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Banking on the Future

Credit unions and acquisitions are reshaping NH's financial marketplace.

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While NH banks and credit unions weathered the recession better than financial institutions in other states, the financial marketplace is being reshaped in dramatic ways. Credit unions are taking market share away from the bigger banks, and smaller banks are being swept up by larger institutions.

Taking Credit

A recent report shows credit union deposits in NH are growing faster than bank deposits. Research by Brian Gottlob, economist and principal of Dover-based PolEcon Research, shows between 2003 and 2007, deposits at community banks grew by nearly 26 percent and credit union deposits grew by 21 percent. But between 2007 and 2012, deposits at credit unions grew by more than 50 percent compared to 37 percent at community banks.

“One fallout from the financial crisis appears to be a growing market share for credit unions in the state … largely at the expense of large banks,” writes Gottlob. Daniel Egan Jr., president of the NH Credit Union League, reasons, “More people are joining, but more people are also saving.” Egan says he also believes this trend will continue, with savings projected to increase by 5 percent and loan demand increasing by more than 3 percent in 2013.

Christiana Thornton, president of the NH Bankers Association, says the state's banks also continued to grow during the recession, and she expects them “to continue to experience growth.” And while credit unions have been gaining deposits, Gottlob also points out that, as of the second quarter of 2012, banks still held the lion's share of deposits in NH with credit unions holding just 16.4 percent of the total.

The distinction between credit unions and banks is becoming more blurred as competition increases. “As the services credit unions offer and their branching look more and more like those of banks, their ownership and regulatory structure may be the only thing that distinguishes them from banks,” writes Gottlob. Thornton agrees, saying, “Credit unions are benefiting from their tax-exempt status. It's beginning to look like an unlevel playing field.”

Balance sheets have remained solid for the majority of NH's financial institutions during the recession. "It's hard to say what one area has made the difference. Refinancing has been very strong with the low rates and we've had very strong commercial lending," says Thornton. Egan says, "It is primarily consumer lending that has provided credit unions with their ability to grow."

Mergers

Traditionally, large regional or national banks have been acquiring smaller institutions in NH. A newer trend, however, also has smaller banks merging, fueled by a need to share resources. "This recession has been longer than most typically are. Because of that we're seeing community banks having to look at other ways to remain efficient," says NH Banking Commissioner Ronald Wilbur. "That also, however, provides more opportunity for regional and smaller institutions."

In 2012, Norwich, NY-based NBT Bancorp acquired Hampshire First Bank of Manchester for $45 million, and Newport-based NH Thrift Bancshares, the holding corporation of Lake Sunapee Bank, bought The Nashua Bank for $19.4 million.

This past summer also saw a unique affiliation. Merrimack County Savings Bank of Concord and Meredith Village Savings Bank announced in June they are forming a combined mutual holding company-—the state's first. Expected to have the structure in place by this month, the banks are keeping their identities separate, but are forming a new holding company to which each bank will answer. "We both knew we had to expand, but it would mean competing head to head," says Samuel Laverack, president and CEO of Meredith Village Savings Bank. Paul Rizzi, president and CEO of Merrimack County Savings Bank, says the new structure will result in significant savings on technology and regulation changes. "Both banks would have [had] to do research, develop systems, spend money and train employees," says Rizzi. "Now we will just have to do it once."

Local NH banks aren't the only ones getting hitched. Woodlands Credit Union in Berlin merged with Portsmouth-headquartered Northeast Credit Union on Jan. 1, giving Northeast assets of more than $800 million and 90,000 members.

Even more interesting is the $6.4 million transaction between GFA Federal Credit Union of Gardner, Mass., and Peterborough-based Monadnock Community Bank—the first acquisition of a stock savings bank by a credit union in the country, and only the second credit union acquisition of a savings bank of any kind. "When we sat down with Monadnock, we saw right away there were a lot of synergies," says Tina Sbrega, president and CEO of GFA. The deal will give GFA nine branches, including two in NH. Monadnock, which traded publicly between 2004 and 2009 after starting life decades earlier as a credit union, has experienced financial troubles for years. "We have our roots in credit unions. People in Peterborough are looking forward to having a credit union in the region," says William Pierce Jr., president and CEO of Monadnock Bancorp., parent corporation of Monadnock Community Bank at the time of this writing.

Marketshare

Marketshare among NH's banks has remained consistent between 2010 and 2012. According to reports from the Federal Deposit Insurance Corp., Citizens Bank, headquartered in Providence, R.I., has the largest marketshare in NH at 24.3 percent. In second position is TD Bank of Toronto with 19.3 percent of the market. Charlotte, N.C.-based Bank of America is third with 17.5 percent of the market. The remaining 37 banks included in the report have 5 percent or less in marketshare, and there has been little movement in marketshare for the past three years. However, there are new players entering the NH market. Two out-of-state banks are expanding here: SIS, a bank based in Sanford, Maine, plans to open a branch in Portsmouth this month, while Newburyport Five Cents Savings Bank in Massachusetts expects to open a branch, also in Portsmouth, in April. Last year Lowell Five Cent Savings Bank in Massachusetts opened its first NH branch in Nashua.

Marketshare among the state's credit unions has also remained steady between 2009 and 2011, the most recent years available. And, some credit unions posted impressive gains. Service Credit Union in Portsmouth, based on calculations by Business NH Magazine from NH Banking Department annual report data, has the largest marketshare of deposits, growing 5.3 percent over the three-year period to 37.5 percent in 2011. St. Mary's Bank of Manchester and Portsmouth's Northeast Credit Union each kept about 15 percent of the market during that same time period. The remaining 11 credit unions have substantially less of the market. (Detailed data on federal credit unions was not included in the annual reports as they are not administered by the state banking department, though reports do say they hold 2 percent of all NH banking assets.) The recent merger of Woodlands into Northeast, however, could make it the second-largest credit union in the state, with combined assets of greater than $800 million. This would put it ahead of St. Mary's Bank, which has total assets of $759 million as of Sept. 30, according to reports from the National Credit Union Administration.

Regulation and Technology

Granite State financial leaders are bracing for more banking regulations in 2013 and beyond, specifically those in the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010 during President Barack Obama's first term. "I think there was a hope among financial institutions that there might be a repeal or attempt to mitigate Dodd-Frank, particularly capitalization standards," says Banking Commissioner Wilbur. "But I think that hope is pretty much squashed now. Now banks, especially smaller community banks and credit unions, have to figure out how they're going to meet the regulations long term." The Dodd-Frank Act contains sweeping reforms and was primarily concerned with banks that were considered "too big to fail," but because the act painted all banks with a broad brush, small banks must also follow the same regulations. For community bankers, the act's capitalization regulations are by far the most onerous burden for small, local banks, requiring them to have funds that expand and contract depending on economic forces.

The trend of mobile banking—and the resources required to meet the demand—is taking almost equal weight. The ubiquity of mobile devices like smartphones and tablets are dictating the way consumers prefer to do their banking, forcing financial institutions to make investments in technology. “It’s a matter of convenience,” says Egan. “It’s also how the younger generation wants to do business.”