7 percent premium for the $15 billion of deposits First Niagara is acquiring along with 195 branches in New York and Connecticut, London-based HSBC said yesterday in a statement.

The deal would let First Niagara expand in markets surrounding its home city of Buffalo, New York, as HSBC Chief Executive OfficerStuart Gulliver, 52, reduces U.S. operations amid a push to overhaul its businesses. HSBC also has been seeking buyers for its U.S. credit-card unit, which has more than $30 billion of assets.

The branch sale is part of a strategy â€œto align our U.S. business with our global network and meet the local and international needs of domestic and overseas clients,â€• HSBC North AmericaCEO Niall Booker said in the statement.

HSBC said in May that the company planned to trim costs by up to $3.5 billion. The lender may announce 10,000 job cuts today, when itâ€™s scheduled to report first-half financial results, Sky News reported July 30, without saying where it got the information. Robert Sherman, a spokesman for the bank, declined to comment on the report.

In addition to the sale to First Niagara, HSBC said it plans to close 13 branches in Connecticut and New Jersey by next year. The combined moves would reduce HSBCâ€™s U.S. network of 470 branches by almost half.

Buffalo Branches

The transaction may help First Niagara surpass M&T Bank Corp. (MTB) as the lender with the most branches in the Buffalo area. M&T had 60 branches in the region as of June 30, 2010, compared with 58 for HSBC and 35 for First Niagara, according to Federal Deposit Insurance Corp. data.

First Niagara fell 33 cents, or 2.7 percent, to $11.92 at 4:15 p.m. in Nasdaq composite trading. The shares have fallen 15 percent this year.

â€œOur objective was to progressively deepen the presence we have in the Northeast,â€• First Niagara CEO John R. Koelmel, 48, said in a telephone interview yesterday. â€œWe do our best to keep a simple business simple. Those of us that win longer term are going to have won the deposit-gathering game.â€•

Capital One Financial Corp. sold $5 billion in debt and equity last month after agreeing to buy ING Groep NVâ€™s U.S. online bank for $9 billion. McLean, Virginia-based Capital One, which said it expects to complete the deal late this year or in early 2012, would gain about $80 billion of deposits and 7 million customers.

Antitrust Regulators

First Niagara may divest some branches that donâ€™t fit with its strategy and to comply with a review from antitrust regulators regarding its presence in Western New York, the lender said in its statement. About 100 branches will be sold or closed, Koelmel said today on a conference call with analysts and investors.

The bank plans to issue $750 million to $800 million in common stock and $350 million to $400 million in debt prior to completing the acquisition, which is expected to happen early next year, according to the statement.

â€œWeâ€™re ready to move as soon as the time is right,â€• Koelmel said on the call. â€œWeâ€™ll be pa our spot. Iâ€™m confident weâ€™ll have multiple opportunities to do so in the weeks and months ahead. Right now, the markets arenâ€™t where Iâ€™d like to see it.â€•

First Niagaraâ€™s Earnings

The deal may bolster First Niagaraâ€™s operating earnings per share by 10 percent to 11 percent next year and 11 percent to 12 percent in 2013, the company said.

The sale would unwind HSBCâ€™s 1980 purchase of Buffalo-based Marine Midland Banks, which was founded in 1850 to serve the shipping trade on the Great Lakes. That takeover gave HSBC a major presence in Buffalo, where the National Hockey Leagueâ€™s Sabres play in the HSBC Arena.

JPMorgan Chase & Co. (JPM) and HSBCâ€™s own investment bankers are advising HSBC on the sale, as is Sullivan & Cromwell LLP. Goldman Sachs Group Inc. (GS) and Sandler Oâ€™Neill & Partners LP are advising First Niagara, along with Pepper Hamilton LLP.

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