

## De Novos Have Made State An Industry Leader in N.E.

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By By Katie Curnutte, Reporter

It may not have the population and business growth that led to Florida spawning 95 de novo banks in the past five years, but Connecticut has opened 10 de novo banks during the same period that have helped make the state a superstar in New England. And the state could continue to lead the region, with several de novos currently in organization.

Nineteen new banks opened in the six New England states over the past five years, ranking the area last among regions nationwide, according to a recent study by FinPro, an investment banking and management consulting firm specializing in advisory services for the financial institutions industry. The Southeast led the group with 299 institutions opened in the past five years, followed by the Midwest with 210, the West with 136, the Southwest with 93 and the mid-Atlantic states with 89.

Don Musso, president of FinPro, said there are four characteristics necessary for de novo banks to start: Household growth and population density need to be high, along with business density and growth. Also, the region needs to be wealthy and the banking market needs to have recently gone through a period of consolidation, he said.

New England's lackluster numbers could be attributed to lack of household growth and to the lowest number of businesses in the country. Both of those factors had high correlations with the number of de novos.

But that doesn't mean the region - and especially Connecticut - won't turn around. Connecticut had the region's only de novo bank last year when The Connecticut Bank and Trust Co. opened in Hartford last March. That trend is continuing, with five de novos currently in organization.

"We think that's an indication of what's going to keep happening," said Pat Rohan, managing director of FinPro.

Earlier this month organizers of The Bank of Greenwich filed an application for a state charter. Two bank and trust companies - New London-based Bank of Southeastern Connecticut and Darien-based Darien Rowayton Bank - are in organization, along with New Haven-based Higher One Bank, a community bank, and a limited-purpose credit card bank with a federal charter, RBS National Bank.

Another factor recently seen in New England, and especially in Connecticut, that could spur some new de novo banks is consolidation. There were nine mergers and acquisitions affecting Connecticut in 2004, including several that involved Connecticut-based banks. A market that has recently seen a lot of consolidation is ready for de novo banks.

"That's been a trend we've seen historically," said Nick Ketcha, a managing director at FinPro.

And it should continue.

"We think that Connecticut is ripe for another round of de novos," Musso said.

'Ahead of the Curve'

The recent consolidation of Connecticut's banking market will likely produce another round of de novo banks, but the consolidation that's been ongoing for the past 15 years is one of the reasons the state led New England in de novo banks.

"Connecticut [banks] suffered disproportionately during the early '90s," said John Carusone, president of the Hartford-based Bank Analysis Center.

The banking industry in the state imploded and left 65 banks where there used to be 150.

"What that has left is market opportunities for startup institutions," Carusone said.

That consolidation hit Connecticut earlier than it hit the rest of New England, leading to the state's de novo bank explosion toward the beginning of the century.

"Connecticut clearly was somewhat ahead of the curve," Rohan said.

Another reason for Connecticut's relatively high number of de novo banks is that the state has a population density that can support new banks. Outside of Boston, that population density generally isn't seen in the rest of New England.

There is also an economic cycle involved in the founding of de novo banks, Ketcha said. When good economic times follow consolidation, bankers who want to be chief executive officers take more risks to realize that and businesspeople are looking for community banks, he said.

The performance of New England's de novo banks also differs from the rest of the country. The region has 1 percent of the highly profitable de novo banks in the past five years, a number that tends to correlate across the board with the number of de novo banks per region.

Musso said the profitability of a de novo bank is based on three factors: the management of the bank, the board of directors and the marketplace. In New England, there is a higher level of competition than in many other regions. The cost of land and labor is also higher in New England.

"It's just a more expensive proposition," Musso said.

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