

March 9, 2001

Recent Trends in Virginia Banking

**By: Arnold G. Danielson
Chairman
Danielson Associates Inc.**

The recent acquisition spree by BB&T is the “icing on the cake” of the out-of-state takeover of Virginia banking, and there is no longer any doubt, the “bar bell” structure rules. First Virginia is all that is left between the small and the very large, and it could be argued that its recent acquisition of James River even furthered the “bar bell” effect – i.e., if acquired, it delivers to the buyer an even larger share of Virginia banking. This is good news for the small banks in the state since the truly large banks will never satisfy, or try to satisfy, all of Virginia’s financial services needs.

This “good news,” though, has to be tempered by the acceptance of the large banks by the customers. More than three years have passed since the sales of Central Fidelity, Signet and Jefferson were completed, and two years have gone by since the Crestar and MainStreet deals were finalized, and most of the acquirers have done a good job of holding customers. Unfortunately, the only hard data by which this can be measured is deposits, which is only a partial story as deposit comparisons are biased against the large banks, which are usually less interested in CDs than their smaller brethren because of their ability to borrow money at comparable cost and adjustments have to be made for any main office deposits moved out of the area after an acquisition – i.e., between 1996 and 1998 Bank of America and First Union appear to have moved about \$5 billion deposits out of the state.

In the Virginia core, the Route 64 Corridor stretching from metropolitan Richmond to Hampton Roads, which is where the big bank interest is highest, SunTrust, Bank of America, Wachovia, BB&T and First Union had a little over 63% of the deposits as of June 30, 1999, and in mid-2000, they still had a little over 63%. Some of the share maintenance is attributable to the acquisition of F&M National by BB&T, but BB&T’s gain was almost exactly offset by the share loss of First Union, which means, First Union aside, the large banks are, collectively, holding the business they acquired.

Danielson Associates Inc.
*6110 Executive Blvd., Suite 504
Rockville, Maryland 20852
(301) 468-4884*

Deposit Share
Route 64 Corridor*

	Deposits 2000 (In mill.)	Market Share			
		June 30,			
		2000	1999	1998**	1996**
<u>Market Leaders</u>					
SunTrust	\$ 4,913	17.6%	17.5%	-	-
Bank of America	3,707	13.2	12.8	12.2%	12.6%
Wachovia	3,694	13.2	14.0	14.6	-
BB&T	2,822	10.1	8.2	7.6	2.6
First Union	<u>2,527</u>	<u>9.0</u>	<u>10.8</u>	<u>12.3</u>	<u>4.7</u>
Subtotal	\$17,663	63.1%	63.3%	46.7%	19.9%
<u>Other Large</u>					
First Virginia	\$ 1,121	4.0%	3.5%	3.6%	3.9%
Franklin Federal	546	2.0	2.1	2.1	1.9
CENIT	502	1.8	1.8	2.0	1.8
First Market	438	1.6	1.2	.5	-
Royal Bank-Canada	423	1.5	-	-	-
Old Point	367	1.3	1.3	1.3	1.1
Community Bankshares	348	1.2	1.1	1.0	.6
Towne Bank	235	.8	.3	-	-
Bank of Tidewater	211	.8	.8	.7	.5
Union	204	.7	.7	.6	.6
First Federal-Virginia	174	.6	.7	.7	.6
C&F Financial	159	.6	.6	.5	.4
Resource	157	.6	.6	.6	.4
Bank of Hampton Roads	151	.5	.5	.5	.4
Commonwealth Bankshares	151	.5	.4	.4	.4
Central Virginia	144	.5	.5	.5	.4
Consolidated	<u>99</u>	<u>.4</u>	<u>.4</u>	<u>.4</u>	<u>.4</u>
Subtotal	\$ 5,430	19.4%	16.5%	15.4%	13.4%
Other Banks	\$ 719	2.6%	5.3%	21.8%	45.7%
Other Thrifts***	145	.5	.4	2.0	7.5
Credit Unions	<u>4,042</u>	<u>14.4</u>	<u>14.5</u>	<u>14.1</u>	<u>13.5</u>
Total	\$27,999	100.0%	100.0%	100.0%	100.0%

*Includes Richmond and Hampton Roads areas.

**1996 and 1998 adjusted to reflect Bank of America's transfer of an estimated \$3 billion of deposits to its main office and in 1996 First Union's \$2 billion of deposits to its main office.

***Excludes Capital One Financial.

Source: SNL Securities LC, Charlottesville, Virginia.

In the combined markets, SunTrust with the franchise it inherited from Crestar, was the leader with a 17.6% deposit share as June 30, 2000. Bank of America and Wachovia were in a virtual tie for second at 13.2%. BB&T jumped into third, including its F&M National acquisition, with a 10.1% share, and First Union was fifth with 9% deposit share. After that it was a long drop to First Virginia's 4% share.

SunTrust has maintained its share of the deposits since acquiring Crestar, and Bank of America whose entry came much earlier, had a year-to-year increase in 2000 from 12.8% to 13.2% after moving substantial main office deposits out of Virginia in preceding years. SunTrust's share went from 17.5% to 17.6% in 2000, and Crestar, in the year prior to its acquisition, had a 17.4% deposit share.

BB&T has made deposit share gains in the combined Richmond-Hampton Roads areas every year since entering the market in the mid-nineties through both acquisition and internal growth. Even excluding the deposits from acquiring F&M National, BB&T's 2000 deposit share was 8.7% compared to 8.2% in 1999.

The loser in these combined markets has primarily been First Union, but Wachovia also has slipped. First Union's deposit share in 1998, including Signet, was 12.3%. In 1999, its share was 10.8%, and in 2000, its share fell to 9%. It is unlikely any of the recent loss could be deposits transferred out as it lost share in North Carolina and the Washington area as well. Wachovia was down from 14% in 1999 to 13.2% in 2000, and in 1996, the combination of Central Fidelity and Jefferson had a 17% share.

In just Richmond, the trends are similar, but the relative positions of the leaders varies somewhat. SunTrust is a more pronounced leader in Richmond than it is in the combined markets; Wachovia is all by itself in second place; and BB&T, not First Union, is a distant fifth, but acquisitions have closed the gap considerably between it and First Union. From a trend perspective, First Union's slide is more noticeable in Richmond, 14.1% to 11.6% in one year, because of its better starting position.

Richmond Area Deposit Share*

	Deposits 2000 (In mill.)	<u>Market Share</u>			
		<u>June 30,</u>			
		<u>2000</u>	<u>1999</u>	<u>1998**</u>	<u>1996**</u>
<u>Market Leaders</u>					
SunTrust	\$ 3,367	22.2%	21.6%	-	-
Wachovia	2,305	15.2	16.3	17.1%	-
Bank of America	2,091	13.8	12.8	11.2	12.1%
First Union	1,763	11.6	14.1	16.5	3.4
BB&T	<u>1,186</u>	<u>7.8</u>	<u>4.9</u>	<u>4.2</u>	<u>-</u>
Subtotal	\$10,712	70.6%	69.7%	49.0%	15.5%
<u>Other Large</u>					
First Virginia	\$ 615	4.1%	3.3%	3.5%	4.2%
Franklin Federal	546	3.6	3.8	3.9	3.6
First Market	432	2.9	2.2	1.0	-
Community Bankshares	348	2.3	2.1	1.9	1.1
Union	193	1.3	1.2	1.2	1.1
First Federal-Petersburg	152	1.0	1.1	1.1	1.0
Central Virginia	144	.9	1.0	.9	.8
C&F Financial	95	.6	.6	.5	.4
Essex	82	.5	.5	.4	.3
Consolidated	74	.5	.5	.6	.6
Metro-County	59	.4	.3	.2	-
Bank of Essex	50	.3	.3	.2	.1
CommonWealth	49	.3	.3	.2	.1
Bank of Southside	48	.3	.5	.5	-
Bank of Richmond	28	.2	-	-	-
First Capital	<u>26</u>	<u>.2</u>	<u>.1</u>	<u>-</u>	<u>-</u>
Subtotal	\$ 2,941	19.4%	17.8%	16.1%	13.3%
Other Banks	\$ 105	.7%	3.4%	26.3%	58.7%
Other Thrifts***	-	-	-	-	4.4
Credit Unions	<u>1,406</u>	<u>9.3</u>	<u>9.1</u>	<u>8.6</u>	<u>8.1</u>
Total	\$15,164	100.0%	100.0%	100.0%	100.0%

*Counties of: Charles City, Chesterfield, Goochland, Hanover, Henrico, New Kent, Powhatan and Richmond. Independent cities of: Colonial Heights, Hopewell, Petersburg and Richmond.

**1996 and 1998 adjusted to reflect Bank of America's transfer of an estimated \$3 billion to the main office and 1996 to reflect First Union's transfer of an estimated \$2 billion to the main office.

***Excludes Capital One Financial.

Source: SNL Securities LC, Charlottesville, Virginia.

Among second tier players in the Richmond area, Franklin and First Virginia had modest deposit share declines while Community Bankshares and First Market had rapid deposit growth. First Market lifted its deposit share from 1% in 1998 to 2.9% in 2000 while Community went from 1.9% to 2.3%, albeit First Market has not done as much with its gains – i.e., a yield/cost spread of 2.65% though the first nine months of 2000 compared to 4.17% for Community.

De novo banks are a small, but growing factor in the Richmond area. Metro-County, Bank of Richmond, First Capital, Southern Community and Bank of Powhatan, collectively, had 2000 deposits of \$128 million. This was up from \$61 million in 1999, and the earliest opening for these six banks was Metro-County in 1997.

The banking structure in Hampton Roads has some differences from the Richmond area. The five big out-of-state banks have a much smaller share of the deposits, 54.1% compared to 70.6% in Richmond. Credit unions are more important with about one-fifth of the deposits, or twice the share in Richmond. BB&T rather than Crestar has the most deposits if the F&M National numbers are included, and First Union is not among the leaders.

The “bar bell” effect, though, is still alive and well in Hampton Roads with BB&T, Bank of America, SunTrust and Wachovia each having more than 10% of the area’s deposit. First Union and Royal Bank of Canada are other big banks with a presence and have about a 9% deposit share between them. The largest deposit share for a bank with assets less than \$60 billion is First Virginia, which had only a 3.9% deposit share including James River deposits. CENIT with \$4 million fewer deposits than First Virginia also had a 3.9% deposit share.

The local bank end of the “bar bell” in Hampton Roads has a strong de novo content. Banks opened since 1985 include Towne, Bank of Tidewater, Resource, Bank of Hampton Roads, Harbor and Monarch, and in mid-2000, they, collectively, had deposits of \$870 million, or 6.8% of the region’s total. This was up from \$495 million and a 4.3% share in 1998. Most of the increase was supplied by Towne, which opened in April 1999 and had \$235 million deposits and a 1.8% deposit share fourteen months later.

Deposit Share
Hampton Roads Area*

	Deposits 2000 (In mill.)	Market Share			
		June 30			
		2000	1999	1998	1996
<u>Market Leaders</u>					
BB&T	\$ 1,636	12.8%	12.0%	11.7%	5.5%
Bank of America	1,616	12.6	12.7	13.3	13.2
SunTrust	1,546	12.0	12.5	-	-
Wachovia	1,389	10.8	11.2	11.8	-
Subtotal	\$ 6,187	48.2%	48.4%	36.8%	18.7%
<u>Other Large</u>					
First Union	\$ 764	5.9%	6.8%	7.4%	6.2%
First Virginia	506	3.9	3.7	3.7	3.5
CENIT	502	3.9	3.9	4.2	3.8
Royal Bank-Canada	423	3.3	-	-	-
Old Point	367	2.9	2.9	2.7	2.3
Towne Bank	235	1.8	.7	-	-
Bank of Tidewater	211	1.6	1.7	1.5	1.2
Resource	157	1.2	1.3	1.3	.8
Bank of Hampton Rds.	151	1.2	1.1	1.1	.9
Commonwealth Bankshares	151	1.2	1.0	.9	.8
Harbor Bank	87	.7	.5	.4	-
Farmers Bank	86	.7	.6	.6	.5
Heritage	85	.7	.7	.6	.5
C&F Financial	64	.5	.5	.5	.4
Approved Financial	42	.3	.2	.2	-
Bank of Southside	35	.3	-	-	-
Chesapeake Financial	31	.2	.2	.2	-
Monarch Bank	29	.2	-	-	-
Consolidated	25	.2	.2	.2	.2
First Federal-Virginia	22	.2	.2	.2	.2
Community Financial	21	.2	.1	.1	-
Subtotal	\$ 3,994	31.1%	26.3%	25.8%	21.3%
Other Banks	\$ 16	.1%	4.3%	16.9%	29.7%
Other Thrifts	-	-	-	-	10.6
Credit Unions	2,638	20.6	21.0	20.5	19.7
Total	\$12,835	100.0%	100.0%	100.0%	100.0%

*Counties of: Isle of Wright, James City, Nansemond, Surry and York.
Independent cities of: Chesapeake, Fort Monroe, Hampton, Newport News, Norfolk, Portsmouth, Virginia Beach and Williamsburg.

Source: SNL Securities LC, Charlottesville, Virginia.

Where do we go from here? While the completeness of the out-of-state large bank takeover of Virginia banking may not make Virginia loyalists happy, it simplifies local bank planning. The structure now is pretty much what it will be into the foreseeable future. First Virginia could sell, but that would only make BB&T or Wachovia a little larger, and a couple more banks will follow James River out while there are still buyers – i.e., First Virginia and BB&T.

Royal Bank/Centura is a “wild card,” but the odds are that the Canadians will find they have entered hostile territory. It is too big to be competitive with the local banks, and being an outsider in North Carolina is “bucking the odds.”

In the “bar bell” scenario, when the large banks have almost two-thirds of a market, or three-fourths if the credit unions are included, they are close to their maximum and future gains will come at the expense of one another. This does not bode well for First Union, and further mergers among the large are possible – i.e., BB&T/Wachovia and/or Bank of America/First Union. Bank of America has to worry about going over a national cap in terms of deposits if it buys First Union, but shares losses on the part of both banks should make this a moot point in a couple of years.

For the local banks, they at least will be able to grow with the market into the foreseeable future, and in some areas like small business lending, they should be able to grow at the expense of the large banks, which also would improve the deposit mix. First Union’s problems and possible mergers between the large are a further plus. If there are negatives for the local banks, it is that there a) may be too many of them and b) in time more user-friendly remote access banking could slow branch-based banking. Collectively, though, it is likely the local banks will lift their share of deposits over the next five years from the present 14% to close to 20%. The 20% could be reduced by local banks being sold, but that is all the better for those that are left.