CRCE Focus

Center for Research on the Colorado Economy

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Banking in Colorado

The times they are a changin'

Chances are your local bank has undergone a recent name change. Banking laws enacted at the state level beginning in 1988 and the national level in 1994, along with rapid technological change, have meant reorganization in the financial services industry both in Colorado and the nation.

Professor Ronnie J. Phillips and graduate student Jokima Ertle recently examined the evolving structure of federally insured depository institutions in Colorado during the past decade. According to Phillips and Ertle, in 1990 there were 446 chartered commercial banks, but as of December 1999, there were only 189 state and nationally chartered institutions. This precipitous decline in the number of banks is due primarily to mergers and acquisitions, and has happened even though many new banks (called *de novos*) came into existence during this time period. Although the number of banks has decreased, the number of branches has increased dramatically to more than 900 today.

The changes in Colorado banking began prior to the passage by Congress of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. In 1988, Colorado permitted interstate entry with regional reciprocity: Wyoming banks could enter Colorado, if Colorado banks could enter Wyoming. Until 1991, Colorado had very restrictive bank branching laws under which banks were restricted to a single location. Then in 1991, the Colorado State Legislature passed a law that allowed branching by already existing institutions but prohibited *de novo* branching. Phillips notes that "Out of state bank holding companies could enter banking in Colorado through the purchase of an existing institution, but they could not do so through establishing a *de novo* institution."

Presently Colorado (and federal) banking law allows banks to merge their existing branches into a single branch network and consolidate between banks located in different states. The limitation imposed by Riegle-Neal is that no bank is allowed to control more than 30% of the aggregate of all federally insured deposits within any one state. Colorado law sets a tighter limit at 25% of all insured deposits. The law also states that no out-of-state bank holding company may acquire a Colorado depository institution unless such institution has been in operation for at least 5 years.

Phillips points out that Colorado is made up mostly of small banks. There are only 4 banks with more than $1 billion in assets, while 121 banks have less than $100 million in assets. As of December 1999, 161 institutions were affiliated with a bank holding company, and of these, 23 were affiliated with an out-of-state bank holding company. Approximately half of all insured deposits in the state are controlled by out-of-state bank holding companies.

Norwest Bank Colorado (National Association), is the largest bank in Colorado, based upon percentage of insured deposits. Presently, Norwest (which is now owned by Wells Fargo) holds approximately 18% of all insured deposits in banks in Colorado (as of December 1999). Phillips says that Norwest became the leader in the 1990s by merging its existing banks. The second largest player, U.S. Bank National Association, has engaged in both mergers and acquisitions in the past decade, and U.S. Bank now holds approximately 12% of all insured deposits.

A bank to watch is FirstBank. As Ertle notes, "They have gained considerable market position, and have also led in the creation of *de novos* since 1991 with seven new banks." FirstBank is the largest Colorado-based bank holding company and holds about 7.5% of all insured deposits, though those are held in Colorado branches of FirstBank's Minneapolis bank.

Phillips and Ertle agree that for the next decade, we can expect further mergers and consolidations among banks. Technological change and the Gramm-Leach-Bliley Financial Modernization Act of 1999 will lead to increased competition between banks and nonbanks in providing financial services. "There are likely to be a small number of banks owning a large percent of insured deposits in the state. It would not be surprising to see three banks control well over 50% of insured deposits," Phillips observes. But as Ertle points out, "If present changes in the financial services industry continue, insured deposits will be a smaller percentage of the overall financial assets held by the public."

So banks may gain market share within banking, while losing it in the broader financial services industry.

For information on this study or Colorado banking in general, contact Professor Ronnie J. Phillips at 970-491-6079 or rphillip@lamar.colostate.edu.

The **Center for Research on the Colorado Economy** is designed to pool, integrate and focus Colorado State University's expertise in economic modeling and policy analysis. **CRCE** is building a front-line program of research, outreach and teaching intended to serve economic managers, policy makers and students in the State of Colorado.

The Center's Mission is to generate high quality economic research and analysis focused on contemporary economic issues facing Colorado's economy. This work will be available to and utilized by public and private sector decision makers at state, regional and local levels in Colorado. **CRCE** serves Colorado State University's three primary missions: it generates knowledge by organizing data and applying frontier analytical methods; it provides outreach to the state by offering information and policy analyses to public policy makers and other constituencies; and it teaches students by involving them in applied research related to their classroom learning and by providing data, analyses and case studies useful within the classroom.

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