

Maryland banks join stampede to initiate stock buybacks

▲ By: Samantha J. Subin ⊙ July 1, 2019

Some of Maryland's banks are joining national financial institutions and other companies in launching stock buybacks to boost share prices, increase capital and return cash to investors.

Last week, banks
nationwide announced plans to
repurchase billions in outstanding
stocks and increase dividends
following action by the Federal
Reserve. At least 18 banks with
assets over \$50 billion, passed the
Fed's annual stress — signifying that
banks could repurchase shares
while sustaining enough capital to
withstand a recession.



"It's a tool, it's a window, it's a maximum amount, and we'll use our judgment to say what's the best balance in terms of trying to address that undervaluation versus letting things be where they are," says Howard Bank CEO Mary Ann Scully of the bank's plans for stock buybacks. (The Daily Record/Maximilian Franz)

Howard Bank's parent company announced a stock repurchasing program Thursday following a non-objection letter from the Federal Reserve. The letter authorized a plan to repurchase up to \$7 million of the company's outstanding shares through December 2020.

Howard's announcement comes amid a string of stock repurchasing programs initiated by Maryland banks in recent years. In December, Sandy Spring Bank in Olney announced a plan to repurchase 1.8 million company shares or 5% of its outstanding stock. In April, the Fed approved Shore Bancshares Inc. of Easton's plan to repurchase up to \$10 million in the company's outstanding stock.

While Howard has yet to implement the program, it's a tool they can use if officials think their stock is "significantly" undervalued, said Mary Ann Scully, the bank's chairman and CEO.

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Across economic sectors, stock buyback programs are helping companies boost their earnings per share and return capital to investors. Buybacks allow companies dominating their industry sector — with little space for growth or investment —to continue returning capital to shareholders demanding return on their investments. And, by essentially restricting the number of shares available to outside investors, the buybacks typically boost a company's share price.

In some cases, buybacks can include the purchasing of another firm. For companies struggling to find good investments where their return exceeds their cost of capital, buybacks are also a good option, said David Kass, a professor of finance at the Robert H. Smith School of Business at the University of Maryland.

Amid fluctuating economic conditions — an uncertain trade war with China — some companies are repurchasing shares to maintain capital and fend off losses.

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"There are no winners in a trade war," Kass said. "It might discourage expansion because of the uncertainty of the economics of that industry being adversely affected by tariffs."

The banking industry in particular has experienced sharp fluctuations. As of this week, the ABA's NASDAQ Community Bank Index, which includes more than 367 community banks, has dropped by almost 60 points from a high of 390 last summer.

In recent months, long-term interest rates dropped to or below short-term rates, making it difficult for many banks to make money, Scully said.

While companies nationwide have been approved to repurchase stocks, some may not implement buybacks, Kathleen Murphy, president and CEO of the Maryland Bankers Association, said.

"One of the reasons that a bank may consider exercising their buyback program is if loan demand softens," Murphy said.

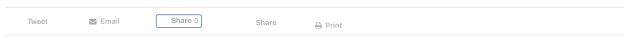
Still, there are other options to return capital to shareholders, including dividends.

"Community banks have a lot of small shareholders who are long-term investors who invest in the bank for the stream of cash flow," said James Kendrick, first vice president of account and capital policy at the Independent Community Bankers of America, a trade group for small banks nationwide.

With smaller banks, shareholders such as retirees or those with a fixed income — who rely on a quarterly cash flow — may prefer returns in dividends over buybacks even though they are subject to federal and state income tax, Kendrick added.

"It's a decision that needs to be made by the board of directors depending on their types of shareholders," he said. "There are battles fought in boardrooms all the time."





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