



## PNC Financial to Buy National City for \$5.2 Billion (Update3)

By Linda Shen

Oct. 24 (Bloomberg) -- **PNC Financial Services Group Inc.**, Pennsylvania's biggest bank, plans to buy **National City Corp.** for about \$5.2 billion in stock with funds from the U.S. Treasury.

PNC will pay \$2.23 a share, 19 percent less than National City's closing price yesterday, to create the fifth-largest U.S. bank by deposits, the Pittsburgh-based lender said today in a statement. The \$7.7 billion of Treasury funding "put this transaction on a very solid footing," PNC said.

National City, Ohio's largest bank, joins Washington Mutual Inc. and **Wachovia Corp.** in submitting to takeovers after losses tied to failed home loans. National City, based in Cleveland, lost more than \$3 billion during the past five quarters, and its stock plunged 87 percent this year. PNC is still profitable.

"It certainly beats having these troubled banks end up being taken over by the government," said **David Havens**, a credit desk analyst at UBS AG in Stamford, Connecticut. "It's better for just about everybody that you have a private-market solution and the government facilitating to make sure it happens."

PNC expects merger-related costs of \$2.3 billion and said the deal would add to earnings in 2010. Cumulative impairments from loans in National City's portfolio will be about \$20 billion, PNC said in a **presentation** on its Web site. The combined bank will cut \$1.2 billion in costs.

PNC advanced \$2.87, or 5.1 percent, to \$59.75 at 11:12 a.m. in New York Stock Exchange composite trading, and National City slipped 51 cents to \$2.24. National City stockholders will get 0.0392 PNC share for each of their own. PNC will pay \$384 million in cash to holders of warrants.

### Gathering Deposits

"A big thing that we're buying here is a very, very large deposit franchise with a very, very large and loyal customer base," PNC Chief Executive Officer **James Rohr**, 60, said on a conference call. "If you look at the business over decades and decades, the banking industry has been able to go through many, many cycles and many, many mistakes, quite frankly, because of that core deposit franchise."

National City had more than 1,400 branches in nine states including Ohio, Michigan and Pennsylvania as of June 30. The bank said Oct. 21 that total average deposits in the third quarter declined by less than \$1 billion from the second quarter to \$98.7 billion, and increased \$5.2 billion from the same period a year earlier. The lender said new customers partly offset withdrawals from accounts that exceeded federal deposit insurance limits.

The combined bank will have about 2,750 branches, mostly in the U.S. Midwest and Mid-Atlantic regions, and some will be closed, PNC said. The deal is expected to be completed by the end of this year.

### Federal Help

**Neel Kashkari**, the Treasury official running the federal rescue program on an interim basis, told lawmakers yesterday that the department supported lenders using funds from the \$700 billion bailout law for mergers.

"We have to be very careful about not discouraging prudent acquisitions because that can actually help us get through these troubled times that we're in right now," Kashkari said at a Senate Banking

Committee hearing in Washington.

National City earlier this week posted a \$729 million third- quarter loss and said it would cut 4,000 jobs over a three year period. CEO **Peter Raskind**, 51, said in an interview Oct. 21 that the bank was "quite interested" in the government's program and "didn't feel we were in a position where we needed additional capital."

#### Blocking and Tackling

National City had said it expected another \$2 billion to \$2.2 billion in costs tied to the liquidations and more than tripled its loan loss provision to \$1.18 billion. PNC posted a 39 percent profit decline in the third quarter and its shares dropped about 13 percent this year through yesterday.

"PNC seems to have not strayed from the traditional blocking and tackling of the commercial-banking business," Havens said. "They have a real clean portfolio that's not bogged down by the sort of things that have troubled some of their peers."

National City ranked among the 10 biggest originators of loans to people with poor credit histories in 2006. National City sold its subprime loan unit, First Franklin Financial, at the end of that year to Merrill Lynch & Co., where it contributed to a record loss at the New York-based securities firm. National City kept some of the loans made by First Franklin, saddling it with losses.

#### Corsair Capital

Corsair Capital LLC, which owns about 7.8 percent of outstanding National City common **shares** after leading investors in injecting \$7 billion earlier this year, will support the deal, PNC's statement said. Raskind will become a vice chairman at PNC.

PNC was assisted by Citigroup Inc., JPMorgan Chase & Co. and Sandler O'Neill & Partners. Wachtell, Lipton Rosen & Katz gave legal advice.

Goldman Sachs Group Inc. was National City's banker and Sullivan and Cromwell and Jones Day were its legal advisers. Cravath, Swaine & Moore LLP advised National City's board.

Wells Fargo & Co. said this month it will buy Wachovia Corp. for about \$14.4 billion, creating the largest U.S. bank by branches. The deal is expected to be completed by yearend.

JPMorgan took over WaMu's branches and deposits for \$1.9 billion after the lender was seized by U.S. government regulators. Wamu, the parent of the biggest U.S. bank to fail, filed for bankruptcy protection last month as customers withdrew \$16.7 billion over 10 days. Banco Santander SA, Spain's biggest lender, said Oct. 13 it will pay \$1.9 billion for Philadelphia- based Sovereign Bancorp Inc.

The government has taken over crippled financial firms including insurer American International Group Inc. and mortgage lenders Fannie Mae and Freddie Mac.

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*Last Updated: October 24, 2008 11:41 EDT*

