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Recent Trends in the Washington Banking Market

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

Geographic restrictions on bank expansion and metropolitan Washington straddling of two states and the District historically made the Washington banking market like no other in the nation. Until the early eighties, it was three banking markets dominated by different banks in each. Initially the District was the largest of the three, which helped make Riggs and American Security the region's biggest banks, but in Northern Virginia there were several statewide banks, most of which included Virginia in their name – i.e., Virginia National, United Virginia and First Virginia. In the Maryland suburbs, Suburban, Citizens and Maryland National were the big names, and only First American operated across state lines.

This bifurcated structure created more than the normal number of acquisition opportunities in a single metropolitan area. Thus, even when state line barriers disappeared and consolidation became the name of the game, the result was a fragmented market with a lot of powerful players.

In the initial wave of consolidation in the eighties, Maryland National, Crestar and to a lesser extent Signet were the major aggregators, but what those three actually did was put together the pieces and then deliver them to what by 1998 had become a new big three – SunTrust, Bank of America and First Union. By 1998, each had at least 10% of the Washington area deposits and a combined 40%. This placed them well ahead of what was then a three bank local second tier consisting of Chevy Chase, Riggs and First Virginia. Allfirst, Mercantile, Citigroup and Wachovia had shares in roughly the 2% to 3% range.

The big mergers ended in 1998, but the relative positions of the major players has continued to change, and a new addition, BB&T, has added some spice to the mix. While it can be misleading to depend totally on deposits for measuring structural changes, deposits are all we have, and the distortions are

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

reduced somewhat when it is “big being compared with big.” Large bank deposit share is understated when compared to small banks because of the large banks’ greater usage of borrowing and lesser interest in CDs.

The major changes in the Washington area banking structure since 1998 are:

- A big three has become a big two as First Union’s fall from a near double-digit market share has put it well behind SunTrust and Bank of America, which had almost 29% of the deposit share between them as of June 30, 2000.
- A much increased deposit share for Chevy Chase – 7.5% to 9.6% gain in the last two years - has moved it past First Union into third place, and from a purely transactional perspective, it may already be part of a new big three.
- The arrival of BB&T, which through a series of mergers has assembled a 5.8% deposit share and fifth place ranking.
- The continued slippage of the one-time leader, Riggs, as its deposit share falls below 5%.
- The quiet, but steady, growth of Citigroup as it moves out of the “other” category into a second tier with a strong likelihood of continued growth.

Among other secondary banks in the Washington area, locally-based Sandy Spring is the only one producing large deposit share gains. Wachovia, First Virginia, United and Mercantile are holding steady while Allfirst is rapidly losing share.

Deposit Share
Washington Area*

	Deposits 2000 (In mill.)	Market Share June 30,			
		2000	1999	1998	1996
<u>Market Leaders</u>					
SunTrust	\$10,030	14.3%	15.6%	15.7%	9.7%
Bank of America	9,996	14.2	14.3	14.1	15.0
Subtotal	\$20,026	28.5%	29.9%	29.8%	24.7%
<u>Second Tier</u>					
Chevy Chase	\$ 6,748	9.6%	7.9%	7.5%	7.2%
First Union	6,005	8.6	9.0	9.9	9.8
BB&T	4,121	5.8	2.3	-	-
Riggs	3,492	5.0	5.3	5.7	5.9
First Virginia	3,124	4.4	4.7	4.6	4.8
Citigroup	2,470	3.5	2.5	2.5	2.2
Subtotal	\$25,960	36.9%	31.7%	30.2%	29.9%
<u>Other Large</u>					
Mercantile	\$ 1,646	2.3%	2.5%	2.4%	2.3%
Allfirst	1,626	2.3	2.6	3.2	3.4
Wachovia	1,342	1.9	1.9	2.1	-
Sandy Spring	1,111	1.6	1.4	1.3	1.2
United	1,040	1.5	1.7	1.6	.1
F&M	908	1.3	1.1	1.0	.9
Burke & Herbert	655	.9	.9	.9	.9
Provident	627	.9	.9	.9	.1
Columbia	529	.8	.4	.4	.4
Acacia	427	.6	.5	.5	.5
Southern Financial	385	.6	.3	.3	.3
Century	329	.5	.2	.2	.1
Equitable	306	.4	.4	.4	.4
Community-N. Va.	282	.4	.4	.3	.1
Virginia Commerce	275	.4	.3	.3	.2
Subtotal	\$11,488	16.4%	15.5%	15.8%	10.9%
Other Banks	\$ 3,145	4.5%	8.4%	8.9%	17.9%
Other Thrifts**	1,240	1.8	2.3	3.6	5.2
Credit Unions***	8,353	11.9	12.2	11.7	11.4
Total	\$70,212	100.0%	100.0%	100.0%	100.0%

*Calvert, Charles, Frederick, Howard, Montgomery, Prince George's, St. Mary's counties in Maryland; Arlington, Fairfax, Fauquier, Loudoun, Prince William, Stafford and adjoining independent cities in Virginia; and the District of Columbia.

**Excludes E*Trade and Capital One Financial.

***Excludes Pentagon and Navy Credit Unions.

Source: SNL Securities LC, Charlottesville, Virginia.

While the large banks battle for leadership and mid-sized banks struggle to stay in the game, the region still has numerous small, local banks providing customer alternatives. The oldest bank in Virginia, Burke & Herbert, Frederick-based F&M and Columbia rank among the twenty largest in the Washington market; two locally-based thrifts, Acacia and Equitable, are not far behind; and Warrenton-based Southern Financial is aggressively expanding with its deposit share having doubled since 1996.

Some relatively new entrants - Century, Community Bank of Northern Virginia and Virginia Commerce – have deposits in excess of \$250 million and, collectively, have more than tripled their deposit share in the last four years. Another new entrant, Sequoia, has deposits of almost \$200 million.

Washington still shows remnants of its separation of markets in the past. In suburban Maryland, which is by far the largest of three sub-areas with mid-2000 deposits of \$30 billion, Chevy Chase is the leader. Northern Virginia with \$25 billion in deposits is led by SunTrust, which acquired Crestar's position. In the District with almost \$15 billion in deposits, Riggs still clings to the lead. What each of the sub-regions have in common is that Bank of America is second in deposit share in each.

The trends as to who is winning and losing, however, is the same in the sub-areas as in the overall market. Chevy Chase has increased share by almost five percentage points in the Maryland suburbs, which has taken it past Bank of America in the rankings, and it also is rapidly becoming a factor in Northern Virginia. BB&T ranks between fourth and sixth in each sub-area. Citigroup's deposit share is up sharply in the District and Maryland suburbs. Sandy Spring has made strong gains in suburban Maryland. First Union's share is down sharply everywhere, and Riggs appears to be two years away from relinquishing the top spot in the District. In suburban Maryland, Allfirst has seen its share reduced by about 40% in just four years.

Washington Suburban Deposit Share

	Deposits <u>2000</u> (In mill.)	<u>Market Share</u>			
		<u>June 30,</u>			
		<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1996</u>
<u>Maryland Suburbs</u>					
Chevy Chase	\$5,556	18.5%	15.0%	14.6%	13.8%
Bank of America	4,664	15.5	16.0	15.6	16.8
SunTrust	3,899	12.9	13.7	14.0	5.9
BB&T	1,857	6.2	2.9	-	-
First Union	1,599	5.3	5.5	5.9	5.5
Mercantile	1,376	4.6	4.9	4.9	4.5
Allfirst	1,337	4.4	5.1	6.3	7.3
Sandy Spring	1,109	3.7	3.2	3.1	2.8
F&M	908	3.0	2.6	2.4	2.1
Citigroup	707	2.3	1.7	1.7	1.4
Provident	579	1.9	2.0	2.1	.3
Columbia	529	1.8	1.0	1.0	.8
<u>Northern Virginia</u>					
SunTrust	\$4,921	19.4%	20.6%	20.7%	14.9%
Bank of America	3,086	12.1	12.6	12.1	12.5
First Virginia	2,906	11.4	11.6	11.7	13.3
First Union	2,602	10.2	10.8	12.2	13.3
BB&T	1,587	6.2	1.0	-	-
Wachovia	1,342	5.3	5.1	5.7	-
Chevy Chase	965	3.8	3.5	3.2	2.7
United	880	3.5	3.9	4.0	.4
Riggs	698	2.7	2.6	2.6	2.4
<u>District of Columbia</u>					
Riggs	\$2,670	18.2%	20.2%	21.2%	22.3%
Bank of America	2,246	15.3	13.9	14.5	13.4
First Union	1,804	12.3	12.7	13.8	15.2
Citigroup	1,664	11.3	7.6	7.6	7.0
SunTrust	1,210	8.2	10.3	10.0	11.4
BB&T	677	4.6	3.6	2.8	-

Source: SNL Securities LC, Charlottesville, Virginia.

If present trends continue, SunTrust and Bank of America would be the local leaders into the foreseeable future with Chevy Chase joining them at the top in terms of deposit gathering and general transactional banking. The commercial business of SunTrust and Bank of America, though, sets them apart from Chevy Chase in terms of overall banking clout.

It also is likely that BB&T will make more acquisitions in the area and Citigroup will use its national market power to improve its local status. It is not hard, in fact, to envision a structure five years hence with the five leading banks serving the Washington market being SunTrust, Bank of America, Citigroup, Chevy Chase and BB&T. SunTrust, Chevy Chase and BB&T could disappear via a merger, but the strong momentum of each lessens this likelihood.

If these five banks become preeminent, then it is likely that most of the other large competitors will disappear or become irrelevant. It will be hard for First Union, Riggs and Allfirst to reverse their market share declines, and for the latter duo this would be a trip to local irrelevancy. First Virginia is likely to sell, and it could make BB&T a market leader or put Wachovia back in the game. Mercantile and United are out-of-area banks with small shares, but their modus operandi is such that they could prosper even in fringe positions.

The biggest question mark is First Union? It is losing share locally and struggling nationally, but it started with such a large share in the Washington area that it will be a significant participant for years to come if it not sold. If it sells, there are two possible outcomes. One is a sale to a bank that already has a major market position – Bank of America or Citigroup – which would further consolidate the Washington banking market or the other possibility is an out-of-market buyer such as Wells Fargo or Fleet, which would introduce a new, strong bank to the market.

While consolidation will continue to be a force in changing the structure of Washington area banking, and will be aided by the growing importance of remote access/internet banking, the future also will see some fragmentation within the consolidation – as contradictory as that may sound. Bank of America, SunTrust, First Union, BB&T and Citigroup will be providing customers a broad array of services using multiple forms of delivery, and some local banks will try to do the same. Others, though, will fill important needs with a specialized approach. Chevy Chase has become the area's premier transaction bank with more than 1,000 ATMs in the area; a rapidly growing branch network; and convenient hours. Many recent entrants – Virginia Commerce, Sequoia, EagleBank, Potomac Bank of

Virginia, James Monroe, Alliance Bank and First Liberty – are primarily business banks filling a major void in the big bank coverage. Others like Community Bank of Northern Virginia and Millennium Bank add a mortgage specialty to a business bank core.

Deposit Share
Maryland Suburbs*

	Deposits 2000 (In mill.)	Market Share			
		June 30,			
		2000	1999	1998	1996
<u>Market Leaders</u>					
Chevy Chase	\$ 5,556	18.5%	15.0%	14.6%	13.8%
Bank of America	4,664	15.5	16.0	15.6	16.8
SunTrust	<u>3,899</u>	<u>12.9</u>	<u>13.7</u>	<u>14.0</u>	<u>5.9</u>
Subtotal	\$14,119	46.9%	44.7%	44.2%	36.5%
<u>Other Large</u>					
BB&T	\$ 1,857	6.2%	2.9%	-	-
First Union	1,599	5.3	5.5	5.9%	5.5%
Mercantile	1,376	4.6	4.9	4.9	4.5
Allfirst	1,337	4.4	5.1	6.3	7.3
Sandy Spring	1,109	3.7	3.2	3.1	2.8
F&M	908	3.0	2.6	2.4	2.1
Citigroup	707	2.3	1.7	1.7	1.4
Provident	576	1.9	2.0	2.1	.3
Columbia	529	1.8	1.0	1.0	.8
Equitable	306	1.0	1.0	1.0	.8
First Virginia	218	.7	.8	.8	.8
Maryland B&T	179	.6	.7	.7	.6
Tri-County	159	.5	.6	.5	.5
OBA Federal	150	.5	.6	.7	.7
Riggs	125	.4	.5	.5	.6
Sequoia	124	.4	.4	.3	.3
Washington Savings	124	.4	.5	.5	.5
Presidential Savings	119	.4	.3	.3	.3
Eagle	<u>113</u>	<u>.4</u>	<u>.2</u>	<u>-</u>	<u>-</u>
Subtotal	\$11,615	38.5%	34.5%	32.7%	29.8%
Other Banks	\$ 741	2.5%	7.9%	8.1%	17.2%
Other Thrifts	556	1.8	2.0	4.7	6.5
Credit Unions	<u>3,092</u>	<u>10.3</u>	<u>10.9</u>	<u>10.3</u>	<u>10.0</u>
Total	\$30,123	100.0%	100.0%	100.0%	100.0%

*Calvert, Charles, Frederick, Howard, Montgomery, Prince George's and St. Mary's.

Source: SNL Securities LC, Charlottesville, Virginia.

Deposit Share
Northern Virginia*

	Deposits 2000 (In mill.)	Market Share			
		June 30,			
		2000	1999	1998	1996
<u>Market Leaders</u>					
SunTrust	\$ 4,921	19.4%	20.6%	20.7%	14.9%
Bank of America	3,086	12.1	12.6	12.1	12.5
First Virginia	2,906	11.4	11.6	11.7	13.3
First Union	<u>2,602</u>	<u>10.2</u>	<u>10.8</u>	<u>12.2</u>	<u>13.3</u>
Subtotal	\$13,515	53.1%	55.6%	56.7%	54.0%
<u>Other Large</u>					
BB&T	\$ 1,587	6.2%	1.0%	-	-
Wachovia	1,342	5.3	5.1	5.7%	-
Chevy Chase	965	3.8	3.5	3.2	2.7%
United	880	3.5	3.9	4.0	.4
Riggs	698	2.7	2.6	2.6	2.4
Burke & Herbert	655	2.6	2.6	2.5	2.9
Acacia	427	1.7	1.4	1.3	1.5
Southern Financial	385	1.5	.9	.8	.8
Community-N. Va.	282	1.1	1.0	.7	.4
Virginia Commerce	275	1.1	.9	.8	.5
Mercantile	270	1.1	1.1	1.1	1.0
Middleburg Bank	205	.8	.8	.7	.7
Fauquier	194	.7	.8	.7	.8
Century	144	.6	.2	.1	-
Cardinal	143	.6	.1	-	-
Patriot	103	.4	.4	.4	-
Citigroup	<u>99</u>	<u>.4</u>	<u>.5</u>	<u>.3</u>	<u>.1</u>
Subtotal	\$ 8,654	34.1%	26.8%	24.9%	14.2%
Other Banks	\$ 740	2.9%	6.7%	7.7%	20.1%
Other Thrifts**	46	.2	1.4	1.5	2.8
Credit Unions***	<u>2,464</u>	<u>9.7</u>	<u>9.5</u>	<u>9.2</u>	<u>8.9</u>
Total	\$25,419	100.0%	100.0%	100.0%	100.0%

*Arlington, Fairfax, Fauquier, Loudoun, Prince William and Stafford counties and the independent cities of Alexandria, Fairfax, Falls Church, Manassas and Fredericksburg.

**Excludes E*Trade and Capital One Financial.

***Excludes Pentagon and Navy Credit Unions.

Source: SNL Securities LC, Charlottesville, Virginia.
Deposit Share

District of Columbia

	Deposits <u>2000</u> (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>					
Riggs	\$ 2,670	18.2%	20.2%	21.2%	22.3%
Bank of America	2,246	15.3	13.9	14.5	13.4
First Union	1,804	12.3	12.7	13.8	15.2
Citigroup	1,664	11.3	7.6	7.6	7.0
SunTrust	<u>1,210</u>	<u>8.2</u>	<u>10.3</u>	<u>10.0</u>	<u>11.4</u>
Subtotal	\$ 9,594	65.3%	64.7%	67.1%	69.3%
<u>Other Large</u>					
BB&T	\$ 677	4.6%	3.6%	2.8%	-
Allfirst	243	1.7	2.0	2.4	.5%
Chevy Chase	225	1.5	1.4	1.2	.7
Industrial	186	1.3	1.5	1.4	1.4
Independence	176	1.2	1.5	1.5	1.8
Adams	130	.9	.8	.8	.6
National Capital	113	.8	.8	.8	.7
Century	<u>112</u>	<u>.8</u>	<u>.7</u>	<u>.6</u>	<u>.7</u>
Subtotal	\$ 1,862	12.8%	12.3%	11.5%	6.4%
Other Banks	\$ 346	2.3%	2.8%	2.3%	5.8%
Other Thrifts	69	.5	.5	.5	.4
Credit Unions	<u>2,798</u>	<u>19.1</u>	<u>19.7</u>	<u>18.6</u>	<u>18.1</u>
Total	\$14,669	100.0%	100.0%	100.0%	100.0%

Source: SNL Securities LC, Charlottesville, Virginia.