

Migrating Banks

KC banks follow the money to Phoenix.

STORY BY CHUCK GREEN



They saw the light—or, if you will, the sun.

With a number of bank customers migrating to or establishing a second residence in the Phoenix, Arizona area, Mariner Kemper, chairman and CEO of Kansas City-based **UMB Financial Corp.**, and members of his management team believed the best strategy was to follow the yellow brick road themselves and establish a branch there. The decision culminated in the opening of UMB Bank Arizona in 2005.

“A lot of business is being done in Phoenix; it’s one of the big cities that’s seen growth and prosperity,” says Kemper. “We’re in business to find those places and be part of them.” He noted when his bank began contemplating opening a branch in the Phoenix area a couple of years ago that in the course of its research UMB discovered that a “great deal” of wealth management business was being conducted in, among

other parts of the country, Arizona, further enhancing its appeal. With more baby boomers entering into retirement, they’re taking their wealth to warmer climates. Banks are following behind. It follows a trend that’s happening in other markets with lots of sunshine to offer.

“There’s a [substantial] customer footprint and a lot of synergy there,” says Kemper of Phoenix. UMB opened a loan production office in the city in 2004. And a second bank branch will soon locate in Scottsdale.

According to the **U.S. Census Bureau** Web site, Phoenix had the largest numerical population increase of any city between 2004 and 2005. It ranked number one in population estimates for the 25 U.S. cities with the largest increase from July 1, 2004 to July 1, 2005, jumping from 1,417,119 to 1,461,575. In the meantime, Arizona’s population went from 5,130,632 in 2000 to 6,166,318 in 2006, reports the bureau’s 2006 population estimates.

KANSAS CITY BANKS ARE FOLLOWING THEIR CUSTOMERS TO NEW CITIES. PHOENIX, IN PARTICULAR, HAS BEEN A HOT MARKET FOR EXPANDING BANK BRANCHES.

According to the **Federal Deposit Insurance Corporation** (FDIC), of the 15 institutions in the Phoenix banking market, nine are owned by out-of-state holding companies. **Wells Fargo Bank** has 49 branches in Phoenix—the most in the city, according to 2007 data from the City-Data.com Web site, followed by **JPMorgan Chase Bank** with 43 and **Bank of America**, 40.

Overall, however, Tom Wood, manager of the **Arizona Department of Financial Institutions**, says there has not been a “wave of major deals” involving major banks in the Phoenix market for several years now. But he says that there has been an increase in the number of smaller out-of-state banks and their holding companies entering the market, traveling with the snowbirds that head south for the winter or the baby-boomer retirees.

Kansas City-based **Dickinson Financial Corp.**, owner of Bank Midwest, also has plans to enter the Phoenix market. The bank currently operates about 75 branches in Kansas and Missouri. Dickinson, according to Paul Holewinski, senior executive vice president, plans to open a new bank, SunBank, in Phoenix, pending government approval, which it hopes to receive sometime during the second quarter. In fact, Dickinson has done business in the Phoenix market for about five years and opened a loan production office there several months ago. During that time, the bank has established a number of relationships in area.

Holewinski, like Kemper, says some of the bank’s customers in Kansas City have retired to or have second homes in Phoenix, creating “a correlation there. It seemed like a natural progression in terms for us to kind of formalize our operations there and open a charter.”

According to the Census Bureau, in the 45 to 64 year-old age group, there was a population in of around 1.4 million in 2006, up from approximately 1.3 million the previous year; while in the 65 and over age group, there was a population of about 790,000 in 2006, compared to 763,000 in 2005.

While factors such as location, weather and population figured significantly in Dickinson’s decision to establish itself in Phoenix, timing also was key when the decided to “pull the trigger” at the end of last year, says Holewinski. He notes the institution mulled the possibility of expanding there for about a year. “It was more or less a culmination of things,” he says. “We looked at our existing business there, and we’ve made trips into the market and established some additional relationships. We felt that we could capitalize on more opportunities in Phoenix if we had a physical presence there.”

Holewinski also notes that the market stretches beyond those customers who have traded boardrooms and deadlines for golf or a good book. “As you look at the demographics and the population shift of people, [there’s] not only retirees but others looking for affordable living and a good climate,” Holewinski says. “Certainly, with the exception of three months out of the year when Phoenix is fairly hot, it meets all that criteria, and it has expanding industry in addition to population growth.” He

explains that “everything kind of lines up for banks such as ourselves, especially for us, given our current relationships in market, we’re able to propel ourselves that much quicker, we believe.”

Banks and, for that matter, other companies, lured to the Phoenix area has helped spawn business opportunities there, according to Harold Decker, senior economic development specialist in the **Office of Economic Development** in Mesa. “We have all kinds of new companies relocating and expanding operations into the metro Phoenix area.”

There’s also the attraction of a hot real estate market that has drawn banks in recent years, although some of that momentum has waned from rising interest rates and turmoil in the sub-prime lending market. In the first quarter of 2007 in the Phoenix-Mesa-Scottsdale metropolitan area, the median cost of single family homes was just over \$262,000, slightly up from the fourth quarter of 2006 and down from the first quarter of last year, when prices were slightly above \$268,000, according to the **National Association of Realtors**.

Indeed, Kansas City banks are far from alone when eyeing high growth markets like Arizona.

“I think more [banks] are either interested in funding their loan growth elsewhere by gathering deposits down there or by chasing the real estate loan business down there,” says UMB’s Kemper. On the other hand, he added, his bank is following a more strategic-based approach—“sort of additional growth to what we already do very well. We feel there’s a niche for us to do it in Arizona.”

Among other banks to enter the Phoenix market more recently, **First Fidelity Bancorp** completed the acquisition of **Western Security Holding Co.** in Scottsdale.

Additionally, in March, Anaheim, California-based **Premier Commercial Bancorp**—majority owner of **Premier Commercial Bank Arizona N.A.** and **PCBA Acquisition LLC**—announced it would sell all the common stock of Premier Commercial Bank Arizona N.A. that it held to PCBA. Following the stock purchase, the bank will be operated as an independent institution, unaffiliated with the Bancorp. The total value of the transaction is expected to be approximately \$11 million and to be completed in the third quarter of 2007.

With more banks entering the already hot market, competition that is now fierce is bound to get fiercer.

“The challenge for an organization will be to either win on price or on a value proposition that a customer can relate to and react to,” says Kemper. UMB, he says, competes as a value-driven organization. “We have the trust that comes with our roots and the performance and strength that comes with our focus and experience. That gives us our wings.”

For small banks in Kansas City and elsewhere, expansion is not only about Phoenix, says Holewinski. Banks are chasing clients to other markets. Florida and Texas, for example, also are hot spots for purchasing an existing bank or expansion. They’re also popular retirement areas. “At least they’re on our radar screen,” Holewinski says. **KCB**