

## Austin Start-Up Approaches 5-Year Goal After 15 Months

American Banker Thursday, October 26, 2006

By [Marissa Fajit](#)

AUSTIN - Independent Bank of Austin SSB does not project the image of what Texas' top bank regulator ranks among the most successful start-ups in memory.

Its main office, in suburban Lakeway, is tucked away in a building outside the city's main business corridor, and its 10 employees there are crammed into 1,500 square feet and share restrooms with the building's other tenants.

"We don't look impressive," said Julie Buchanan, one of Independent's founders, its cashier, and its vice president of operations. "But I think the numbers overpower that."

Indeed, last week the \$93 million-asset Independent reported a net third-quarter profit of \$452,544, a 41.6% increase over the second quarter. At 15 months old, the thrift has already revised the projections in its business plan three times, and now expects to meet its five-to-10-year goal of \$100 million of assets by yearend.

Its organizers do not intend to keep up the fast pace for much longer, however. Though many start-ups these days look to keep growing - often until a suitor comes calling - Independent plans to start tapping the brakes once its assets hit \$150 million.

"We're not in the market to build it up and sell it," Ms. Buchanan said.

Independent aims to reach the \$150 million mark by the end of 2008, she said. "We want to build it to a level we are comfortable managing - where we know what is going on. If you get over \$150 million, it is another ballgame."

Ms. Buchanan founded Independent with her husband, Denny, and two others - Kristy Fariss and Jack Buchanan, who is no relation to Julie and Denny. (Ms. Farris and Julie and Denny Buchanan worked together at Village Bank in Lakeway, which was sold to Prosperity Bancshares Inc. in 2004.)

The group initially raised \$7.5 million from about 65 investors. The thrift started making loans the day it opened, and within three months it was making money.

Independent primarily targets small home builders and their customers. The bulk of its loans are for single-family construction projects, the average life of its loans is 13 months, and the average size is about \$500,000.

The strategy has worked well so far, though one observer said Independent could hit a rough patch if the Austin's red-hot real estate market cools.

Because most of its loans are short-term, Independent has to add new loans to the portfolio constantly, said John Blaylock, the associate director of Sheshunoff & Co. Investment Banking in Austin.

Real estate loans make up 91% of the Independent's interest income, Mr. Blaylock said, so "if there are any hiccups in the real estate market, then you have a problem. At this point, that is likely to be minimal, but you want to look for diversity over time."

Also, Independent's expenses are sure to rise as it adds branches and staff. It has two nontraditional offices - neither of which has tellers - and it plans to move both into larger, more conventional branches on which it will break ground in January.

Finally, executives are concerned about proposed federal guidelines that could force banks to scale back construction and commercial real estate lending. Though the guidelines have not been finalized, bankers fear they would require banks with high concentrations of commercial real estate or construction loans to

hold more capital against them. Denny Buchanan said such guidelines could cripple many community banks.

"That's our niche," he said. "That's how we can compete with the big boys."

At the moment, though, Independent is thriving.

Danny Payne, commissioner of the Texas Department of Savings and Mortgage Lending, said Independent is one of the most successful start-ups he has ever seen. He also said that a recent examination found it was very healthy.

The smaller loan sizes spread out Independent's risk and ease the state regulator's jitters about real estate lending, Mr. Payne said.

"I'm comfortable with their business plan and their extraordinary growth," he said. "I've kept a close eye on them. I'm quite comfortable that these folks know what they are doing."

Independent's return on equity at June 30 was 12.8% - No. 1 in Texas and No. 3 in the nation among banks and thrifts that opened in 2005, according to Highline Data in Austin. Its 43% efficiency ratio is well below average for thrifts in its asset class.

Each employee is assigned several jobs, and that helps efficiency, Denny Buchanan said. For example, he is president and lead lender, and closes an average of 50 loans a month. "Most banks have the figurehead and senior people, where they just manage," he said. "We do both - we manage and we work."

Independent opened in June 2005, which records show was one of the most active years for home starts in its area. New construction has remained brisk this year.

Still, while loan demand has been strong, low-cost deposits have been harder to come by. Early on about 50% of the thrift's loans were nonlocal. That percentage has dropped some, but Independent's funding costs remain high because it has had to pay up to attract local deposits. Executives at Independent hope that the new branches, slated to open in more central locations, will help it bring in more deposits.