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## Community Banking Is An Attitude

By Sarwar A. Kashmeri

For the Valley News

“A community bank doesn't have to do with size. How you act is key; it is the attitude,” Philip R. Daniels, president and CEO of Banknorth Vermont told me. “You could be the largest bank in the United States, but if you empower your people, encourage them to make decisions and act locally, and support them in their cause, they will do that.”

In an earlier column, I had wondered what the acquisition of Banknorth Group Inc. (of which Banknorth Vermont is a part) by the Canadian TD Financial Group -- with more than 45,000 employees, 14 million customers, and \$280 billion in assets -- would do to its community-bank spirit and whether it would become a “big-box” bank in the mold of the “big-box” stores. Daniels had asked for an opportunity to respond, and we met at his bank's Woodstock branch where, coincidentally, my family has banked for two generations through numerous ownership changes.

Daniels is an immaculately dressed banker who knows his business. “We consider ourselves to be a statewide community bank,” Daniels said. “If a bank's only interest is to increase its sales or get the best rate, then it is not really a community bank.”

Daniels reminded me that even before the merger with TD Financial Group, the \$28 billion Banknorth Group was among the 30 largest banks in the United States, but it was structured and managed like a community bank with tailored local services. Banknorth relied on its commercial lenders and branch managers to make local decisions such as charitable contributions, a philosophy that will continue after the merger.

Banknorth is not just focused on profits. “We manage using a complete matrix in which community involvement is measurably important in the scorecard used to judge employee performance,” Daniels told me. “Without a strong Woodstock, my branch here is not going to do well, and we focus on that all the time.”

Historically, when banks merge, they aim to cut their operating costs 15 percent to 25 percent by eliminating overlapping functions -- which generally translates to laying off employees. Why should it be any different in this transaction, I asked Daniels. “Because TDFG did not just buy a bank in the United States, it bought a management

team.”

The Banknorth Group Inc., he explained, is a Portland, Maine-based holding company comprised of banks in Vermont, New Hampshire, Maine, Connecticut, Massachusetts and upstate New York, each with its own president and staff. The Vermont, Maine and New Hampshire banks have served as the foundation of BGI.

“These states' economies do not fluctuate wildly and the banks in them are good, steady performers,” Daniels said. BGI's growth, however, has come from buying banks in Massachusetts, Connecticut and upstate New York, areas that have much larger, more vibrant markets.

But the acquisition targets in these three sizzle states are no longer as plentiful, or inexpensive. “To continue on the same growth path, and keep our shareholders happy, we needed to look outside the area and, perhaps, also purchase larger institutions. For that we needed a financial partner with the capital to help us with our plans.”

On the Canadian side, TDFG was going through a similar soul-searching process to figure out how to use its \$1.3 billion a year in excess cash flow.

Unlike the United States, which has around 9,000 banks, Canada has only 19, so there isn't a large merger and acquisition opportunity there. TDFG had to find a way to deploy that excess capital to improve the returns to its shareholders and concluded it wanted to invest in banks in the United States for its growth plans. Because TDFG did not have the expertise to run banks in the American marketplace, it began looking for a bank to serve as its American investment vehicle.

That search ended with TDFG's purchase of 51 percent of BGI's stock, “with the understanding that they intend to purchase two-thirds of our stock over the next two or three years. Then they have to make a decision whether they want to buy the rest or not.”

Daniels told me it took a while for Wall Street to understand that this “unique” transaction really meant that TDFG hired a management team in the United States to run the banks it intended to purchase, and it was not just another bank merger.

“It is great for us. They want BGI to continue to run our banks just the way we have, so our employees can get up in the morning and be certain that nothing will be different except the name change.”

I hope this admirable community-oriented banking company can keep to this script. Sooner rather than later, TDFG will use that “excess cash-flow” to make a major new American acquisition, even as it purchases the remaining stock of Banknorth Group Inc. There is an old saying on Wall Street -- man proposes, the market disposes -- and when TDFG's shareholder pressure reaches the boiling point, the next act in this drama will have begun.

I am rooting for Daniels and his peers' attempts to continue their community banking tradition. Besides what that will mean for the Upper Valley, I want to continue to deal with those wonderful tellers in Woodstock forever.

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