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Community Banker of the Year

First Niagara CEO is Not One to Stay on Sidelines

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By Matthew de Paula

On John Koelmel's desk is a picture of a basketball hoop in a dimly lit gym.

It is a small memento that offers a lot of insight into what drives Koelmel, the president and chief executive of First Niagara Financial Group Inc. in Lockport, N.Y. Under the picture it says: "You'll always miss 100% of the shots you don't take."

Amid an economic crisis in which other banking companies are struggling or playing it safe, Koelmel is indeed taking his shots. Since April, he has struck two deals in Pennsylvania — both widely lauded for their creativity — that will ultimately double First Niagara's branch network and boost assets from $9 billion this time last year to nearly $20 billion.

Flush with capital after raising $1 billion in three separate offerings in the past 15 months — including two in periods when the capital markets were virtually frozen — First Niagara is unlikely to stop there. Analysts say that First Niagara has enough in its war chest to increase assets by another $5 billion and Koelmel has made it clear that, with many of his competitors firmly stuck to the sidelines, he will continue to scout for deals both inside and outside of the bank's market.

"I enjoy playing offense," said Koelmel, who was an accountant for 26 years before changing careers a decade ago. "I'm a shooter."

Part of First Niagara's newfound aggressiveness can be attributed to geography. Upstate New York didn't go through a boom-and-bust cycle, so banks there — viewed as laggards just a couple of years ago — are in much better financial shape than many of their competitors in faster-growing regions of the country.

Beyond that, though, observers credit Koelmel and his management team for being quick to act last fall as the financial crisis worsened and the capital markets tightened. Growth through acquisitions has been part of Koelmel's game plan since he became the CEO in 2006, and with other banks in retreat, First Niagara quickly went out and raised $115 million to go along with the $184 million infusion it received from the Treasury Department's Troubled Asset Relief Program.

"Then they just bided their time," said Joseph Fenech, an analyst at Sandler O'Neill & Partners LP. "They sat on a significant pile of excess capital and they waited for opportunities."

For inspiring such confidence in the investment community and then engineering two deals that transformed First Niagara into a thriving regional player, Koelmel, 57, has been named one of *American Banker*'s community bankers of the year for 2009.

His first deal of the year came in April, when First Niagara won the bidding for 57 western Pennsylvania branches and $4.2 billion of deposits that PNC Financial Services Group Inc. was divesting as part of its acquisition of National City Corp. The deal was the New York company's first outside of its home state.

That same month, First Niagara raised another $384 million of new capital, part of which it used a month later to repay Tarp. The next big deal came in July, when First Niagara said it would buy another Pennsylvania institution, the troubled $5.6 billion-asset Harleysville National Corp., for $237 million in stock.

Perhaps more impressive than the sheer size and speed of its growth spurt were the deal terms Koelmel negotiated that largely protected First Niagara from downside risk. In divesting the Nat City branches, PNC, of Pittsburgh, agreed to keep any loans that became delinquent before the deal closed in September. And the Harleysville deal was engineered so that if its loan portfolio continued to deteriorate, the amount paid to the shareholders would decline commensurately.

"A lot of healthy institutions looking for institutions that haven't failed yet are looking at [the Harleysville deal] as one way of mitigating risk," said Rick Childs, a director at the accounting and consulting firm Crowe Horwath LLP.

The structure of the Nat City deal also softened the impact on First Niagara's capital levels. Essentially PNC agreed to help First Niagara finance the purchase of the branches, through debt, equity or a combination of the two. Koelmel said at the time that the financing had been important to First Niagara partly because it wanted to be prepared in case the capital markets dried up again.

John Gorman, a Washington attorney who has known Koelmel for 25 years, describes him as an innovative — yet disciplined — negotiator who is willing to lose a deal if he can't get what he wants. "I've seen him walk from the table, only to have a deal brought back to him on better terms for the company."

Koelmel credits his years in accounting with helping him develop the analytical rigor needed to negotiate complex deals — though his colleagues and other business associates say he hardly fits the description of a bean counter. They describe him as charismatic with an impressive ability to win people over, whether using subtle humor, sheer intelligence or simple candor.

He's a big man, too, Gorman said, "but he's very nimble — intellectually, professionally and athletically. He's got the gentlest golf swing."

First Niagara Chairman Tom Bowers is especially impressed with the fun-loving Koelmel's ability to motivate his troops. "Instead of coming out from the side of a stage with a three-piece suit on and talking to employees, he'll come running down the aisle in a motorcycle outfit or football uniform," Bowers said. "Employees love it."

Koelmel's first job in banking was at Five Star Bank in Warsaw, N.Y., which he joined in 2000 as its chief administrative officer. He had signed on with the hope of aggressively expanding the company through acquisitions, but that plan never materialized and he left after just two years.

"It was clear to me that they were going in a different direction than I anticipated," Koelmel said.

After taking a year off to fulfill a noncompete clause in his contract, Koelmel joined First Niagara as its chief financial officer in January 2004. In late 2006, he was named the acting CEO after the board abruptly ousted his boss, Paul J. Kolkmeyer, citing "differences in management styles," and two months later the job was officially his.

With its share price languishing, First Niagara at the time was under intense pressure from investors to sell itself or expand into a faster-growing market, such as Florida. But Koelmel told *American Banker* in July 2007 that the bank would be a buyer, not a seller, and that it was only interested in deals in and around its home state.

Less than two months later, he struck his first deal since becoming the CEO, agreeing to buy the $892 million-asset Greater Buffalo Savings Bank.

That low-premium deal significantly boosted First Niagra's market share in Buffalo — and set the stage for further expansion in Koelmel's hometown. The company recently announced that it would be moving its corporate headquarters to Buffalo, partly to raise the bank's profile as a regional player and partly to infuse some fresh capital, jobs and business into one of the Rust Belt's most embattled cities.

"It's more than just logistical convenience," Koelmel said of the move. "It's that we're in a place to have an impact and make a difference for the benefit of the Buffalo/Niagara region."

The move into larger digs was also designed to support the rapid expansion into neighboring Pennsylvania. When the Harleysville deal is completed in February, First Niagara will have 140 branches in the state, clustered primarily around the state's two major cities, Pittsburgh and Philadelphia.

Though analysts say they are impressed with what First Niagara has accomplished this year, they note that the deals are not without risk.

Sandler O'Neill's Fenech said Harleysville's construction loan exposure is a concern, particularly in an "environment of general economic deterioration."Still, he said, "I think that they will fare reasonably better than their peers."

A second area of potential risk comes with integrating the new branches, customers and employees in the Pittsburgh and Philadelphia markets.

"To double the size of your balance sheet and footprint in a year is a pretty amazing thing," said Damon DelMonte, an analyst at KBW Inc.'s Keefe, Bruyette & Woods Inc.

But, he added: "They're biting off a lot. They're moving into two new geographic markets where they did not have a presence before. So there's definitely a level of execution risk."

Koelmel, for his part, is well aware of the risk, but he's not fazed by it.He said the Harleysville deal was structured with the construction exposure in mind and that he is confident Harleysville's management team has the problems under control.

"Are we concerned about managing the credit? It would be a mistake to say other than 'sure,'" Koelmel said. "But our focus with Harleysville is no different than our own, it's getting them back playing offense. That's a phrase we use all of the time: play offense and be proactive at a time when … our competition is playing defense."