

# Madison's a tough nut for banks to crack

By **Ken McCarthy**

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A vibrant economy, low employment and a growing population have made Madison, Wis., a hot market for bankers.

Madison's population rose by nearly 10% from 2010 to 2017, totaling 255,000 residents, according to the Census Bureau, with many newcomers moving in due to new jobs. Unemployment is below 2%, or half the national average, according to the Labor Department.

Banks have been drawn to those types of communities in recent years. Indianapolis, Nashville, Tenn., and Charleston, S.C., are other desirable banking markets with populations well below 1 million.

"Niche markets can be attractive if you have the expertise, as they tend to have better [loan] yields and growth can be attractive — until heightened competition minimizes both," said Jim Bradshaw, an analyst at Bridge City Capital.

Total deposits in Madison have increased by 57% since the financial crisis, including a 12% spike in the 12-month period that ended June 30, totaling \$22.3.2 billion, according to the most recent data from the Federal Deposit Insurance Corp.

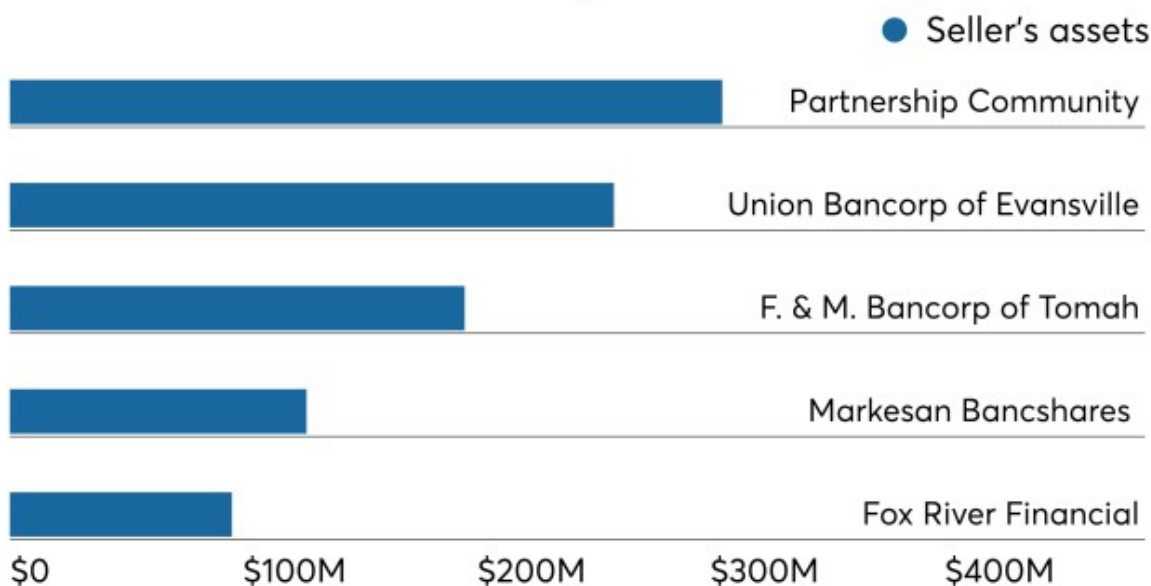
The biggest challenge for outside banks has been finding an opportunity to buy into the market. The total number of banks with deposits in Madison has been flat in recent years, with few banks selling.

"There just haven't been a lot of sellers," said Peter Wilder, a banking lawyer at Godfrey & Kahn in Milwaukee. "There is little pressure to sell when you're established in a great market."

Consolidation is starting to pick up in Wisconsin.

## Badger state buyouts

These five Wisconsin banks have agreed to be sold this year



Source: S&P Global Market Intelligence

Old National in Evansville, Ind., entered Madison in 2016 when it [bought Anchor BanCorp](#). Five banks in the state, including some with operations in Madison, have agreed to be sold this year.

More deals are likely because a number of banks have less than \$200 million in assets, said Mark DeBiasio, chief financial officer of State Bank of Cross Plains. The \$988 million-asset State Bank is Madison's eighth-biggest bank, with a 3.5% deposit market share.

"It's becoming increasingly difficult for those banks to keep up with technology and compliance costs," DeBiasio said.

Wisconsin Bank & Trust, which has \$356 million in deposits in Madison, is on the prowl for deals, said Curtis Chrystal, its president and CEO. The bank's parent, Heartland Financial USA, is an active acquirer; it bought Community Banc-Corp of Sheboygan in 2015.

Organic growth is another option, though Chrystal said building branches has become less of a priority given the rise in mobile banking.

Banks have also entered Madison by opening loan production offices, which are omitted from the FDIC data. For instance, the \$364 million-asset Ixonia Bank plans to turn a loan production office it opened last fall into a full-service branch.

Still, some bankers are convinced that it would take a meaningful acquisition to make a dent in the market.

"I think it's an M&A play," DeBiasio said, noting the tight-knit nature of the Madison community and the intense competition from the presence of bigger banks such as Wells Fargo, JPMorgan Chase, U.S. Bancorp and BMO Harris.

As State Bank did with its recent purchase of Union Bank and Trust in nearby Evansville, buyers in Madison need to find a bank with long-standing ties to the community. "The name on the front of the building changes, but the customers are going to see the same people inside," DeBiasio said.

The FDIC data doesn't take into account the roughly 20 credit unions that operate around Madison.

Landmark Credit Union in New Berlin, Wis., is "very optimistic" about the market, said Jay Magulski, its president and CEO. Landmark, which sees potential in business lending, added a full-time lender in Madison about a year ago.

Loan competition may be tougher in Madison than anywhere else in Wisconsin, increasing the need for discipline before the cycle turns, Wilder said.

"A lot of the comments I hear about banks getting silly on loan covenants and pricing comes from the Madison market," Wilder said.

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