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What a Difference a Year (or two) Makes – 2006 vs. 2008

In the third quarter of 2008, in the area covered by this report, banks continued to open at a rate similar to recent years, but the economic recession that is plaguing the country is taking its toll on new bank performance. Comparisons between new bank performance in the third quarter of 2008 and the third quarter of 2006, highlights this decline. To illustrate:

- In 2006, new banks in their fourth year of operation had median earnings of \$319,000¹. Two years later, new banks in their fourth year of operation had a median loss of \$766,000.
- Today, the median bank is seven years old before it turns a solid profit.
- In 2006, new banks that had been open for seven to ten years had median earnings of \$1.4 million or better. In 2008, those banks open for seven to ten years had median earnings of less than \$900,000.
- Two years ago, only eleven banks opened since 1990 and open more than four years, were losing money. Today, still using a 1990 start date, that number is 54.

This reduced performance of new banks has been reflected in the price of their stocks. At the end of the third quarter of 2006, the median price for the new banks with a traded stock was 160% of book. Today, it is just 79% of book². Some of the decline represents a reduced interest in bank stocks by investors, but much of it reflects lower returns on equity.

These are difficult times for banks big or small, new or old, and 2009 will bring further earnings deterioration, but it will also bring a very different banking industry, and one that should benefit well-run small banks. Banking will still be a needed service, but with fewer big banks to meet the need. Wachovia is gone; Sovereign and Commerce have foreign-ownership; and Citizens is now part of bank more than 50% owned by the British government. Meanwhile, as Bank of America and JPMorgan move closer to \$3 trillion in assets, there are bound to be large gaps in their interest and coverage. Thus, times may be tough, but there are surely better days ahead.

Sincerely,



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¹ References to 2006 are from the Danielson New Bank Report, Eastern Edition, Third Quarter 2006.

² See new bank stock pricing at the end of this report.