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TOO MANY BANKS?

Bankers On A Building Spree

State banks, credit unions opening new offices at alarming rate

By Jonathan O'Connell

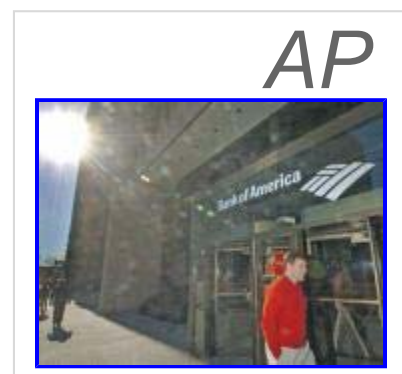
Hartford Business Journal Staff Writer

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With the advent of on-line banking and the growth of stand-alone ATMs, Connecticut bankers just a few years ago were predicting the inevitable decline of the traditional bricks-and-mortar branch.

They couldn't have been more wrong.

Since May of 2002, there have been an astonishing 162 new bank branches added in the state, and another 50 new credit union



branches, according to an analysis by the Hartford Business Journal.

But the rapid growth in bank branches comes with risk attached. Each new branch gives banks another reason to be

aggressive in their lending, to hype up their competition — and to raise the ghosts of uninhibited growth and unwarranted optimism that led to Connecticut's great banking crash of the early 1990s.

Bank of America's main Connecticut office, on Main Street in Hartford

A Red Flag

“I think this is on the fast side,” said Gerald M. Noonan, president of the Connecticut Bankers Association.

Yet with capital to burn from record-setting

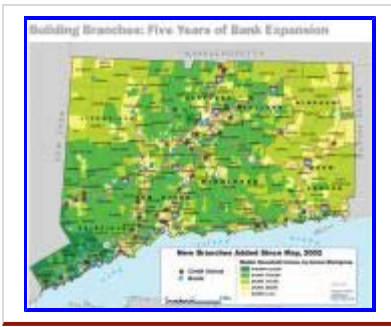
earnings, banks have decided that more branches are worth the cost, and credit unions have followed suit.

And regulators, so far, have opted to defer to the bankers' optimism. The Connecticut Department of Banking has not disallowed a single new branch application — and says it has no intention of doing so in the foreseeable future.

Yet for Noonan, the race to build brings to mind the early 1980s, when banks expanded and made loans with incredible aggression, only for many of them to fail or become acquired.

“They had opened branches in areas that they targeted growth and it just didn't come,” Noonan said.

Noonan sees gloomy similarities today. Eager to expand ahead of the next guy, banks are giving branches longer leeway in



becoming profitable and setting a lower bar for deposits.

Debunking the idea that online banking would take over, clusters of new branches have crowded onto the same choice street corners in a long list of Hartford suburbs: West Hartford, Avon, Enfield, South Windsor, Vernon and Glastonbury.

Noonan realizes not everyone will come out a winner.

“I think there are certainly areas that have been heavily branched in recent years and won’t work out as well as everyone hopes,” he said.

“I think that you’ll see probably another few [branch openings] a year, and that some of these branches will not turn to be as profitable as people think, and some will

close.”

But Noonan sees out-of-state institutions like West Bank and Commerce Bank, as well as community banks, already slowing their growth in reaction.

“The average bank is going to say hey, we’ve branched, now we’ve got to stop and start digesting that. So I think especially for the average bank, the community bank, there will be a slowdown.”

Noblesse Oblige

Banking Commissioner Howard F. Pitkin, charged with ensuring the “safety and soundness” of state-chartered banks and credit unions, while acknowledging more competition, said he doesn’t foresee a collapse, certainly not one of the sort he is investigating as a member of a

gubernatorial task force on the sub-prime mortgage industry. Of the \$8.1 billion in outstanding sub-prime loans on Connecticut properties, roughly 10 percent are past due.

“The economy is reacting and it’s very painful when that happens. But I don’t see that happening with banks. Not now,” Pitkin said.

How much more crowded would the field have to get for Pitkin to be concerned? Would he stop approving applications for new branches?

“The market is based on underlying supply and demand. If banks in the state are affected then that demand simply isn’t there,” Pitkin said.

“If we look at an application and it’s got some sense behind it, and we see some reason behind what they’re doing ...we’ll let

them establish the branch.”

Wealth Watchers

Income is only one of many indicators that goes into branch decisions, but it is a stark one.

Fairfield County, where Manhattan wealth drives the state’s median annual income, is an obvious favorite for banks, which put 63 new branches there in the past five years, more than a third of their branch growth.

On the other end are urban areas struggling to draw retail, foot traffic and new residents. Even those areas have drawn 25 new bank branches and five new credit union branches, though their concentration in major downtown areas and away from city residents has sometimes drawn the ire of policymakers and community advocates.

But income certainly isn't the only factor.

As much as ever, financial institutions seem to be sticking to the tried and true method of gathering along major roads. Even less-than-wealthy areas along I-84 in Waterbury and Danbury have new branches.

Density Is Destiny

Branch selectors still value the ease and visibility of spots near highways, said Kevin Chandler, president of the Credit Union League of Connecticut.

"I think it has to do more with convenience and density than where the money is," he said.

Dean Marchessault, senior vice president of retail services for American Eagle Federal Credit Union, said density seemed to be an overwhelming factor.

But he chastised his institution and others for jumbling branches in the same neighborhoods, often next door to one another or across the street.

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