

# Amid financial crisis, healthy community banks see opportunity to grab new customers

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With Citigroup and Wells Fargo battling for Wachovia, and big buyouts by JPMorgan Chase of Washington Mutual and Bank of America of financial giant Merrill Lynch, the landscape is changing fast.

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"The big banks are going to be very distracted," said banking consultant David Danielson. "The small banks with clean loan portfolios and adequate capital are going to take advantage of this."

They might not be known nationwide, but New York is home to a slew of smaller banks. There are more than a dozen banks based in the five boroughs with assets less than \$1 billion, according to SNL Financial. That doesn't include larger but relatively small banks such as Apple and Flushing Savings.

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Consolidation at the top could mean branch closings, driving customers into the waiting arms of smaller banks that might be closer by, said banking consultant Ray Soifer.

Merged banks offer different products, potentially putting off consumers. And combining computer systems could lead to technical glitches. "Whenever there's a lot of dislocation as a result of mergers, customers are often inclined to move on," Soifer said.

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While massive mergers give big banks more market share, they also create problems: the challenge of merging operations and even more bad loans on their books.

In addition, worries about which bank will be the next to fall may prompt customers to spread their money across multiple banks, benefiting some tiny ones, said Don Musso president of financial consulting firm FinPro. "The days of one-stop financial shopping are probably over."

Since many smaller banks have managed to steer clear of the risky debt that has hamstrung a lot of the large institutions, they're in a position to make loans to small business that big institutions won't bother with, analysts said.

That doesn't mean, though, that community banks are immune to all the troubles plaguing the financial system.

"There's been an overall lack of confidence," said Rick Weiss, a bank analyst at Janney Montgomery Scott.

The small- and mid-sized businesses that community banks are hoping to lure as clients are feeling the pinch from a weaker economy, as well, Danielson said. "Because of the economic issues, you're going to have less people potentially willing to take out the big loans."

With the number of banks with major buying power whittled down to a handful, banking startups with the goal of getting bought up by big player may need an alternate exit strategy, Musso said.

In the years to come, giants like Citigroup, JPMorgan Chase and Bank of America may emerge even bigger and stronger, leaving small banks facing more formidable foes than before, analysts said. Their bulk and broad reach will let them offer more services, faster and for less, squeezing out some competition.

Showering personal attention on customers, as many small banks do, won't likely be enough to counter the lure of better deals, experts said.

"With their sheer size alone, they have a pricing advantage that none of the community banks can come up against," Musso said. "They can bring a market to their knees."

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