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Dear Banker,

In New Jersey, and nationwide, new banks are more meaningful than ever as the total number of banks has decreased dramatically and most of the historic local leaders have been replaced by large out-of-area banks. As a result, new banks are increasingly the local banking alternative to the giant banks.

This enhanced role has been accompanied by capital being raised in amounts that were previously unimaginable and sale prices that are eye-catching to say the least. Initial capital raised by new banks is routinely now in excess of \$10 million, and they are frequently back for more within a year or two. When it comes time to sell, many of these banks are getting prices in excess of three times book.

This report written by Arnold Danielson talks about the new banks in New Jersey and puts them in a historical perspective. As the report shows, the new bank "craze" of today is not all that new with the openings in the 1990s being down from the previous three decades, but with less mid-sized, local competition and extensive capital, today's new banks are not taking as long to make their presence felt.

Respectfully yours,



David G. Danielson
President



November 23, 2005

New Jersey Banking Report

New Banks: More Meaningful Than Ever

By:
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For more than twenty years I have been writing banking reports about the changes in the state and regional banking structures. Usually the reports have been about the spread of interstate banking, the disappearance of local banks and, for a time in the early 1990s, the battle for survival of banks and thrifts in a difficult economy. These reports almost wrote themselves each year up through 2000 as the disappearance of local banking leaders had a major impact on the local banking structure. These “ready made stories” came to an end in late 2000 with the announcement of Summit’s sale to Fleet which signaled the end of an era. This was an era that had seen banks like First National State, Midlantic, Fidelity Union, United Jersey and Heritage move across the state, merge with each other and then sell to banks with multi-regional and even national ambitions.

Since the Summit sale, the mergers that changed the signage on New Jersey banks tended to be out-of-state banks merging amongst themselves. First Union bought Wachovia, took the Wachovia name and then gave lessons to New Jersey customers as to how to pronounce their new name. Fleet then would sell to Bank of America, which was not a pronunciation problem, but for Summit customers, it would be the third sign on their local branch in four years.

By 2005, the Wachovia and Bank of America names had joined PNC and Sovereign, two other large out-of-state banks, with offices on almost every corner. New Jersey was not without an ongoing in-state challenge for these big banks with Commerce recording astounding growth, mostly at their expense, but one can only tell the Commerce story so many times and talking about the shifting deposit shares of the big banks is neither that exciting nor of more than passing interest to most readers.

There is another banking story in New Jersey, though, which is almost as fascinating as the Commerce saga – the growing importance of new banks. This is hardly a new story as bank openings and sales were much more common in the 1960s, 1970s and 1980s than in the last fifteen years, but what is different today is the amount of money involved and the role these new banks are playing as the primary local banking alternative to the big banks – a term that might soon be applied to Commerce as well.

Unlike in the past, banks opening in recent years routinely raise \$10 million or more, which gives them considerable market clout right from the start, and if they choose to sell, prices of \$100 million or more are not unusual for banks opened within the management span of a single CEO. In the past two years, Grand Bank opened in the Trenton suburbs with about \$15 million initial capital, and Liberty Bell began with \$10 million and then within two years added \$11 million more to its capital base. When it came time to sell, NorCrown and First Washington – banks opened since 1985 – were acquired for more than \$100 million, and a third, Somerset Valley – a post-1990 bank – brought in \$90 million. These are attention-getting numbers.

A few more numbers worth thinking about are that New Jersey banks opened since 1990 are 57% of all banks based in the state, and only eleven of fifty-one independent New Jersey banks have origins going back beyond 1960. Just one bank, Union Center National, is of a pre-1900 vintage. The biggest bank based in New Jersey, Commerce, opened in 1973, and the third largest, Sun, opened in 1985.

Historical Perspective-National

New banks have long been an important part of the American banking scene replacing tired banks with more energetic entities that usually were more in-tune with the banking needs of the time. In the 1960s and 1970s,

many more banks were opened than were sold nationwide, and, as a result, the number of banks in the country increased by more than 1,000 in these years – although many of these banks were opened by holding companies taking advantage of new state laws that let them open separately chartered new banks across county lines, but not branches. Texas, Virginia and Florida led the way in holding company inspired new bank activity.

It was in the 1980s, though, that bank openings hit an all-time peak with 2,700 new banks, and, except in Texas, these were legitimate new banks – not holding company expansion. That decade also set a new high for mergers at 4,271, and, as a result, despite the accelerated opening of banks, the total number fell by more 1,600.

Change in the Number of Banks, 1950 to 2002

	<u>New Charters</u>	<u>Conversions</u>	<u>Mergers</u>	<u>No. of Institutions*</u>
2000-02	412	51	1,110	7,887
1990-99	1,315	284	5,413	8,581
1980-89	2,700	205	4,271	12,715
1970-79	2,224	58	1,366	14,364
1960-69	1,552	236	1,391	13,473
1950-59	763	385	1,429	13,114

Note: Does not include failures and FDIC classification of “other”.

*End of period.

Source: FDIC: Historical Statistics on Banking.

The 1990s seemed like a continuation of the 1980s as far as new bank openings were concerned, but nationally there was a fairly steep drop in such activity. The number of new charters fell from 2,700 in the 1980s to 1,315 in the 1990s – a drop of more than 50%. Much of the slippage, though, was the result of a bad banking environment that existed from 1990 to 1993 that dampened the interest in new banks until the late 1990s. From the beginning of 1997 through 1999, there were 614 banks opened across the country, and if these openings were extrapolated across a full decade, this would have been more than 2,000 new banks.

This relatively small number of openings in the 1990s also received more attention than their numbers might suggest was merited partly because of the decline in the overall number of banks. Bank openings were halved relative to the previous decade, but the number of banks exiting by merger increased by more than 1,000. There were 5,413 banks sold in the 1990s, which, even with about 1,300 banks opening and 284 thrifts converting to bank charters, reduced the number of banks from 12,715 in 1989, to 8,581 by the end of 1999. This increased the competitive importance of most new banks in their home markets.

The FDIC data on new charters and mergers only goes up to 2002, but the pattern of bank openings in the first three years of the new millennium was similar to the late 1990s. Bank sales also were still running ahead of bank openings by an almost three-to-one margin, but if the first three years are an indication of the entire decade, then there will be another 1,300 banks opened. It does not take a mathematical genius to see the rising importance of new banks as the banking alternative to the large out-of-region banks that tend to dominate banking in most markets.

Historical Perspective-New Jersey

New bank activity in New Jersey has generally reflected the national trend, except that the 1970s, not the 1980s, was the high point for openings and there was no fall-off from the 1980s to the 1990s. The biggest difference was in numbers of new banks relative to existing banks. Since 1960 more than 170 banks opened in the state, not including those opened by existing holding companies, which is more than three times the number of banks based in the state today. It is unlikely any other state comes close to matching this turnover rate.

While new banks are part of the regenerative process within the banking system, most are sold within twenty years – and often much sooner. Of the 97 banks opened in New Jersey in the 1960s and 1970s, only eight are still around, which was more than a 90% sell rate. In the 1980s, there were 31 banks opened, and only five of these still exist. This was an 80% plus sell rate.

New Jersey Banks – New and Existing

	<u>Existing Banks</u>	
	<u>Banks</u>	<u>Existing</u>
	<u>Opened</u>	<u>Banks*</u>
2000-05	16	15
1990-99	30	14
1980-89	31	5
1970-79	59	4
1960-69	38	4
1940-59	n/a	-
1900-39	n/a	10
1800's	<u>n/a</u>	<u>1</u>
	174	51

*When opened.

Source: Various Sources.

In New Jersey, the new banks started in the 1990s have shown a bit more staying power with only a little over half of the 30 opened during this period having disappeared. This, though, is a timing issue as all but two of those that remain were opened after 1997. If history is any guide, most of the banks opened in the latter part of the decade will be sold prior to 2010.

Rising Cost of Entry

What makes the new banks of today so much different from those of the past is the amount of initial capital raised – and the pressure this puts on these banks to produce. In the 1960s, a new bank could open with capital of \$1 to \$1.5 million, and some started with even less. The cost edged up in the 1970s, but only slightly to \$1.5 to \$2 million, and even in the early 1980s the initial capital needed was less than \$3 million. This was a lot of money in those days, but far below the \$10 million plus that is commonplace today.

By the late 1990s, \$7 to \$10 million had become the norm for starting capital, but this was only the norm. Somerset Hills Bank in Bernardsville and Boardwalk Bank in Linwood each raised more than that amount.

New Bank Starting Capital

2001-05	\$10 to \$13 million
1996-00	\$7 to \$10 million
1984-95	\$4 to \$6 million
1980-83	\$2 to \$3 million
1970-79	\$1.5 to \$2 million
1960-69	\$1 to \$1.5 million

Source: Various sources.

After 2000, the normal starting capital for new banks was up only modestly from the late 1990s to the \$10 to \$13 million range, but there also were numerous secondary offerings by banks less than five years old that were as big, or bigger, than the initial investment. As noted earlier, Grand Bank led the way with an initial offering raising about \$15 million, and Liberty Bell raised more than \$20 million in two offerings within a span of just two years.

Why this rapid rise in the initial capital of new banks reaching levels that would have been hard to imagine only a few years ago and secondary offerings that often made the initial offerings look modest? Inflation was a reason for most of the increase in the 1970s and 1980s, but certainly not in recent years. Some of the recent rise came via regulatory requirements and a willingness of new banks to accept much larger early losses than in the past, but that is only part of the story since regulators usually only require a new bank to have about \$8 million in starting capital.

What triggered higher capital investments in new banks since 2000 was a booming real estate market that facilitated rapid new bank growth, and sale prices that created investor returns that were not matched in many other industries. The trend toward increasingly large cash components in sale prices also made more money available for the next bank investment. Investors who have been successful investing in new banks tend to recycle their money into the next new bank.

New Bank Sale Prices

In 1998, it was Carnegie Bank that would break new ground for new banks in New Jersey with a sale price of \$106 million that also was a very hefty 283% of book. In June 2004, First Washington raised the bar with a sale price of \$127 million only to be topped five months later by the \$141 million offered to NorCrown. Since the beginning of 2004, two other banks, Community in Monmouth County and Somerset Valley, were sold for between \$80 and \$100 million. For First Washington, NorCrown and Somerset Valley, these prices were in excess of 300% of book.

New Jersey New Bank Sales*

<u>Buyer/Seller</u>	<u>Deal Value</u> (in mill.)	<u>Price/</u>		<u>Year Ann' d</u>	<u>Year Opened</u>
		<u>Times Earnings</u>	<u>Percent of Book</u>		
Sun/Advantage	\$37	42.9X	244%	2005	1999
Two River Comm./Town	39	25.0	259	2005	1998
Interchange/Franklin	25	18.2	242	2005	2000
Fulton/Somerset Valley	90	25.9	302	2005	1991
Center/Red Oak	27	40.3	221	2004	1999
Valley National/NorCrown	141	24.2	317	2004	1985
Fulton/First Washington	127	25.5	318	2004	1989
Sun/Community	83	33.4	316	2004	1997
Lakeland/Community State	34	31.3	294	2003	1997
Interchange/Bridge View	87	21.2	304	2002	1990
Caixa/Crown Bank	18	22.2	150	2001	1997
Fulton/Skylands	33	14.6	209	2000	1990
National Penn/Panasia	20	18.5	223	2000	1993

*Opened Since 1980.

Source: SNL Financial, Charlottesville, Virginia.

Not every new bank being sold is getting better than three times book, but there were no losers. Of the thirteen banks opened since 1980 that were sold in 2000 or later, the median price was 215% of book – and six of these

banks opened in 1997 or later. Four new banks that were represented by Danielson Associates in the last three years in the Middle Atlantic states – one of which was in New Jersey – had returns that were at least five times the original investment.

What Does the Future Hold for New Banks?

New banks will continue to sprout up as long as capital is readily available. There is no shortage of bankers that would like to run their own show if someone gives them the financial backing, and there is a real demand for banks that understand local commercial real estate markets and small business lending. As for capital availability, it will be there as long as banks are being sold for prices upward of 20 times earnings, and probably for a couple of years after pricing multiples fall as bank investors are usually slow to recognize, or even believe, there has been a downturn in sale values. Bank sale prices appear to have peaked in late 2003 and 2004, but they are holding at, or near, this level in 2005.

Since bank sale prices tend to move in tandem with bank stock prices, there should not be a big drop in sale values until economic conditions bring bank earnings and stock prices down. These are events that normally reflect rising interest rates and/or a depressed economy. Today's rising interest rate environment has done some damage to bank stock prices, but whether this impacts new bank start-ups depends on just how high interest rates go and how it affects loan demand, particularly in the real estate area.

Banks Opened in New Jersey Since 1960*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>1960</u>		
Milburn-Short Hills Bank, Milburn	2/60	Sold
<u>1962</u>		
Delaware Valley National Bank, Cherry Hill	5/62	Sold
First Bank of Colonia	5/62	Sold
Ewing Bank & Trust (Independent B&T)	10/62	Sold
Franklin Lakes National Bank (Urban National)	12/62	Sold
<u>1963</u>		
Bank of Bloomfield	6/63	Sold
Franklin State Bank, Somerset	6/63	Sold
<u>1964</u>		
National Bank of Secaucus	1/64	Sold
Madison National Bank	7/64	Sold
Middlesex Co. Bk., N. Brunswick (First County)	10/64	Sold
Raritan Valley National Bank, Edison	11/64	Sold
Essex County State Bank, West Orange	11/64	Sold
First State Bank of Ocean County, Toms River	11/64	Sold
<u>1965</u>		
Pineland State Bank, Brick Town	1/65	Sold
Security National Bank, Newark	4/65	Sold
First State Bank of Moorestown	7/65	Sold
<u>1966</u>		
Bergenfield State Bank (Bergen State)	3/66	Sold
Roxbury State Bank, Succasunna	12/66	Sold
<u>1967</u>		
Fairlawn State Bank	1/67	Sold
Middletown Banking Company	2/67	Sold
Ramapo Bank, Wayne	6/67	Sold
Citizens State Bank, Vineland	10/67	Sold

Banks Opened in New Jersey Since 1960 (Cont'd.)*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>1968</u>		
Peoples National Bank of Denville	2/68	Sold
Continental Bank, Maple Shade	4/68	Sold
Kenilworth State Bank	9/68	Sold
Madison State Bank	11/68	Sold
<u>1969</u>		
Lakeland Bank, Newfoundland	5/69	\$1,754
Interchange Bank, Saddle Brook	9/69	1,528
First Morris Bank & Trust, Morristown	6/69	558
Pennsville National Bank	6/69	162
Elmwood State Bank, East Paterson	6/69	Sold
Peoples Bank of South Bergen County, Carlstadt	7/69	Sold
Oakland State Bank	7/69	Sold
Par-Troy State Bank, Parsippany	7/69	Sold
Village Bank of South Orange	8/69	Sold
Peoples State of Montvale	11/69	Sold
First State Bank of Hudson County, Jersey City	12/69	Sold
West Deptford Bank (Lenape State)	12/69	Sold
<u>1970</u>		
Brunswick Bank & Trust, New Brunswick	7/70	\$129
Springfield State Bank	1/70	Sold
Atlantic National Bank, Atlantic City	3/70	Sold
Fidelity Bank & Trust, Pennsauken	5/70	Sold
Bank of Manalapan	7/70	Sold
Collective Bank of New Jersey, Laurel Springs	7/70	Sold
Pioneer State Bank, Gloucester	7/70	Sold
State Bank of Fort Lee	9/70	Sold
The Hamilton Bank	10/70	Sold
Jefferson National Bank, Passaic	10/70	Sold
First National Bank of Piscataway	11/70	Sold
Mid-Jersey National Bank, Woodbridge	11/70	Sold
Peoples Bank of Ridgewood	11/70	Sold

Banks Opened in New Jersey Since 1960 (Cont'd.)*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>1971</u>		
Rock Bank, (North Plainfield State)	3/71	Sold
Pilgrim State Bank, Cedar Grove	3/71	Sold
Pan-American National Bank, Union City	7/71	Sold
Coastal State Bank, Ocean City	8/71	Sold
Shore National Bank, Brick Town	11/71	Sold
<u>1972</u>		
Bank of Wayne	1/72	Sold
Northeastern Bank, Passaic	2/72	Sold
The Washington Bank, Turnersville	2/72	Sold
State Bank of Chatham	3/72	Sold
The Mainland Bank, Linwood	4/72	Sold
Bergen Bank of Commerce, Paramus	5/72	Sold
Dreyfus Consumer Bank, Paramus	6/72	Sold
Lincoln State Bank, East Orange	6/72	Sold
Jersey Shore Bank, Long Branch	8/72	Sold
The Hillsborough National Bank	9/72	Sold
<u>1973</u>		
Commerce Bank, Cherry Hill	6/73	23,988
City National Bank of New Jersey, Newark	6/73	338
Citizens State Bank, Forked River	1/73	Sold
Allaire State Bank, Wall	3/73	Sold
Independent National Bank, Willingboro	3/73	Sold
State Bank of Manville	5/73	Sold
The Community Bank, Sicklerville	6/73	Sold
Mount Holly State Bank	6/73	Sold
Anthony Wayne Bank, Wayne	7/73	Sold
Liberty National Bank, Hillsdale	7/73	Sold
Glendale National Bank, Vorhees	8/73	Sold
Town & Country Bank, Flemington	10/73	Sold

Banks Opened in New Jersey Since 1960 (Cont'd.)*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>1974</u>		
Arcadia State Bank, Secaucus	1/74	Sold
Garden State Bank, Jackson	1/74	Sold
Mountain Ridge State Bank, West Orange	2/74	Sold
Home State Bank, Teaneck	3/74	Sold
Shrewsbury State Bank	3/74	Sold
Livingston State Bank	4/74	Sold
Capitol State Bank, Trenton	5/74	Sold
First National Bank of Cranbury	6/74	Sold
Inter Community Bank, Springfield	6/74	Sold
Howell State Bank (First State)	9/74	Sold
Atlantic State Bank, Point Pleasant	10/74	Sold
<u>1975</u>		
The Fellowship Bank, Moorestown	3/75	Sold
Bernards State Bank, Bernardsville	4/75	Sold
Independence Bank of New Jersey, Allendale	12/75	Sold
<u>1976</u>		
Sussex County State Bank, Franklin (Sussex)	2/76	\$287
Southern Ocean State Bank, Little Egg Harbor	5/76	Sold
<u>1977</u>		
City Trust Services, Elizabeth	1/77	Sold
Montgomery National, Rocky Hill	1/77	Sold
Bay State Bank, Ship Bottom	8/77	Sold
<u>1981</u>		
The Bank of New Jersey, Moorestown	6/81	Sold
<u>1982</u>		
Horizon Trust Company, Morristown	1/82	Sold

Banks Opened in New Jersey Since 1960 (Cont'd.)*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>1983</u>		
Harbor Trust Company, Hoboken	5/83	Sold
<u>1984</u>		
Liberty Bank & Trust, Gibbsboro	12/84	Sold
<u>1985</u>		
Sun National Bank, Vineland	5/85	\$3,136
Atlantic Stewardship Bank, Midland Park	9/85	456
Norcrown Bank, Roseland	6/85	Sold
Community Guardian Bank, Elmwood Park	8/85	Failed
<u>1986</u>		
Great Falls Bank, Totowa	1/86	\$553
Broadway National, Fort Lee	9/86	240
First Fidelity Bank, South Brunswick	6/86	Sold
Highlands Community Bank, Clinton	11/86	Failed
<u>1987</u>		
Mid Jersey National Bank, Somerville	4/87	Failed
Powder Mills Bank, Morris Plains	6/87	Failed
New Era Bank, Somerset	7/87	Sold
Community Nat'l. Bank of N. J., Westmont	10/87	Sold
<u>1988</u>		
Suburban National Bank, Somerville	1/88	Failed
Coastal Bank, Ocean City	2/88	Sold
Burlington County Bank, Burlington	3/88	Sold
Carnegie Bank, Princeton	3/88	Sold
Ocean Independent Bank, Ocean Twp.	4/88	Sold

Banks Opened in New Jersey Since 1960 (Cont'd.)*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>1988 (Cont'd.)</u>		
Metropolitan State Bank, Montville	6/88	Sold
Colonial State Bank, Freehold	8/88	Sold
Covenant Bank, Haddonfield	9/88	Sold
State Bank of South Orange	10/88	Sold
Ironbound Bank, Newark	11/88	Sold
Hometown Bank, Edison	12/88	Sold
<u>1989</u>		
First Constitution, Cranberry	7/89	\$347
Tinton Falls State Bank	2/89	Sold
Bank of Gloucester County, Deptford	10/89	Sold
First Washington State Bank, Windsor	11/89	Sold
<u>1990</u>		
Sterling Bank, Mount Laurel	12/90	\$336
Growth Bank, Basking Ridge	2/90	Sold
Farrington Bank, North Brunswick	2/90	Sold
Bridge View Bank, Englewood Cliffs	3/90	Sold
Prestige State Bank, Flemington	3/90	Sold
<u>1990</u>		
West Jersey Community Bank, Fairfield	4/90	Sold
American Union Bank, Union	6/90	Sold
Mountain Ridge Bank, West Orange	10/90	Sold
Skylands Community Bank, Hackettstown	10/90	Sold
First Southern State Bank, Avalon	11/90	Sold
<u>1991</u>		
Unity Bank, Clinton	9/91	\$576
Somerset Valley Bank, Somerville	12/91	Sold
<u>1993</u>		
Panasia Bank, Fort Lee	4/93	Sold

Banks Opened in New Jersey Since 1960 (Cont'd.)*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>1997</u>		
Allaire Community Bank, Wall (Central Jersey)	5/97	\$200
Shore Community Bank, Toms River	2/97	152
First Bank Americano, Elizabeth	1/97	126
United Heritage Bank, Edison	10/97	52
Community Bank of New Jersey, Freehold	5/97	Sold
Community State Bank, Teaneck	6/97	Sold
<u>1998</u>		
Somerset Hills Bank, Bernardsville	12/98	\$207
First Bank of Central Jersey, North Brunswick	5/98	Sold
Town Bank, Westfield	10/98	Sold
<u>1999</u>		
Boardwalk Bank, Linwood	7/99	\$334
Parke Bank, Sewell	1/99	259
Hopewell Bank, Pennington	2/99	188
Cornerstone Bank, Moorestown	10/99	146
New Millennium Bank, New Brunswick	7/99	120
Advantage Bank, Branchburg	1/99	Sold
Red Oak Bank, Morristown	4/99	Sold
Towne Center Bank, Lodi	10/99	Sold
<u>2000</u>		
Bayonne Community Bank	11/00	\$399
Two River Community Bank, Middletown	2/00	259
1st Colonial Bank, Collingswood	6/00	159
Hilltop Community Bank, Summit	2/00	157
Harvest Community Bank, Pennsville	1/00	132
Rumson-Fair Haven Bank, Rumson	7/00	106
Allegiance Community Bank, South Orange	5/00	72
Franklin Bank, Nutley	10/00	Sold

Banks Opened in New Jersey Since 1960 (Cont'd.)*

	<u>Opened</u>	2005 <u>Assets**</u> (in millions)
<u>2001</u>		
Interstate Net Bank, Cherry Hill	5/01	\$276
Mariner's Bank, Edgewater	5/01	128
<u>2002</u>		
Grand Bank, Hamilton	3/02	\$205
Pascack Community Bank, Westwood	2/02	87
Enterprise Bank, Kenilworth	8/02	48
<u>2003</u>		
Liberty Bell, Cherry Hill	8/03	\$99
<u>2004</u>		
Citizens Community Bank, Ridgewood	10/04	\$20
<u>2005</u>		
North Jersey Comm. Bank, Englewood Cliffs	1/05	\$79

*New bank is defined as being opened by an investor group and not by an Existing bank holding company.

**June 30, 2005

Source: SNL Financial, Charlottesville, Virginia and various Polk's Bank Directories.