

May 31, 2001

**Thirty Years of Banking in Maryland**

**By: Arnold G. Danielson  
Chairman  
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Thirty years is not a particularly long time, and if we were talking sports, it would not seem that long ago that a Jim O'Brien field goal erased some of the Super Bowl hurt for the Colts of two years earlier and the Orioles of Weaver, Palmer, Brooks and Boog were finishing three years of league championships that included one World Series, but in banking, the start of the seventies seems like an eternity ago. The large Baltimore banks were only a few years into their statewide expansion; CDs and credit cards had been introduced just seven years earlier; NCR mainframes and Moore business cards were the central part of automation; rates paid on deposits were capped with thrifts having a mandated rate advantage; and this writer was still more than a year away from joining Maryland National.

It also was thirty years ago, or 1970 to be exact, that banking in Maryland, and elsewhere, began a decade that would totally alter the industry's direction. Holding companies became a vehicle for offering non-traditional services; time deposits began to mean CDs instead of passbook savings; nonbank competition reared its ugly head via the Merrill Lynch money market fund; and nonbank deposit substitutes, like the money market fund, interacted with rising interest rates to begin an era of disintermediation that would force changes in the eighties that would make the turbulent seventies look like the "good old days."

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## Thirty Years of Maryland Banking Leaders

	<u>Deposits</u> (In mill.)	<u>Market</u> <u>Share</u>		<u>Deposits</u> (In mill.)	<u>Market</u> <u>Share</u>																																																																																										
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Source: Various sources.

Also in 1970, being a Maryland banking leader pretty much meant being a Baltimore bank. Seven of the eight largest banks in the state, and possibly eight of the nine largest, if data on thrift size had been readily available, were based in Baltimore. Maryland National, First National Bank of Maryland and Equitable were the big three; Union Trust, Savings Bank of Baltimore, Provident and Mercantile ranked fifth through eighth; and if data had been available on Loyola, it might have ranked among the leaders in 1970 as well. Only Suburban Trust in the Washington suburbs interrupted this Baltimore dominance.

Surprisingly, even with the spread of the holding company concept and the complete freedom to branch and buy across the state, in the seventies, the level of Maryland's banking concentration actually declined. In 1970, the five largest banks in the state had almost 39% of the deposits. Ten years later, the top five had less than 33%.

This decline in concentration, though, is a little misleading. The largest banks all more than doubled their size during the seventies and greatly expanded geographic coverage, but their growth was more than matched by smaller banks and thrifts. A branching boom, which began in the mid-fifties and peaked in the seventies, shifted banking activity from urban centers to the suburbs, and that along with the faster growth in the Washington suburbs than in the Baltimore area, helped smaller banks and thrifts outpace the growth of their larger brethren.

In the eighties, the combination of mergers, interstate banking and thrift problems began an era of change that did not greatly increase concentration, but it set in motion a process that would shift the leadership of the state's banking to out-of-state institutions and a couple of second-tier local banks with good staying power. An Irish bank holding company acquired the First National Bank of Maryland and assumed its number two spot; Chevy Chase and Mercantile came out from behind the shadows of the previous leaders to rank third and fourth in deposit share in the state in 1990; and two Virginia banks, Sovran and Signet, had acquired the fifth and seventh positions.

The major concentration change in the eighties came through Maryland National's acquisition of Equitable at the tail end of the decade. This increased the deposit share of the state's banking leader from 10% to 17% and, at the time, appeared to create a Baltimore-based regional banking leader and not just a dominant player within the state. This, though, was not to be.

The collapse of MNC and its sale to a Charlotte-based bank, which already had acquired Sovran, and was to later take the Bank of America name, created a new statewide leader in the nineties. By 2000, Bank of America and the Allied Irish Bank ranked one-two in Maryland, and five other banks from outside of Maryland – SunTrust, First Union, BB&T, First Virginia and Susquehanna - were in the top twelve if post-2000 acquisitions are included.

The out-of-state incursion, however, did not stop the remaining local leaders from making major share gains during the nineties. Mercantile led the way, continuing its move up the “pecking order” – i.e, eighth in 1970, fifth in 1980, fourth in 1990 and third in 2000 – with a ten year statewide deposit share gain from 5.3% to 8.3%. Chevy Chase, despite some serious problems in the early nineties, was right behind it going from 6.3% in 1990 to 8% in 2000; and Provident jumped to seventh place with its share of Maryland deposits going from 1.7% to 3.9%. Making their initial appearances in the top ten were two other local banks, F&M and Sandy Spring.

The continuing strength of local banking industry also can be seen in the deposit share changes in the most recent years, and going beyond just the first twelve. Between 1996 and 2000, Chevy Chase increased its statewide deposit share from 6% to 8%; Provident went from 2.9% to 5.6%; F&M from 1% to 1.8%; and Sandy Spring from 1.2% to 1.7%. Other local banks showing big gains were Columbia Bancorp, which doubled its share in the late nineties from .4% to .8%; a new bank; First Mariner, with .6% of the state’s deposits; and Shore Bancshares, another new name among Maryland’s banking elite.

The post-1996 deposit share change also shows share losses for most of the out-of-state banks, including the state’s leader, Bank of America. It has slowed its share decline of the early nineties, but even after stabilizing its position, it has had modest slippage since 1998. The biggest share loser in recent years was First Union whose deposit share slipped from 7% in 1998 to 5.7% in 2000, an almost 20% loss. Also losing deposit share since 1998 were SunTrust, First Virginia and Susquehanna.

Deposit Share in Maryland, 1996 to 2000

	Deposits <u>2000</u> (In mill.)	Market Share			
		<u>June 30,</u>			
		<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1996</u>
<u>Market Leaders</u>					
Bank of America	\$10,113	14.1%	14.5%	14.4%	15.6%
Allfirst	7,563	10.6	10.4	10.2	9.2
Mercantile	5,962	8.3	7.9	8.2	7.9
Chevy Chase*	5,704	8.0	6.3	6.3	6.0
SunTrust	5,261	7.3	7.7	-	-
First Union	4,110	5.7	6.1	7.0	5.3
Provident	4,038	5.6	5.2	4.5	2.9
BB&T	<u>2,770</u>	<u>3.9</u>	<u>1.2</u>	<u>-</u>	<u>-</u>
Subtotal	\$45,521	63.5%	59.3%	50.6%	46.9%
<u>Other Leading</u>					
F&M	\$ 1,307	1.8%	1.7%	1.3%	1.0%
Sandy Spring	1,208	1.7	1.4	1.4	1.2
First Virginia	1,164	1.6	1.7	1.9	1.7
Susquehanna	1,156	1.6	1.7	1.8	2.0
Citigroup	775	1.1	.8	.8	.7
Columbia	603	.8	.5	.5	.4
M&T	588	.8	-	-	-
First United	501	.7	.7	.6	.6
Eastern Savings*	476	.7	.7	.6	.6
First Mariner	437	.6	.5	.4	.1
Shore	431	.6	.3	.3	.3
Fulton	<u>427</u>	<u>.6</u>	<u>.6</u>	<u>.6</u>	<u>.5</u>
Subtotal	\$ 9,073	12.6%	10.6%	10.2%	9.1%
Other Thrifts	\$ 5,137	7.2%	7.7%	8.9%	11.5%
Other Banks	4,414	6.2	11.5	19.8	22.0
Credit Unions	<u>7,539</u>	<u>10.5</u>	<u>10.9</u>	<u>10.5</u>	<u>10.5</u>
Total	\$71,684	100.0%	100.0%	100.0%	100.0%

\*Thrifts.

Source: SNL Securities LC, Charlottesville, Virginia.

It has not been all “down,” though, for the out-of-state banks. The Allied Irish affiliate, AllFirst, used its high degree of autonomy to increase its deposit share throughout the nineties, and Citigroup lifted its share from .7% in 1996 to 1.1% in 2000. For two others, BB&T and M&T, post-acquisition results are yet to be seen.

The rise and decline of the thrift industry in Maryland also has garnered a lot of headlines over the last thirty years, and most of them were not good. In the seventies, the thrifts used their rate advantage to lift their share of Maryland bank deposits from 39% to 44%, and for much of that decade they were viewed as a major threat to the commercial bank well-being. An asset-liability rate mismatch problem in a high interest rate environment stopped the thrift growth in the early eighties, and the asset quality problems associated with the real estate recession of the early nineties added to the thrift woes. Between 1980 and 2000, the thrift share of Maryland deposits fell from 44% to just under 16%.

Deposit Change by Type of Institution – Maryland

	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>
	<u>Deposits</u> (In millions)			
Commercial banks	\$52,828	\$41,708	\$12,727	\$4,984
Thrifts	11,317	19,088	10,745	3,354
Credit unions	<u>7,539</u>	<u>4,383</u>	<u>903</u>	<u>250*</u>
Total	\$71,684	\$65,179	\$24,375	\$8,588
	<u>Market Share</u>			
Commercial banks	73.7%	64.0%	52.2%	58.0%
Thrifts	15.8	29.3	44.1	39.1
Credit unions	<u>10.5</u>	<u>6.7</u>	<u>3.7</u>	<u>2.9*</u>
Total	100.0%	100.0%	100.0%	100.0%

\*Estimated.

Source: Various sources.

Today, Maryland thrifts are still a vibrant part of the banking scene, but it is pretty much Chevy Chase and a group of small Baltimore thrifts. Thrifts other than Chevy Chase have only about 8% of the state's deposits, and between 1980 and today, the number of thrifts has fallen from 191 to 58.

What can be expected in the future relative to Maryland banking? The most obvious answer is surprises. No one in 1990 would have guessed that ten years later Bank of America would be the biggest bank in the state; two other North Carolina banks would be among the top seven; and that a Georgia-based SunTrust would rank fifth. It also would have seemed a "stretch" at a time when Maryland National was just completing its acquisition of Equitable to think Mercantile, not MNC, would be the biggest locally-based bank in the state by the end of the decade, or that Chevy Chase would emerge as the number one retail banking force in the entire Washington area with more than 1,000 ATMs.

Surprises would not be surprises, though, if they could be predicted, and while present trends among banking leaders should continue – i.e., Bank of America and AllFirst leading the way with Mercantile and Chevy Chase gaining ground on both – the elements for sudden change are still there. First Union would be totally out-of-character, if it did not provide surprises, and the last sale of a substantial Maryland bank to an outsider has not yet been recorded.

First Union is in the unenviable position of underperforming and falling behind the other big banks as the economy weakens, and acquiring Wachovia is no certain panacea. First Union's acquisition record – First Fidelity, CoreStates, Signet and Money Store – is a study in ineptitude, and there is no reason to believe this one will be any different, if it occurs. With or without Wachovia, First Union will be hardpressed to "catch up" sufficiently to impress investors, which usually means a sale. If the Wachovia deal falls through, the sale of First Union will happen sooner rather than later, and a new power in the Southeast will arise through the takeover of Wachovia by BB&T or SunTrust.

Mercantile and Chevy Chase are the pillars of local banking, and they certainly have the capability of being around, and even ranking one-two come 2010, but with success comes the likelihood of "offers that cannot be refused." While it would be sad to awake one morning and read of their sale, history is not on their side.

This raises the possibility that come 2010, the biggest bank based in the state could be Provident, Sandy Spring, F&M or even First United, Shore or Columbia. An Eagle or Sequoia could be in the top five. It also is likely that at least half of those will have been sold by then.

By 2010, there could be a Maryland banking elite that is dominated by such national names as Bank of America, Citigroup, Wells Fargo and Fleet - the first two are almost certain bets - that still will be losing ground to local banks, some of whom may not have even opened their doors yet. The local elite could also include a Chevy Chase carrying its convenience factor to a higher level and a Mercantile showing that doing it the "old way" still works.

While the consolidation at the top will continue to get the headlines, the "bar bell" structure of financial services that we have will continue to feature an aggressive local sector. While its share of the local banking and general financial services industry may decline to as little as 15% to 20%, this is still a large number, if not percentage, and it is likely the best of the surviving local banks, particularly those with a small business and local commercial real estate lending emphasis, will be supplying good returns for investors and gaining business at the expense of the large. The overall decline in local share will have come from acquisitions, not from market-driven losses.