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On Focus and In Depth

Hostile to a Takeover in Connecticut — Will the Ill Will Spread?

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By Matthew Monks

Job killer.

That accusation, made this week in New Haven, Conn., may soon resonate over a much wider geographic area as community activists sharpen their tactics in the fight against unwanted mergers and acquisitions.

The case currently in question involves First Niagara Financial Group Inc. of Buffalo, N.Y., an inherently expansionist bank that is buying NewAlliance Bancshares Inc., a Connecticut mainstay with a long history. For its first 166 years, NewAlliance was New Haven Savings Bank. When the mutual converted and took the NewAlliance name in 2004, local politicians and business owners were furious over losing a community-enriching alternative to the world of big-time finance.

The trends — takeovers from afar and a resultant backlash — are unlikely to reverse, as sleepy state-chartered thrifts find they lack the economies of scale necessary to thrive with regulatory costs rising and fee income falling.

"Right now this is isolated to Connecticut," said Donald J. Musso, president and chief executive of FinPro Inc., a bank consulting firm and merger adviser in Liberty Corner, N.J. "I personally believe that this is going to spread."

NewAlliance, with $9 billion of assets, is among a wave of vanishing mutuals. About 60 are left nationally, and new ones aren't being chartered. At least four mutuals have converted to public companies this year or announced plans to do so. Five former mutuals that converted within the last five years have announced sales in the last five months. That group includes Danvers Bancorp in Massachusetts and Abington Bancorp Inc. in Jenkintown, Pa.

NewAlliance was barred from selling itself for five years after its conversion. It waited for only six, but the broader point is that it had said its switch would make it a buyer of other banks, not a seller.

"It cared about greater New Haven. It knew about local issues. The city developers could sit down with them and look at what's good for the local community, and all that's been lost," said Robert Solomon, a Yale Law School professor who is representing the city in the deal's public hearings this week.

Solomon is one of many local leaders opposing the First Niagara deal who also fought the conversion. Others include New Haven Mayor John DeStefano and Democratic U.S. Sen. Richard Blumenthal, a former state attorney general. They have complained about First Niagara's plans to cut at least 200 jobs, which were announced the same day the buyer said it would continue sponsoring a local tennis event. (The buyout deal has been approved by shareholders and will most likely close as expected in the spring as it receives final approval from the state banking department and Federal Reserve, observers say.)

The community leaders worry that the deal — which would create a $30 billion-asset lender with 340 branches in four states — could weaken the local economy because First Niagara would not provide the same overall amount of credit to local businesses and consumers.

"It's all about directors and executives getting rich. That's what it's about," Solomon said in an interview. "This is not in the public interest and doesn't meet the needs of the community."

A community group called Say No To First Niagara posted a flier on its Facebook page urging people in New Haven to attend Wednesday's public hearing to "make ourselves heard" and "stand together" and oppose the deal "for the benefit of our city" because "First Niagara has eliminated hundreds of good jobs and closed bank branches in communities where they have" entered.

Part of the problem for community activists is that few new locally owned banks are sprouting up to take the place of ones bought by distant institutions.

"There is often a lot of angst involved in losing a locally based financial institution," said Suzanne Moot, a banking consultant with M&M Associates in Milton, Mass. "Banks are often pretty involved in their local communities, and that is the operative word, local."

Banks can bequeath wealth and prestige to an area, Moot said, because they tend to support charities. Bank executives tend to support local charities and sit on the boards of local companies. That kind of engagement can evaporate when a new name adorns the branches, Moot said.

Connecticut is acutely aware of that: It had 54 state-based banks as of Dec. 31, down from 148 in 1985, according to the Federal Deposit Insurance Corp. In 1985, the loosening of interstate banking regulation enabled Bank of New England to buy Hartford's Connecticut Bank and Trust Corp., an innovative and controversial deal that began the megabank era. Their successor is Bank of America Corp., now the state's dominant player.

"In Connecticut, there is a heightened level of sensitivity to bank mergers and acquisitions because of the banking industry consolidation over the last 20 years," said John Carusone, president of Bank Analysis Center Inc., a consultancy and investment bank in Hartford, Conn.

"A local bank that has been a source of strength to help grow the economy is suddenly going to have decisions made at the highest level … outside of the state," Carusone said. "It's fear of the unknown."

First Niagara took advantage of the public hearings to make its case that the deal was beneficial for the state. In Hartford on Tuesday, First Niagara CEO John Koelmel reiterated its pledge to make $1 billion of small-business and community development loans to the area over the next five years.

"The combined bank will increase lending to consumers and businesses and provide real economic stimulus to all of the communities we serve," Koelmel said in a statement prepared for Tuesday's hearing, adding that 95% of credit decisions will be made by local executives. "We understand these are challenging times — and emotionally charged. But know that we have differentiated ourselves everywhere we do business by being part of the solution, by providing real leadership."

That type of concession, Carusone said, illustrates the benefits of a community pushing back against a deal even if it is unable to derail it. Of course, that could only lead to more protests, he said.

"There is certainly a precedent for concessions being extracted from the buyer during these public" outbursts, Carusone said. "I think you'll get this type of an outcry in any state, but in New England and Connecticut in particular, it is going to be louder." Most mutuals are based in blue-state regions like New England, New Jersey and Pennsylvania that have a history of activist groups ready to put up a fight.