



Community Banking  
**More than Ever, Customers Looking for Safe, Sound Banks**

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Consumers and business owners have historically based decisions about where to bank on access, convenience, and the price of products and services, but with the economy in a tailspin, customers above all want to be sure their money is safe and that their bank is not in danger of failing.

According to a survey conducted by the New York brand strategy firm Lippincott, customers rank financial stability as their top priority when choosing a bank. Personal relationships - often touted by community bankers as a key differentiator between small and large banks - ranked very low in importance both for customers choosing a new bank or switching banks after a merger.

Robert Passikoff, the president of **Brand Keys** Inc. in New York, said consumers "wouldn't have cited financial stability a year ago," but the turmoil in the financial markets in recent months has eroded their confidence.

Steven Reider, the president of Bancography, a banking consulting firm in Birmingham, Ala., agreed.

"Stability has certainly increased in importance," he said. "We have seen some large names leave the industry in a way that many would have never predicted a year ago. These are times of seismic shifts, and the question is, Is my bank going to be around?"

Community banks appear to be particularly well positioned to capitalize on the consumer unrest, the survey showed. Middle-income consumers, high-net-worth individuals, and small-business owners all have an increasingly better opinion of community banks than of other financial institutions.

Michael D'Esopo, senior partner at Lippincott and co-author of the survey, which was released last week, said "there is a real skepticism in the marketplace" toward larger institutions. "This is a real opportunity from the community banking standpoint to bring on some of these customers."

Among Lippincott's "general audience" of 703 people polled, community banks and credit unions scored 5.5 on a 7-point favorability scale. National banks followed at 4.9, regional banks ranked at 4.5, and independent financial advisers and brokerage firms were at 4.2. Those rankings were similar for both a high-net-worth subset, as well as for small-business owners.

Mr. Reider said that if community banks are to make a customer grab, they must get across that they are pillars of stability and demonstrate the competitiveness of their products and services.

"Community banks have been given a gift by the major money-center institutions," he said. "This is their chance to tell their story."

In an interview with American Banker last month, Peyton Patterson, the chairman, president, and chief executive of the \$8.2 billion-asset NewAlliance Bancshares Inc. in New Haven, said she was spending more time than ever talking directly to customers about the health of the Connecticut bank.

"They want to know if credit quality and capital levels are strong," she said. "And they want to know the CEO."

Ms. Patterson said that communicating a message of stability has become a bigger part of a bank CEO's job

description.

Last month, for example, she wrote an open letter to the community that appeared as a full-page advertisement in the New Haven edition of The New York Times, assuring customers that NewAlliance never engaged in any risky lending and was on solid financial footing. For good measure, she told them that NewAlliance has "nearly twice the capital needed to be categorized as 'well capitalized' by our regulators."

Lippincott's Mr. D'Esopo said that in the months leading up to the peak of the economic crisis in September, community banks had become better at telling customers about their positions of strength. In recent months, though, the trouble at the larger banks has worked in favor of the smaller institutions, with many reporting record inflows of deposits.

The effort to spread the message of stability is also happening internally. Mr. Reider said that nearly all the banks he deals with have given their employees - from tellers to back-office folks - talking points to explain the bank's health and to let them know it was not involved in subprime lending.

However, Mr. Reider said that continued growth is the best way for a bank to convey stability.

"We are advising our clients to be take a business-as-usual approach," Mr. Reider said. "They should be considering new branches and new products" because "that sends a signal that we believe in our institution and we believe in our community."

Another growth opportunity for community banks is brokerage and investment services.

The Lippincott survey showed that customers and business owners looked askance at independent financial advisers and brokerage firms.

The brokerage industry's image has no doubt been tarnished by the collapse of Lehman Brothers and the well-documented problems of Merrill Lynch & Co. Inc. (which is being sold to Bank of America Corp.), and a number of banks are looking to ramp up their brokerage and wealth management units.

Mr. Reider said the brokerage field's issues present another opportunity for community banks to spread the word that they have many of the same capabilities of Wall Street firms.

"The smallest banks have the ability to take advantage of that chance," he said. "Even if they don't have in-house services, many can provide those investment services through partnerships."

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