

LEMMINGS

by [Steve Brown](#)

Lemmings are curious animals, as they will follow each other over a cliff. When it comes to group-think about branching, bankers can be like lemmings. Many independent banks reporting difficulty raising deposits could learn a thing or two from the behavior of lemmings. This issue (combined with heavy competition for loans) is perhaps the primary reason banks have been on a branch-opening frenzy the past few years. Opening a branch, however, does not guarantee a flood of customers. For proof of this, look no further than the branch strategy employed by Washington Mutual (WAMU) in IL. WAMU made a lot of noise when it came into the IL market, rapidly opening branches throughout the state. Over a 4Y period of time, WAMU opened 172 branches in the Chicago-area alone. As of September of this year, the company announced it will shutter nearly 16% of them, due to a failure to meet performance expectations. In total, the 29 branches targeted for closure hold about \$105mm in deposits. Spread out over the entire group scheduled for closure, the average deposit per branch was a mere \$3.6mm. Despite the hype of the "Occasio" branch concept, the thrift has struggled to put together an execution strategy for IL that has delivered results. By comparison, the top 10 banks (excludes insurance company owned State Farm Bank due to the skew of having \$9.2B at only 1 branch) in the state have amassed some \$118B in deposits across 792 offices. This results in a deposit per branch total of \$149mm each, or roughly 24x the level achieved by WAMU. There is no doubt that WAMU has struggled in IL and that even with a nifty branch layout, customers may not have incentive to change banks. After the closures, WAMU's remaining 143 branches in the area will hold roughly \$606mm in deposits, or about \$4.25mm per branch, still not that impressive. What happened and why did a company known for its branch prowess fail so miserably in IL and end up ranked 8th from the bottom? Maybe it was the fact that a 7-day hold was required for deposits of checks drawn on other IL banks, for existing WAMU customers living in the state (but who had opened their accounts in other states such as CA, WA, etc.). These deposits were reportedly considered "out of state" by WAMU. Or, perhaps it is the fact that IL is one of the country's most over-banked and price-competitive markets already. The answer isn't totally clear but given the prevalence of ATMs, online banking and other non-branch related offerings, opening a branch (or bunches of them) doesn't guarantee organic growth will follow. While WAMU's failure is most likely the result of opening in areas with weak household growth, low market density potential, or soft financial performance, it is also a lesson of lemmings. While the market rewards growth, it is clear banks need to do a lot of pre-opening analysis to ensure they are not blindly opening branches just because the other guy is also doing it.

BANK NEWS

M&A

Princeton National (\$942mm, IL), the parent of Citizens First National Bank, will acquire a branch (\$11mm in deposits and \$15mm in loans) from Homestar Financial (\$463mm, IL) for an undisclosed sum.

M&A

Huntington Bancshares (\$35.9B, OH) will acquire fund services company Unified Fund Services for an undisclosed sum. Unified provides accounting, administration and transfer agent services to mutual funds and has \$9B in assets.

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The parent company of Rockland Trust (\$2.9B, MA) will acquire assets from 1031 intermediary Compass Exchange. Compass provides clients with guidance, strategies and solutions for like-kind exchanges under IRS rule 1031. Terms were not disclosed.

De Novo Premiums

The final FDIC insurance premium assessment schedule was adopted as we originally written up, but with one exception. Banks younger than 7Ys will be assessed at their risk level versus the previous 7bp.

ILC Ruling

The FDIC went on record saying that they will have an ILC decision by January.

Housing

Housing market futures are down in 70% of top cities covered in a new composite index, indicating softness in the sector is expected to continue in coming months. The average decline predicted through mid-2007 is about 7.3%.

Small Business

Banks looking for small business customers should know that over 45mm people now work from their home and nearly 21mm work while in their cars. Have you considered programs to capture such possible customers?

SBA Lending

A new study finds credit unions made 1,172 SBA 7(a) loans in 2005.

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