

# FOCUS SECTION

## Banking

# Community banks fight to keep their niche

## New FDIC insurance formula has helped their bottom line

By **BEN MOOK**

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So far this month, **BlueRidge Bank** has opened a new location in Towson — its first outside of Frederick — and named an executive to make inroads into Washington County with the goal of opening a branch there as well.

The moves are a rarity given the state of the banking industry, which has been hindered by increased regulation, lower loan demand and fallout from the housing crisis.

But community banks like BlueRidge, which opened in 2008, remain optimistic that customers will continue to turn to institutions that are rooted in the community, where decisions on things like mortgages and loans are made by people familiar with the community.

"There's a tremendous need out there for a very hands-on, local approach to decision making," said BlueRidge CEO J. Brian Gaeng. "Our business model is a high-service one, and our bank employees have an average of 30 years' experience in the business."

A rarity in the current state of the



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"There's a tremendous need out there for a very hands-on, local approach to decision making," says BlueRidge CEO J. Brian Gaeng.

banking industry, BlueRidge expanded into new territory without making an acquisition. The bank also has designs to expand further with a western push into Washington County in the near future, Gaeng said.

The number of state-based community banks has dropped over the years, with most of the casualties coming by way of consolidation, acquisition and even closure by regulators. The banking industry in Maryland is dominated by larger, regional banks headquartered out of state. The top five banks in the state

have more than 50 percent of the market share, based on total deposits.

"It seems like, in banking, Baltimore has been a branch town for a while," said Gary Rever, CEO of Towson-based **CFG Community Bank**.

Nonetheless, the banks that have weathered the recession, mortgage woes and changes in the regulatory atmosphere remain optimistic and have been aggressive about increasing deposits and bringing in new loans.

"There is still demand and a lot of opportunities for smaller banks that

are locally owned and know the communities," Rever said.

CFG Community Bank is a three-branch commercial bank headquartered in Towson. The bank has \$517 million in assets, up from \$397.8 million in 2010. CFG also saw its total deposits climb — 24 percent year-to-year with \$462 million as of June 30, compared to \$352 million in 2010.

### 'Difficult at best'

Unlike the newer BlueRidge Bank, **Fairmount Bank** was founded in 1879 when 29 Eastern European immigrants met on the second floor of a Baltimore bar and collected the \$34 that became the bank's first deposit. The bank's books were kept in Czech until 1948.

Today, headquartered in Rosedale, the bank is publicly traded on the Over the Counter Bulletin Board and recently completed its acquisition of Fullerton Bank, giving it a second branch and \$8.9 million in total assets.

"There are an awful lot of challenges with the current economic environment," said President Joseph Solomon. "It's difficult at best."

Difficult, but not impossible.

"We have been able to grow even in these tough economic times," Solomon said. "We're very pleased with our performance — we're profitable, well-capitalized and continue to

See **COMMUNITY 19A**

# Wealth management offers banks an opportunity to add clients, profits

By **AMY BURROUGHS**

Special to The Daily Record

While some quarters of the banking industry still struggle, others have their eye on a silver lining: wealth management.

Attracted by the prospect of high profits and aging baby boomers preparing to pass on their wealth to the next generation, banks are seeing increased opportunity — and heated competition — in high and ultra-high net worth customers.

In Maryland, the stakes are even higher, as banks compete for per-capita wealth that's among the nation's highest, said Trent Williams, regional director for **Wells Fargo Private Bank** in Baltimore.

"It's a ripe market for us," he said.

On Nov. 1, Wells Fargo announced the launch of a new brand, **Abbot Downing**, which will cater to ultra-high net worth clients when it launches in April 2012.

Other large banks are moving aggressively in this area as well. **M&T Bank** has acquired Wilmington Trust to boost its wealth management services. **PNC Bank** is launching a new product, **Wealth Insight**, to provide real-time, aggregate financial information to wealth management customers. And **Bank of America's** new service, **Merrill Edge**, targets newly

affluent mid-range investors.

The complexities of succession planning, multiplied by population demographics, have sparked banks' interest, said Mark Graham, executive vice president of **Wilmington Trust**,

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I think in large part, what banks are doing is responding to a growing and very profitable market need. It's — I'll underscore the word 'very' — profitable.

**MARYANN JOHNSON**

American Bankers Association

who is in charge of combined wealth advisory business for **M&T** and **Wilmington Trust**.

"Everybody is trying to get in the middle of that wealth transfer," he said.

While some observers say banks are motivated by revenue lost because of fee reform, Maryann Johnson, senior vice president of **Wealth Management & Trust Market** for the **American Bankers Association**, said a

bigger reason is simply that wealth management makes money. In addition to collecting fees, wealth managers may encourage customers to aggregate their assets at the bank, which brings in additional deposits.

In fact, she said, many customers with \$1 million to \$5 million in investable assets have been managing their own money but now realize they need help. As a result, they want not only traditional investment management, but also guidance in selling family businesses, creating charitable foundations, negotiating tax and insurance, and navigating the tricky waters of multigenerational inheritances.

"I think in large part, what banks are doing is responding to a growing and very profitable market need," she said. "It's — I'll underscore the word 'very' — profitable."

### Bank of America

While **Bank of America** serves high and ultra-high net worth individuals through **Merrill Lynch Private Banking & Investment Group** and **U.S. Trust**, its new line, **Merrill Edge**, targets newly affluent investors with between \$50,000 and \$250,000 in investable assets.

Tony Burns, **Merrill Edge** regional sales executive for Mid-Atlantic states, said the bank has identified an underserved but growing market.

"They have needs that go beyond standard retail, but they really don't fit the profile that requires a full-service advisor," he said, adding that the bank already has some 8 million customers fitting that profile.

Unveiled in a pilot program in 2009, **Merrill Edge** has been rolled out nationally. Customers can tap the bank's investment expertise in an online, self-directed format, via call centers staffed with financial solutions advisors or in person.

The bank has hired more than 500 advisors for branches and another 650 for call centers, Burns said. Forty of those positions are in Baltimore.

For **Merrill Edge** clients, many of whom may not have had financial planning assistance, the financial service advisors will direct them to the best channels based on individual profiles, Burns said. Customers with more-sophisticated needs will be referred to **Merrill Lynch** advisors.

"Where we focus, on \$50,000 to \$250,000, there are a lot of individuals who have not had the opportunity to sit down with someone who has the tools and resources we have and really help them," Burns said.

Spokeswoman **Selena Morris** said **Bank of America** has a total of \$2 trillion in assets under management.

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## FOCUS SECTION

### Banking

# Mega-banks, community banks vie for turf

Maryland's major players, all based elsewhere, strive for 'local feel'

By **BEN MOOK**

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What a difference a decade can make.

Ten years ago, half of the 10 banks with the most market share in Maryland were based here. But, as Allfirst Bank, First Union, Provident Bank of Maryland, Mercantile Bankshares Corp. and Farmers Bank of Maryland were bought, the state's banking landscape changed dramatically.

Today, the biggest banks operating in the state are headquartered out of state, and only two headquartered in Maryland — No. 8 **Sandy Spring Bank** and No. 10 **The Columbia Bank** — are among the top 10. In all, Maryland-based banks account for only a little more than 3 percent of the market here.

"Banking in Maryland has really become bifurcated into the mega-banks on one side and the community banks on the other," said R. Michael Menzies, CEO of **Easton Bank and Trust Company** and past chairman of the Independent Community Bankers of America.

In this radically changed market, these out-of-state banks are working to raise their profiles and prove their worth to the communities they serve while employing thousands and maintaining vast networks of branches and ATMs.

Baltimore's pro football team plays in a stadium whose naming rights were purchased by Buffalo, N.Y.-based **M&T Bank**. And advertisements for banks headquartered out of state can be found on buses, billboards and buildings in communi-

ties across Maryland.

"Banking local, what does that mean? That's the ultimate question," said Louis R. Cestello, **PNC Bank** regional president for Greater Maryland. "PNC has national bank capabilities and products and an excellent capital position and a desire to grow. But, we're focused on the community and employing decisions locally. That gives us the feel of a local bank — the decisions are being made by people here in Maryland."

Pittsburgh-based PNC had the third-highest market share in Maryland (9.1 percent) and more branches — 231 — than any institution, as of the end of June.

The bank's biggest inroad into Maryland occurred with the purchase of Mercantile and its affiliates five years ago. PNC now employs 2,500 people in the state, and Cestello said that number will continue to grow.

To be successful, big banks recognize that they need to make themselves part of the communities they operate in even if they're not headquartered in those areas.

"We have a saying that our goal is to out-national the local banks and out-local the national ones," said Andy Bertamini, regional president for Maryland at **Wells Fargo**. "The names can change, but we still need to serve the community. There are a lot of banking alternatives out there, and that means we have to prove our value."

Wells Fargo is the latest of the big

players to come to Maryland. The San Francisco-based banking giant already had a presence here with its mortgage and other businesses, but its acquisition of Wachovia Bank gave it a little more than 7 percent of the Maryland market.

Wells Fargo phased out the Wachovia name and transitioned its last branch in October. A long-running marketing campaign that included bus wraps, billboards and an increase in signs at branches touted the changeover. Bertamini declined to say how much was spent on the campaign locally but said it was a strategic marketing plan that was intended to run for a long time.

"It was a slow, deliberate process," he said.

Wachovia entered the state in a big way with its "merger of equals" with Rockville-based First Union Bank in 2001. After the all-stock deal, Wachovia was the surviving entity and the headquarters was moved to Charlotte, N.C.

The remaining state-based institutions have adapted to the changed market by playing to their own strengths. The larger ones compete with their out-of-state rivals with their own branches and ATM networks, while the smaller banks with fewer branches continue to focus on the neighborhoods and communities where they were founded.

One fast-growing Maryland bank is **EagleBank**, which started operations in 1998 and is headquartered in Bethesda. The bank has 15 offices in Montgomery County, Washington, D.C., and Northern Virginia.

With total deposits of \$1.25 billion as of June 30, EagleBank leapfrogged its way to become the third-largest bank, headquartered in Maryland, in terms of market share.

"We've had tremendous growth," said Thomas D. Murphy, president of community banking for EagleBank. "We've kept our balance sheet clean and we're working in a pretty good market."

## Changes at the top

The major players in the state's banking industry have changed dramatically over the last decade due to consolidations, mergers and the occasional closing. According to the Federal Deposit Insurance Corp.'s deposit market share report, of the top five banks operating in 2001, only two



ILLUSTRATION BY MAXIMILIAN FRANZ

still exist under the same names — market leader **Bank of America** (20.4 percent) and **SunTrust Bank**, in sixth place with 7 percent.

Atlanta-based SunTrust has taken to highlighting this in advertising with its "SunTrust is still SunTrust" billboards.

J. Scott Wilfong, president and CEO of SunTrust Bank of Greater Washington/Maryland, said the bank tries to position itself in markets where it is not the biggest bank in town.

"We don't see a need to be anything other than SunTrust, and we have the



Banking in Maryland has really become bifurcated into the mega-banks on one side and the community banks on the other.

**R. MICHAEL MENZIES**

Easton Bank and Trust Company

capital and liquidity to continue to be just SunTrust," he said. "We've been driving home for a while that we are the right size bank."

Wilfong said that whether a bank is based in the community it serves or not, it plays vital local roles from furnishing basic banking services to making charitable donations to providing volunteers for nonprofit organizations.

"A community's vitality has a lot to do with the kinds of banks you have in the community," Wilfong said. "Show me a community with a strong banking community, and I'll show you a strong community."

One of the biggest banks to emerge in Maryland over the last decade is M&T Bank. Eleven years ago M&T had

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San Francisco-based Wells Fargo finished phasing out the Wachovia brand in Maryland last month and is still running an aggressive marketing campaign.

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# Banks >> Bank of America, M&T lead in market share; BB&T eyes expansion

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no presence in Maryland. In 2001 it had only 25 offices here and less than 1 percent of market share.

Things changed dramatically in 2003 with M&T's acquisition of Maryland-based Allfirst Financial Inc. and again in 2009 with the purchase of Provident Bank of Maryland, then the largest bank headquartered here.

As of the end of June this year, only Bank of America had a larger market share in Maryland than M&T, which boasted \$17.2 billion in deposits, 210 branches and a 14.9 percent market share.

Atwood "Woody" Collins III, president and chief operating officer of M&T Bank's Mid-Atlantic division, said Maryland is one of the most important markets for M&T and the bank has invested much here to show its commitment.

"We sort of put our money where our mouth is," Collins said. "We didn't start with a historic legacy in Baltimore, but we feel that Maryland is a key part of our future."

Despite M&T's explosive growth in recent years, Charlotte-based Bank of America continues to hold the largest piece of the Maryland market.

M&T acquired Wilmington Trust this year, but Collins said the acquisition was not made to close the market share gap with Bank of America.



Large out-of-state banks hope their networks of ATMs and arrays of services will trump the appeal of community banks to customers.

"We don't have any corporate imperative to be in the top five or anything like that," Collins said. "I'd like to focus on being the bank people turn to and stockholders see as profitable. I'd rather us be smaller and more profitable."

## Chipping away

However, a number of banks are looking to chip away at Bank of America's lead. A recent attempt by that bank to recoup lost revenue by implementing a \$5 monthly fee for using debit cards backfired and led to a call for customers to shift their business to local banks and credit unions.

"For the mega-banks, a lot of them have focused on things like adding fees to recoup losses," Menzies said. "They just jumped into doing that and were bloodied by the media and the public and had to withdraw."

Bank of America dropped its debit card fee idea after an avalanche of bad publicity. It had announced this year that it planned to cut 30,000 jobs as part of a companywide reduction in expenses.

The job cuts are expected to take place over the next few years in a mix of attrition, the sale of non-core businesses, branch closures and possibly layoffs.

William Couper, president of the Mid-Atlantic region at Bank of America, said the region should not see massive layoffs coming from the decision.

"Will some people lose their jobs? Yes, but I'm not expecting anything major in the area, or in a hurry," Couper said.

Despite the rash of bad news, Couper said that in Maryland, Bank of America has been able to grow its share of the market by playing to its strengths as a national bank.

"For us, 2011 has been a pretty respectable year in the region," Couper said. "We've had some good success in our consumer group, commercial banking and in our wealth management divisions. We are not letting up."

One bank that has made it clear that it plans to aggressively pursue market share in Maryland is Winston-Salem, N.C.-based Branch Banking and Trust Company, or **BB&T**. Its 2003 acquisition of Annapolis-based Farmers Bank of Maryland propelled the bank's rapid ascent.

"It's fair to say that if you look at

our market share, it would suggest that we are growing it," said William Toomey, regional president for the Baltimore Metro region of BB&T. "We really enjoy the market here and we feel that we have our company letters on the city skyline and that sends a big message about our commitment to the market."

As of June, BB&T had the seventh-highest piece of the market at 5.7 percent.

"The Baltimore metro region is the fastest growing region in the bank," Toomey said. "It is a very important market for us and we want to continue to grow."

## Room for growth

With its government jobs and proximity to Washington, coupled with real estate losses that have been below other states', the Maryland market is seen as a growth area.

"Maryland is one of the most attractive markets in the country right now," said Bryce Rowe, a senior analyst covering community banks for Robert W. Baird & Co. Inc. in Milwaukee.

PNC's Cestello agreed and said that loan activity and deposits were both up this year. He said the increased activity underscored the strength in the state's banking market.

"Maryland is doing pretty well compared to the economy in other places," Cestello said. "It's a great time to be a bank in Maryland."

But, like all markets across the country, Maryland's banking industry has suffered in the wake of the recession and upheaval in the real estate markets. Since January 2009,

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It's a great time to be a bank in Maryland.

LOUIS R. CESTELLO  
PNC Bank

Maryland has had six banks fail, starting with Suburban Federal Savings Bank in January of that year. The last bank to fail in the state was Owings Mills-based K Bank, which was closed in November 2010.

While no banks have closed in 2011, a number of them are struggling. According to Charlottesville, Va.-based SNL Financial LLC, since 2007, 19 percent of the banks headquartered in the state are operating under a severe enforcement action.

Sixteen of the 86 banks headquartered in the state have received at least one enforcement action, and in some cases more than one.

"You could argue that all banks do the same things, but they do it with wildly different results," M&T's Collins said. "There's a clear difference between those who do it well and those who don't."

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Banking

## Wealth >> Banks offer more services for customers with high net worth

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### M&T Bank

M&T solidified its wealth management stake by acquiring Wilmington Trust, a deal finalized in May. The bank has \$81 billion in assets under management and will continue using the Wilmington Trust brand.

Graham, executive vice president in charge of the combined wealth advisory business, said Wilmington Trust had two healthy lines of business that attracted M&T: legacy wealth owned by multigenerational families and created wealth from entrepreneurs.

"The brands are highly complementary," said Chris Randall, president of the Mid-Atlantic region for Wilmington Trust, "in that we, the bank, are helping them grow their business, but we now can provide leading, cutting-edge advice on how to protect and transfer those assets."

Randall said M&T will promote a community bank approach alongside Wilmington Trust's emphasis on customer relationships.

### PNC Bank

At PNC Bank, services are delivered through PNC Wealth Management and the Hawthorn brand, which caters to the ultra-affluent. The bank has \$103 billion in assets under management.

Louis Cestello, regional president for the Greater Maryland market, said PNC just began a national rollout of a new product, Wealth Insight.

A portal into a PNC platform, it aggregates information about income, investment holdings, asset allocations, net worth and other data, giving customers real-time data and customizable reporting no matter where their assets are held.

"We've actually had the test phase here in Maryland and it went exceedingly well," Cestello said.

PNC also has been promoting its wealth management services in a recent advertising campaign.

Customers from boutique firms sometimes ask if they will receive enough attention at a large bank, Cestello said, but a bank's size also can

be reassuring.

In the wake of Bernie Madoff-type scandals, he said, "I think people are doing more due diligence on their financial service providers than they would have five years ago."

Cestello agreed that Maryland is fertile ground. In addition to faring comparatively well in the recession, Maryland is home to many multigenerational families who have deep ties to the state and intend to keep their money here, he said.

"There's been a lot of wealth that's been created and passed down over time, so we think it's a fantastic market for PNC in general, but also especially for our wealth business," he said.

### Wells Fargo

Abbot Downing will serve households with at least \$50 million. According to Sandy Deem, senior vice president for family wealth communications, that represents approximately 10,000 U.S. households controlling more than \$1 trillion.

Deem said Abbot Downing wants to distinguish itself by serving the unique needs of ultra-wealthy families and helping customers create meaningful legacies.

"Families from this level have more money than they are able to spend in their lifetime, so they really have to think about what impact they want to make in the broader community with their money," Deem said.

In a large family, such decisions can be complicated, so advisors will emphasize helping families sort through issues, with on-staff psychologists if needed.

The bank expects increased mergers and acquisitions activity to create newly wealthy clients in need of guidance. Deem cited a Thomson Financial report that middle-market M&A activity was up 30 percent in the first half of 2011 compared to the same period last year.

"There are a lot of factors at play that make this an exciting time to be in this business," she said.

She attributes most of the push to demographic changes. "You're going to see a tremendous transfer of wealth in the country, so that's something that's going to make a really big impact," she explained.

With \$27.5 billion in assets, Abbot Downing will serve customers in 15 cities.

The Mid-Atlantic corridor is one of Wells Fargo's most important markets, Williams said, because of its high concentration of wealthy individuals. Accordingly, the bank added an investment manager and a financial planner in Baltimore in 2010.

"We've added that resource in part because of the opportunities we see here, but also because we wanted to demonstrate to this market we were serious about delivering private banking and wealth management services," Williams said.

## Community >> 'Bank local' sentiment

Continued from 16A

earn profits in today's regulatory and economic conditions. And that is because we've stuck to our strength, which is making loans in our community."

Smaller banks that concentrate on one kind of lending, such as real estate lending, or in one specific area run the risks that lack of diversification can bring.

R. Michael Menzies, CEO of **Easton Bank and Trust Company** and past chairman of the Independent Community Bankers of America, said the last few years have been difficult for his bank as a real estate lender on the Eastern Shore.

"If the community is having economic trouble, then the bank will as well," Menzies said. "That's just the way it is."

As a reaction to the troubles in real estate loans, federal and state regulators have been increasingly vigilant about making sure banks have enough cash on hand to cover bad loans.

"This is probably the least favorable regulatory environment to be in," said Bryce Rowe, an analyst with Robert W. Baird & Co. Inc. in Milwaukee, who watches the community banking sector. "It's very, very difficult for banks, and it's not likely to get better anytime soon."

One change that benefited smaller banks is the Federal Deposit Insurance Corp.'s new formula for determining how much institutions pay for deposit insurance the government guarantees to protect deposits of up to \$250,000. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the FDIC, starting this year, based fees on average consolidated total assets as opposed to one on total domestic deposits.

The change brings in more from larger institutions which have higher assets in investment than from smaller banks whose assets might hew closer to the amount of deposits they have.

"It saved us a fortune," Menzies said of the change. "It saved all but four

banks in Maryland a significant amount of money. And, in our case that savings meant two jobs we were able to keep."

On one positive note, community banks are seeing a continued uptick in deposits as people skittish about investing have been socking away money instead. And, with some high-visibility blunders from larger banks such as Bank of America trying to impose unpopular fees, there has been an increase in "bank local" sentiment.

"The community banks are seeing an influx of deposits because people are seeing the value of banking local," Menzies said. "They know their customers, they work with them and don't just plug them into a program. They are relationship-based, not transaction-based."

Easton Bank and Trust reported total deposits of \$138.4 million as of the end of June. This was an increase of \$383,000 from June 2010 and \$1.44 million from June 2009.

With all of the challenges facing community banks, there has been a dearth of new entries into the industry. In Maryland, only one bank — BlueRidge Bank — has started from scratch since 2008. In Baltimore, Bay Bank is a new holding company formed last year to take over the assets of Bay National Bank, which failed in July 2010.

Thomas Murphy, president of community banking for **EagleBank**, which started in 1998 and has grown to become the third-largest bank headquartered in the state, said that trend is unlikely to change.

"It's a tough time for a new bank to start up for sure, and I'm glad we were able to start a community bank when we did," Murphy said. "I'm not sure if I'd have that same comfort with one starting in the last few years."

Rowe said that in Maryland and across the country, there are too many banks and not enough loan demand for them all to be profitable.

As a result, he said he is expecting the number of banks to continue to decline.



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