

HITTING THE ACCELERATOR:

How Startups BALANCE Growth AND Profitability

By Debra Cope

Nearly 700 banks have opened for business since Jan. 1, 2002, making it one of the busiest five-year periods for new bank formations on record. Many of them are achieving rapid asset growth, as the charts on the following pages show. But what about profitability? Put differently, can 700 brand new banks really cut it?

Regulators clearly think these new banks can make a profit, because no bank opens its doors without making its case over the course of many months.

"If you don't show the bank being profitable during year three, the regulators are not going to approve your business plan," said Gerard Comizio, a partner in the financial services group of the law firm Thacher Proffitt & Wood LLP, resident in their Washington DC office. Furthermore, regulators are asking hard questions of bank organizers, and are not accepting "generic" plans. Instead, they are looking for well-thought-out strategies, which are typically documented in written plans that run hundreds of pages and are backed up by extensive pro-forma assumptions, Comizio said.

Another prerequisite for profitability is management strength. "You need to pick a good management team," Comizio stressed. "What regulators look for is management with significant

experience in that local community." The board also needs members with banking and accounting expertise.

So, what strategies are working for the startups that have passed muster with regulators and earned their charters? Many of these banks have identified a need for more personalized service at a community level, or for niche products and services, Comizio said. For more insights, we talked to two banks in the De Novo Class of 2005 that turned a profit within 12 months of opening their doors.

For more data on all U.S. banks formed from 2001 to 2006, visit www.acb.us/denovo.

Touchdown for Bryant Bank

In Alabama's Crimson Tide country, Bryant Bank is living up to its legendary name by racking up a winning record.

After opening its doors on June 10, 2005, the rookie bank in Tuscaloosa booked its first quarterly profit on Dec. 31, 2005. Net income has grown steadily each quarter, and totaled \$2.967 million for the year through Sept. 30, 2006. Assets exceeded \$170 million at press time.

Founder and Chairman Paul W. Bryant Jr. is the son of the late University of Alabama head football coach Paul

"Bear" Bryant, who led the Crimson Tide to six national championships. The younger Bryant, an entrepreneur who made his fortune operating greyhound racetracks, has always been protective of his father's legacy and had never used his famous name on other companies he owns.

"He put the Bryant name on the community bank because he wanted to leave a legacy to his family and his grandchildren," said president and chief executive officer Claude Edwards.

Edwards, who quit his job as head of commercial lending for Regions Financial Corp. to lead the new bank, said the ripple effects of bank consolidation are spawning new bank formations, particularly in growing cities in the Sunbelt. (A hard-won Mercedes-Benz assembly plant is a cornerstone of Tuscaloosa's thriving economy.) Larger banks, he said, suffer from centralization and a lack of focus and have replaced human contact with call centers; new community banks are cropping up in large part because they can capitalize on big banks' vulnerabilities.

"People are really looking for the old style of banking — they want a banker who knows them when they come in the door," Edwards said. "Our staff was handpicked for their

ability to provide customer service.”

Bryant Bank does a mix of consumer, construction, and small business lending. Its net interest margin for the first nine months of 2006 date stood at 5.21%, return on assets totaled 3.16%, and return on equity was 17.97% — all above average. The bank’s funding costs were below average at 2.20% of earning assets.

With substantial capital in its coffers, the bank is beginning to consider acquiring a mortgage company, Edwards said. And the bank, which currently boasts one branch apiece in Tuscaloosa and Birmingham, envisions expanding its physical presence, too. Edwards’ play-book calls for opening two branches in Tuscaloosa, three in Birmingham, and two in Baldwin County.

“We want to be the community bank for Alabama,” Edwards said. After all, he says with a chuckle, “We’re not just Alabama football — we’ve got Auburn fans who bank with us, too.”

Penny-Pinching Pays in Austin

There’s nothing flashy about Independent Bank of Austin SSB, except for its financial performance. The \$95 million-asset bank, which currently operates out of cramped rented space in two Austin office buildings, earned \$938 million in the first three quarters of 2006. That’s not too shabby for a bank that only opened its doors on June 6, 2005.

“Real low overhead” is the key to the bank’s profitability, said president and CEO Denny Buchanan. “Most banks are down \$1 million after their first month. We were down \$38,000.” Think second-hand office furniture instead of gleaming new cherry desks with brass fittings, and you’ve got the idea. Staff members also wear multiple hats—Buchanan, for instance, is senior lending officer as well as CEO, whereas most new banks hire one of each. His wife, Julie Buchanan, is vice president of operations and cashier. Chairman Jack Buchanan (who is no relation to Julie and Denny) is the hands-on manager of the Georgetown branch.

Independent got off to a running start with its lending business. “We were making loans out of our house before we even got started,” and selling them to another lender, Denny Buchanan said. He and the chairman previously worked together and boast more than 55 years in combined banking experience. “We have had a customer following for the last 20 years,” Denny Buchanan said.

The bank is making “every type of real estate loan” — loans to builders and

to individuals, land and office development loans, and more. As of Sept. 30, the net interest margin stood at 5.22%, return on assets totaled 1.65%, and return on equity was 16.09% — all above industry averages. The bank’s funding costs, at 3.98% of earning assets, are above the industry average, which is not unusual for a de novo.

Look in future issues of *Community Banker* for updates on how these banks and other de novos are faring. ■

Reach New Heights in 2007 With HLB Mortgage!

Whether a De Novo Bank or well-established in the banking community, HLB has the mortgage solutions to help grow your business.

Our parent company, American Home Mortgage (NYSE:AHM) is one of the top ten mortgage lenders in the nation. Organized as a REIT, HLB can react quickly to market conditions and create unique products to help you stay ahead of your competitors.

Our goal is to exceed your expectations on every level.

Learn how we can help grow your residential mortgage business today.

Contact HLB at (630) 245-6200
or visit www.hlbmortgage.com



We Specialize in
Community Banks

The De Novo Banking Class of 2005. The 50 largest banks chartered in 2005, ranked by assets as of June 30, 2006

COMPANY NAME	TOTAL ASSETS 06/06 Q (\$000)	TOTAL ASSETS 2005 (\$000)	TOTAL DEPOSITS 06/06 Q (\$000)	TOTAL DEPOSITS 2005 (\$000)	EQUITY CAP/ TOTAL ASSETS 06/06 Q (%)	AUG EQUITY CAP 06/06 Q (\$000)	ROAA 06/06 Q (%)	ROAE 06/06 Q (%)
Lehman Brothers Commercial Bank, Salt Lake City, UT	3,171,331	2,127,244	2,621,074	1,594,236	11.74	368,414	-0.68	-6.00
RBS National Bank, Bridgeport, CT	509,709	415,229	76,986	4,001	74.66	379,721	1.98	2.51
Rose Rock Bank, Oklahoma City, OK	391,697	436,447	288,572	293,083	17.77	68,828	1.53	8.82
ServisFirst Bank, Birmingham, AL	390,453	277,122	354,164	244,048	9.08	34,924	1.13	11.85
Square 1 Bank, Durham, NC	277,220	142,581	179,287	46,543	33.12	92,590	-2.22	-5.59
MagnetBank, Salt Lake City, UT	269,720	70,917	223,191	25,296	16.10	43,590	-0.27	-1.29
St. Louis Bank, Town And Country, MO	241,964	149,912	198,064	114,611	13.15	31,724	0.49	3.34
NewDominion Bank, Charlotte, NC	233,100	128,616	196,807	92,174	15.19	35,446	-0.01	-0.08
Department Stores National Bank, Sioux Falls, SD	232,290	254,391	175,807	192,819	13.78	31,595	1.52	10.58
First Heritage Bank, NA, Newport Beach, CA	225,535	131,222	46,294	37,081	7.94	17,985	-0.24	-3.00
CommunitySouth Bank & Trust, Easley, SC	202,926	135,368	176,834	114,495	12.29	24,802	0.66	4.71
Paragon National Bank, Memphis, TN	202,095	152,198	149,079	108,507	8.19	17,063	-0.79	-8.72
Continental Bank, Plymouth Meeting, PA	201,491	134,947	135,751	57,733	10.67	22,043	-1.46	-11.32
Sallie Mae Bank, Murray, UT	193,808	101,507	87,393	1,000	53.08	101,785	5.67	8.48
First Community Bank, Santa Rosa, CA	188,039	125,118	171,678	108,476	8.19	15,411	-0.06	-0.67
Stonegate Bank, Fort Lauderdale, FL	179,170	118,478	129,958	78,154	21.41	38,308	0.41	1.75
Graystone Bank, Lancaster, PA	165,379	65,091	140,124	37,542	8.51	13,727	-1.78	-19.17
Legacy National Bank, Springdale, AR	163,086	131,895	133,739	104,687	17.16	27,909	0.32	1.68
Commonwealth Business Bank, Los Angeles, CA	159,911	130,163	137,235	108,516	13.15	20,912	0.34	2.41
Freedom Bank, Bradenton, FL	159,628	89,991	126,573	73,907	19.64	31,302	-0.40	-1.90
Sonabank NA, Charlottesville, VA	145,885	123,193	104,782	77,599	22.30	32,425	0.69	2.95
Bank of Georgetown, Washington, DC	143,038	56,462	121,562	42,873	8.22	11,884	-0.36	-2.63
California United Bank, Encino, CA	142,508	101,973	98,820	59,541	21.73	31,155	-2.12	-7.93
Community National Bank, Great Neck, NY	132,089	92,424	98,598	64,483	20.56	27,278	-0.54	-2.24
Legacy Bank, Scottsdale, AZ	131,264	105,240	116,720	91,763	9.62	12,550	0.55	5.99
CNLBank, First Coast, Jacksonville, FL	130,795	81,137	88,577	71,705	14.83	19,398	0.28	1.53
Bryant Bank, Tuscaloosa, AL	130,075	105,236	105,956	79,736	16.89	21,550	2.88	15.72
North Jersey Community Bank, Englewood Cliffs, NJ	129,792	101,491	116,021	87,604	10.17	13,333	-0.39	-3.63
Town North Nevada Bank, National Association, Las Vegas, NV	126,546	130,030	500	500	20.94	26,143	2.29	10.82
Two Rivers Bank and Trust, West Des Moines, IA	123,254	104,780	86,370	65,268	16.03	19,728	0.23	1.32
First Standard Bank, Los Angeles, CA	121,908	100,826	102,668	81,338	14.91	18,379	-0.98	-6.40
Western National Bank, Phoenix, AZ	115,301	65,862	96,956	50,557	11.230	11,230	-0.04	-0.36
Alarion Bank, Ocala, FL	114,868	72,217	90,801	57,089	11.86	13,660	-0.25	-1.90
Bridgewater Bank, Bloomington, MN	108,751	34,670	98,974	25,685	8.55	9,182	1.04	9.76
Desert Commercial Bank, Palm Desert, CA	104,475	40,975	82,483	25,562	20.59	21,929	-4.04	-16.02
LibertyPointe Bank, New York, NY	99,938	43,570	84,156	27,824	12.36	12,617	-1.56	-12.08
Paradise Bank, Boca Raton, FL	95,815	67,764	74,990	46,000	21.37	20,880	-1.73	-7.39
Private Bank of California, Los Angeles, CA	94,187	54,118	59,646	17,382	36.11	34,192	-2.07	-4.93
Security Bank of California, Riverside, CA	90,253	67,222	74,615	51,446	16.61	15,033	-1.08	-5.88
Independent Bank of Austin, SSB, Lakeview, TX	87,764	53,802	79,051	45,965	8.96	7,702	1.67	16.62
Liberty Bank, Clearwater, FL	84,973	68,814	68,092	54,087	13.86	11,759	0.28	1.97
Bank of Houston, Houston, TX	83,950	56,169	36,106	20,323	24.34	20,323	1.07	4.27
Team Capital Bank, Bethlehem, PA	82,948	40,364	54,917	11,149	33.49	28,169	-2.55	-6.92
Orange Bank of Florida, Orlando, FL	80,780	51,548	62,512	33,267	22.46	18,144	0.06	0.22
Rockford Bank and Trust Company, Rockford, IL	79,520	41,375	60,259	25,594	9.82	8,099	-3.51	-27.46
Eastside Commercial Bank, Conyers, GA	78,814	38,179	59,271	26,653	14.44	11,327	0.82	4.67
Commerce State Bank, West Bend, WI	77,551	29,381	66,581	18,434	13.60	10,618	-1.15	-5.99
First General Bank, Rowland Heights, CA	74,424	66,445	58,272	50,680	20.12	15,032	-0.62	-3.14
First Resource Bank, Exton, PA	71,028	55,193	41,677	22,609	11.84	8,453	-0.80	-4.73
Peach State Bank & Trust, Gainesville, GA	70,480	54,257	59,001	42,853	15.75	11,073	0.40	2.46
Total for the top 50 de novo banks	10,911,528	7,422,954	8,124,360	4,828,361				
Total for all 171 de novo banks	15,325,795	10,235,740	11,119,474	6,259,359				

Sources: Charts researched by Michael Mazur and Debra Cope from FDIC and SNL Securities databases. Copyright 2007, Community Banker. For complete rankings, visit www.acb.us/denovob.