

# Change? Bank on It

Kansas City has more banks operating today than it did a decade ago, but some old, familiar names are gone—and some powerful new players are moving in.

by Dennis Boone

Back in the Cold War days, the concept of mutually assured destruction provided a certain measure of stability between the United States and Soviet Union. As long as your opposite number wasn't a total whack-job, you could achieve something approximating peace.

Banking is a business, not a national-security strategy, but Tom Metzger also understands the importance of having competitors who live in the real world. He and his partners from Boston-based National Bank Holdings, who acquired both Bank Midwest and Hillcrest Bank last year, chose to enter a Kansas City market that was amply stocked with banks.

There were good reasons for that, beyond the economic fundamentals of the deal, Metzger says.

"From a competitive point of view," he says, "we saw the competition here as very rational—whether it's Commerce, UMB, Bank of America, US Bank—they're all rational competitors. In a lot of other markets, there are some banks that have gotten pretty irrational on structure and pricing. It doesn't make sense for the long haul to compete with somebody who's irrational in that regard."

For that reason, for the region's sound economic fundamentals and owing to changes coming from a hyperactive regulatory gland in Washington, Kansas City-area consumers can expect to see continuing changes in the banking landscape. With NBH already having acquired two of the region's 10 largest banks, much of that change will likely play out among mid-size and small banks, banking professionals say.

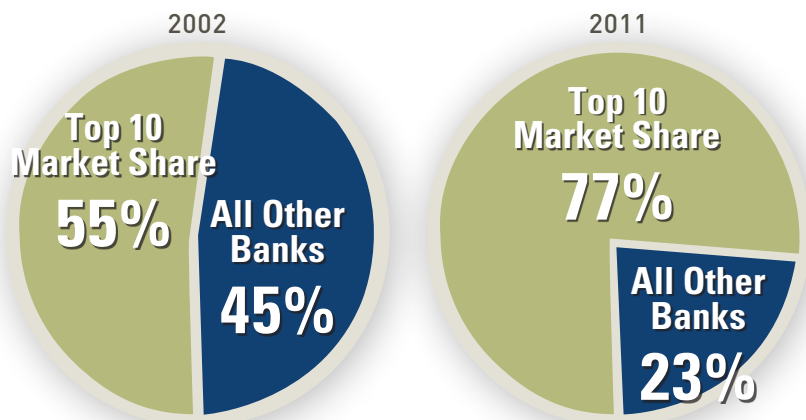
In the year before they were acquired, Bank Midwest and Hillcrest were two of the three Top 10 regional banks that posted losses, and the fresh capitalization injected into this market by NBH is expected to solidify the roster of bigger players for the time being.

But looking back from where we stood at the close of the 20th century, the change among players here already has been considerable.

Other banks have evolved—merged, acquired or been acquired, sold off divisions or changed ownership. Big banks have taken over operations of smaller, struggling organizations. Smaller banks have bulked up through aggressive acquisitions. And regardless of size, even healthy operations have joined forces to capitalize on improved efficiencies and broaden service lines.

Size was no protection against that

**TOO BIG TO WHAT?** The 10 largest banks in America have 40 percent more market share today than they had less than a decade ago, while the share held by all other banks has been cut nearly in half during that same span:



Source: Bloomberg News

## CHANGING LANDSCAPE

In 2000, you would find on a roster of the region's 25 biggest banks names like Gold, Firststar, Bannister, Jacomo, Guaranty and First National of Missouri.

You won't see those names today, but that doesn't mean their forerunners aren't out there somewhere in the banking sector ether. They and many

change, as the NBH acquisitions demonstrated. The forces at work, says Mike Lochmann, a lawyer specializing in banking law for Stinson Morrison Hecker, are both national and local in scope. And they'll continue to relay the playing field for regional banking for years to come.

"I think there will be a dramatic consolidation in terms of independent banks," Lochmann said. "There will be

fewer banks in the country as a whole, and fewer by name in the local market.”

For individual customers and business clients, he said, plenty of choices would remain, and the consolidation could even pay off with more types of banking services and more access to those services. But, on a national scale, “will we have 2,000 to 4,000 fewer banks? And of those left, how big can they get?” Lochmann said. “I hesitate to think that’s good for the economy.”

He cited several reasons for that: “Small community banks that have been there for 50 or 100 years know all the businesses and the players and can underwrite not only the financials, but the integrity and roots of the owner: Is this somebody who will put money back into the business to make sure loans get paid, or skip town when things go bad and say, ‘Here’s the keys.’ They are right there in church, in the Kiwanis club or at Little League with their customers.

for banking comparisons, but \$26.4 billion then is equivalent to about \$33.1 billion today. But the region’s banks have blown well past that level, with combined assets of \$42.3 billion—2.4 times the inflation rate.

And chief among them is Commerce Bank, which owns the biggest piece of banking assets in this region. Since 2000, it has nearly doubled that figure, from \$9.34 billion in 2000 to \$18.34 billion in 2010. That works out to an increase of nearly \$2.95 million in asset growth *every banking day* since 2001.

It was achieved, says Commerce Bank President Kevin Barth, largely through organic growth, capitalizing on changes at other banks to draw in new customers and their accounts.

“What’s really helped us the last 10 to 15 years was that, as a lot of other local and regional competitors sold out to national or money-center banks, we were able to pick up a lot of market share with retail and commercial customers,” Barth

Scout entered 2010 with \$8.3 billion in assets managed before the acquisitions of Prairie Capital and Reams Asset Management. Overall, UMB Financial Corp. now encompasses more than \$28 billion in banking assets or wealth under management, said CEO Peter deSilva.

Between them, the top two banks have increased their share of the overall market in terms of deposits, according to FDIC, but not sharply. With 11.64 percent of those deposits in 2010, Commerce has moved up from fourth place a decade ago to overtake UMB (now at 11.07 percent), the market leader in 2000. Now, as then, Bank of America is the only other double-digit force in the KC MSA, most recently at 10.12 percent.

Although dominant by local standards, the combined 22.71 percent share of Commerce and UMB was, somewhat ironically, a key factor in NBH’s decision to enter this market with the Bank Midwest purchase.

## WHERE ARE THEY NOW? Among the biggest changes involving Kansas City-area banks over the past decade:

### 2001

**Firststar Bank** was No. 4 on *Ingram’s* list of biggest area banks in 2001, and it still casts a wide shadow over the market, under the banner of **US Bank**. After acquiring **U.S. Bancorp**, the Wisconsin bank moved its headquarters to Minneapolis and adopted that name. It’s now the sixth-largest bank in the country, with nearly \$170 billion in assets.

Founded in a double-wide trailer in 1965, **Bannister Bank** had grown into a Top 20 force by 2001. That year, the south Kansas City bank acquired not only **Union Bank** and its \$457 million in assets, but adopted its name, as well, as it embraced a more regional image. Union is No. 18 in the region this year, with nearly \$562 million in assets.

### 2002

**Guaranty Bank & Trust**: Just a year after cracking the top banks list at No. 21, Guaranty was acquired by its bigger competitor three blocks to the east on Minnesota Avenue in downtown Kansas City, Kan. **Brotherhood Bank & Trust** added Guaranty’s \$171 million in assets to its own portfolio.

“They know these people in a way that the out-of-state megabank doesn’t,” Lochmann said. “So in underwriting small business loans, I think smaller banks may have some advantages.”

### GROWTH AT THE TOP

One notable development in the banking market here is the growth in assets overall—especially among the biggest players.

Among the banks operating in the Kansas City MSA in 2000, combined assets were \$26.4 billion according to the Federal Deposit Insurance Corp. Inflation measures may be a crude tool

said. In checking accounts alone, he said, the bank had added roughly 5,000 customers a year since the nation’s financial crisis erupted three years ago.

UMB, the other half of the extended Kemper family’s banking empire, surged from \$6.7 billion to \$10.69 billion in assets—an increase of nearly 60 percent. Like Commerce, much of that growth was organic, but the holding company that owns UMB is growing in other ways. Through its Scout Investment Advisers division, it has been on an acquisition spree over the past year, more than doubling its overall footprint by expanding with both individual and institutional investment reach.

“In a lot of other markets, the top two banks might account for 35 to 40 percent of market share, or more, and that’s a tough market to break into,” Metzger said. “With the top two here in the low 20s, if we can enter this area with 6 to 7 percent share, we feel we can be relevant in the market.” In fact, NBH has fared even better than that regard: Its Bank Midwest properties, combined with Hillcrest, give it an 8.14 percent share.

Sensing some of the same opportunities, Arkansas-based Arvest bank, controlled by the family of Wal-Mart founder Sam Walton, broke into the Kansas City market in 2009, although

with a lower profile. It's initial acquisition of Harrington Bank, then Solutions Bank, have given it a share of 0.87 percent—among the top 30 in a market packed with 155 banks last year.

Even with the competitive challenges, "Kansas City is a very important market for us," said Mark Larrabee, CEO of regional operations. But those same factors are working to the advantage of customers here, he noted. "It means more competition for deposits, so on average, rates are higher here," Larrabee said. "And for loans, rates are lower and more competitive."

He pointed out an analysis by one bank in recent years that determined Kansas City had the least homogenous banking environment among 135 markets surveyed nationally. "So there's always somebody willing to pay more in a deposit rate or charge less on a loan," he said, for those customers who keep looking around.

today, ninth in the region. That also explains how a bank originally named for its location on Johnson County's commercial aorta is based in Lee's Summit.

"The company has lot of available capital, and we've made a conscious effort to make acquisitions and get to the



*"We used to have Too Big to Fail. Now we have Too Small to Survive."*

— Mike Lochmann, Stinson Morrison Hecker

point where we had the resources here to be able to expand our business model," said CEO Tom Fitzsimmons. Those moves, he said, gave the bank sites in Missouri and Kansas, including the lucrative Johnson County market.

That growth can be attributed to the

## DOWN THE ROAD

In recent years, the number of banks nationwide has been in decline, but Kansas City has eight more institutions in the market today than the 147 it had in 2000. That's about to change with consolidation, particularly at the bot-

tom, bankers say. Only 22 banks today command more than 1 percent share of the deposits in this market, and more than 100 have less than half that level.

The owners of many banks in that range may have waited too long to sell, Larrabee says. "Obviously, the market

## 2004

**Metcalfe Bank** acquired the \$248 million in assets from Blue Springs-based **Bank of Jacomo**. At the decade's onset, BoJ was No. 20 on the list of biggest area banks, and Metcalf—then still a Kansas bank with headquarters on that Johnson County arterial—was No. 22. Metcalf itself was acquired by **Bank of Lee's Summit** in 2008, but retained its name.

## 2006

The seventh-largest bank in the region a decade ago, **Gold Bank** agreed to a \$700 million buyout by Milwaukee-based **Marshall & Illsley Bank** in 2006. Now, M&I's parent itself is being acquired by **BMO Financial Group**, a Canadian company, in a \$4.1 billion acquisition deal.

## 2008

**First National Bank of Missouri**: It merged with **Metcalfe Bank** and adopted that name, extending the reach of parent Central Banccompany of Jefferson City. Earlier acquisitions of **First Kansas Bank & Trust** in 2007 and the **Bank of Jacomo** deal thus gave the new Metcalf Bank an \$800 million footprint, No. 9 in the market.

## GIANT STRIDES

Those at the top of the banking food chain in Kansas City have amassed the greatest dollar volumes in asset growth, but in terms of percentages, it's tough to match the growth of Metcalf Bank over the past decade. Metcalf has benefitted from an acquisition burst by Jefferson City-based Central Banccompany before joining that lineup in 2008. That had swelled its asset base from \$190 million in 2000 to \$1.16 billion in 2010.

In doing so, the bank has more than tripled its .59 percent market share from 2000, good for 27th-largest, to 1.84 percent of deposits in the market

bank's ability to see over the horizon, although few could have predicted the extent of changes that would be imposed by the Dodd-Frank act passed last year.

"We saw this coming," Fitzsimmons said. "We knew, in this market, that for us to get attention and resources to be competitive, we had to get to at least \$1 billion in assets. That allows you to attract good talent, it gives you the resources to earn what you have to, to cover the costs of this compliance."

The bank, he says, has five people working just on compliance with the regulatory burden. "It's more difficult for smaller banks to afford that kind of resource," Fitzsimmons said.

for failed banks has gotten a lot more competitive," he said, "but sellers of healthy banks perhaps have not realized the market change in the value for their franchises, which makes it tougher to negotiate deals."

They may not have a choice on whether to sell, given changes in the banking environment, professionals say. "A lot of the smaller, family-owned banks that we're visiting with are, quite frankly, getting tired," said Fitzsimmons. "Compliance is one issue, but the ability to make fair return is another."

Stinson's Lochmann nails the current state of U.S. banking with this

## AUGUST 2010

One of the biggest changes in the banking scene came last fall, when **NBH Holdings** announced that it was going into the banking business with its first acquisition: Regional heavyweight **Bank Midwest**. NBH bought the lion's share of Bank Midwest from **Dickinson Financial Corp.** At the time, Bank Midwest's \$4.2 billion in assets made it No. 4 on *Ingram's* list of top area banks. Dickinson continues to be a strong presence, however, with its retention of **Armed Forces Bank**, a \$2 billion-in-assets venture, along with other properties.

## SEPTEMBER 2010

NBH struck again in the Kansas City market last fall, even before regulators had signed off on the Bank Midwest deal. It swooped in to acquire another Top 10 presence, **Hillcrest Bank**, and its \$1.8 billion in assets. The bank continues to operate under the Hillcrest banner, but combined with Bank Midwest unit, NBH is the third-largest banking concern in the region.

insightful gem: "We used to have Too Big to Fail," he said. "Now, we have Too Small to Survive."

### SIZE REALLY DOES MATTER

In the end, does it matter whether Kansas City has 155 banks, 100 or even 50? Yes, bankers say, because capital greases the gears in the U.S. economy, and banks are gatekeepers for a lot of it. An inefficient banking system is less capable of wringing risk out of billions of financial transactions that take place every year, and acts like sand in those gears, with potentially disastrous long-term consequences.

Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, drove that point home in a recent speech in Washington, when he called for federal action to break up large financial institutions.

"I am convinced that the existence of too-big-to-fail financial institutions poses the greatest risk to the U.S. economy," Hoenig said. "They must be broken up. We must not al-

low organizations operating under the safety net to pursue high-risk activities and we cannot let large organizations put our financial system at risk."

Dodd-Frank, he said, won't fulfill its promise, despite the sweep of its regulatory change: "In my view, it is even worse than before the crisis," he said. "Protected institutions must be limited in their risk activities because there is no end to their appetite for risk and no perceived end to the public purse that protects them."

Because of that, he said, "we must break up the largest banks, and could do so by expanding the Volcker rule and significantly narrowing the scope of institutions that are now more powerful and more of a threat to our capitalistic system than prior to the crisis.

"The substantial incentives that large organizations have to take on more risk, with the government expected to pick up the losses should they incur, unfailingly lead to undue risks throughout the balance sheet," Hoenig said. **I**



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