

Market puts skids on new bank construction

Two years ago, some towns had moratorium on financial institutions

By JONATHAN BILYK
jbilyk@kcchronicle.com

Two years ago, David Morrison and other Elburn village officials were trying to figure out what to do with all of the new banks.

Within a decade, the village had gone from a community of just one bank to one that had become home to six, with plans approved for two more.

And still, the requests kept coming from banks that wanted to build in the village, lured by the dozens of new homes that were being built in Elburn each year.

But, while a symbol of Elburn's newfound status, the banks were beginning to present an impediment to the village's plans for retail growth, village officials said, noting that financial institutions rapidly were claiming many of Elburn's prime spots for new stores and restaurants.

To remedy the perceived problem, the village in late 2007 closed its doors, slapping a moratorium on new banks.

Less than a year later, the village lifted its moratorium.

Lifted in the year since, not a single bank has been built in the village. Not a single bank has requested to build in the village. And even those for whom approval had been granted before the moratorium are now indicating to the village that they might no longer be so keen on building.

"They certainly are not beating down the doors any longer," Morrison said.

The fault, however, does not lie with the village of Elburn. Nor is the problem limited to Elburn, or even Kane County, for that matter.

For more than a year, banks have simply stopped building.

The reasons for the sudden change should be obvious to anyone paying attention, said



Sandy Bressner - sbressner@kcchronicle.com

ABOVE: Stacy Bello, teller supervisor, works at her station at the new St. Charles Bank and Trust in downtown St. Charles. **ON THE COVER:** Jack Klenske of JMI, a commercial millwork company, rolls a door into the new St. Charles Bank and Trust in downtown St. Charles.

Kevin O'Donnell, president of O'Donnell Commercial Real Estate in St. Charles.

He credits the sudden disappearance of banks from the construction marketplace to two main factors.

First, he said, many banks – particularly the larger, regional or national institutions that fueled much of the bank branch construction boom – have been heavily impacted by the troubles that have swept through the financial markets beginning in 2007.

And secondly, he said, the number of banks acquiring other banks in recent months has caused a number of local branches to close in many areas of the country, producing an increased supply of available, prime locations and slackening

the need for new branches.

He said closures have not been a problem in the Fox Valley. But he said the two factors have combined to prompt even local banks to shelve construction and expansion plans.

"If there's any activity by banks at all, it's the smaller, local banks that are doing it," O'Donnell said. "But new bank branches opening up are few and far between right now."

Local banking executives confirmed O'Donnell's assessment.

At Aurora-based Old Second Bank, which operates 15 branches in Kane County, bank president James Eccher said his banking company owns several vacant properties, including two in Kane County, on which it hopes to some day build new branches.

However, that day likely will not come soon, Eccher said.

Since the summer of 2008, he said Old Second has abandoned its strategy of opening one or two new bank branches each year.

Old Second opened its last branch last year in Joliet and opened its most recent Kane County branch in Elgin in May 2007.

"With today's economic climate, we are retrenching a bit," Eccher said. "We are not planning any new branches in the next 12 months."

Tom Hansen, president of St. Charles Bank & Trust, said his bank has benefited mightily from its decision to build, despite the downturn.

Earlier this year, the bank, which had operated for three years from a small storefront in

downtown St. Charles, opened its new headquarters on Route 64 at 4th Street. The project had begun in spring 2007.

And that decision has paid huge dividends, as the new building has increased the status of the institution, helping to attract enough customers to more than double the bank's deposit base.

Even if he had known in early 2007 what would befall the banking industry, Hansen said he would still have pushed to build the headquarters.

"It's what we really needed," Hansen said.

But he said, for now, St. Charles Bank & Trust has also shelved any plans to build any new branches, preferring to stick with the two it now operates in Geneva and Kaneville.

"It's part of our strategy to build, but we do not have any plans, no," Hansen said.

Back in Elburn, Morrison has received an unmistakable sign that the local banking industry remains uncertain of the economic future for the region and the country.

There, DeKalb-based Castle Bank – which had earlier received approval to build a new bank next to the newly opened Walgreens store on Route 38 at Route 47 – has asked the village for permission to wait as many as two more years before building the bank branch it earlier had fought to win the right to build.

Castle Bank did not indicate to the village why it was asking for the extension.

But O'Donnell said the marketplace appears to be doing a more thorough job than any moratorium on restricting where and when banks might build.

"Who'd have thought that just a few years ago, there were actually places around here that didn't want any more banks?" O'Donnell said.