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Local Banks See Uptick In Activity

Loan, deposit market share may be shifting back to small banks, credit unions

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Connecticut's small banks and credit unions are noticing an uptick in loan and deposit business and now see a rare opportunity to grab market share away from large national banks that are increasingly associated with the nation's financial crisis.

Earlier this month, the Hartford Federal Credit Union gained 49 new members in two days, "unusually high" activity in such a short period of time, said president and CEO Ed Danek.

"There is definitely an increase in deposits starting to happen," Danek said. "The deposit and the loan side are starting to accelerate."

Meanwhile, Salisbury Bank and Trust in Lakeville reported that deposits are up 10 percent so far this year. And Farmington Savings Bank has originated \$126 million in residential mortgages in 2008, \$52 million more than it originated all of last year.

"We've talked to enough community banks to know that they have been getting more business lately," said Gerald Noonan, president and CEO of the Connecticut Bankers Association.

While the evidence is anecdotal so far, it points to a potential tipping point in the battle for banking market share.

In 1994, state-chartered banks dominated with 60.5 percent of the deposit market, while the 10 largest federal-chartered institutions had 38.3 percent. As of June 30, state-chartered banks controlled only 22 percent of the state's deposits, while the top 10 federally-chartered institutions had 71.8 percent, according to the Federal Deposit Insurance Corp.

Over that 14-year period, mergers and acquisitions helped federally chartered banks in Connecticut — including Bank of America, Wachovia, TD Bank National, JP Morgan Chase and Sovereign Bank — grow dominant.

But that may be starting to change as nervous investors pull money out of the stock market and look for safe places to put it.

A recent Gallop poll reported that 45 percent of Americans say they are moderately to

very worried about the safety of money they have deposited in banks, while only 32 percent of Americans say they have a "great deal" or "quite a lot of confidence" in banks.

In response to that fear, federal deposit insurance coverage was raised this month to \$250,000 per account from \$100,000.

While coverage applies to all banks, large banks haven't been inspiring confidence lately. Several big names — Washington Mutual and Wachovia, to name two — have faced severe capital shortages due to their involvement in sub-prime lending. And federal regulators have opted to inject billions of dollars into the nation's biggest banks, raising questions about their capital adequacy.

"Uncertainty does tend to get people to move from one bank to another," said Philip Lane, associate professor of economics at Fairfield University.

"Big banks are being hit so hard that they are shutting down their loan windows," said Yongjin Park, an economics professor at Connecticut College. "Community banks will

have a chance to take advantage of that."

Rell's Plan

Last week, Gov. M. Jodi Rell unveiled a five-point plan aimed at keeping loans flowing from community banks to small businesses. Under the initiative, Connecticut banks may contribute \$1 million each to a loan pool that small businesses can draw on.

Noonan, with the CBA, said community banks can expect to gain ground in residential mortgage lending. They now control about 35 percent of the market, but he expects that to rise to 50 percent due to the crisis. "The mortgage market isn't all that busy, but banks are doing most of it right now," Noonan said.

Park said smaller banks in Connecticut generally didn't get involved with the sub-prime lending that hurt many national banks. While community banks were exposed to preferred shares of Fannie Mae and Freddie Mac, which are now nearly worthless, their balance sheets have held up relatively well.

That provides small banks with a special

marketing opportunity, said Andrea Obston, president of Andrea Obston Marketing Communications in Bloomfield.

"The problem is that people think a bank, is a bank, is a bank," Obston said. "Community banks need to make it clear to depositors that they didn't indulge in risky behavior that got other banks into trouble. If they let depositors know they are okay, they have a chance of expanding their market share right now."

Obston said one bank's recent advertisement serves as an example of what can be done. It proclaims that depositors "can count on the strength of NewAlliance Bank," and details how it's history of responsible lending helped it avoid the mess other banks face.

"Public confidence is a crucial issue," said Bill McGurk, CEO and president of Rockville Bank. "Banks need to reach a sense of trust with their depositors."

In marketing themselves, community banks have the advantage of being run by local people, Park said. "The advantage is that community banks are more relationship-based," he said.

Local Advantage

Depositors can put a face to a name of the executive running their bank, which helps provide reassurance. "Depositors can come by and see us anytime," McGurk added.

A number of small banks are boosting advertising and ratcheting up special protections for depositors. Since July, six Connecticut banks have joined Certificate of Deposit Account Registry Service, or CDARS, which multiplies deposit insurance coverage to up to \$50 million by distributing an individual's large deposit in amounts under the coverage limit among participating banks.

Roughly half of the 58 banks based in the state, are now offering the service, said Phil Battey a spokesperson for the Promontory Network, creators of CDARS coverage.

John Perotti, CEO of Salisbury Bank and Trust, which offers CDARS, said the service enhances customer loyalty and attracts larger deposits amid a weakening financial environment. "Insurance is now very important to people," Perotti said. "It wasn't that big of a deal prior to the crisis. But now everyone is asking about it."



Ed Danek, president and CEO, Hartford Federal Credit Union