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By Chad Watt / Staff Writer

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## **Restrained**

*Expect fewer new banks in D-FW this year as a slower economy, glut of competition and fewer loans take their toll on the market*



**FIREHOUSE BANK:** Texas Trinity Bank, led by Craig Scheef, left, and Jason Crispin, is raising capital to start a bank with two branches on the north and south sides of the Trinity River. One branch will be housed in the former firehouse shown in the background.

Managing a series of turnarounds while working for other banks led Craig Scheef and Jason Crispin to start a financial institution on their own.

The duo worked together at Bank of Texas, increased profits for one branch on Swiss Avenue and were subsequently put in charge of other locations in need of some overhaul.

Over 18 years at Bank of Texas and Wells Fargo Bank, "you start to develop the belief that some of the things you're doing are scalable," Scheef said.

They're now in the homestretch of raising at least \$20 million for Texas Trinity Bank NA, which will target businesses along both banks of the Trinity River.

Texas Trinity aims to open in 2008 and first target small businesses for their deposits and business loans. That's a contrarian approach for many startup banks. Especially in Dallas, startup banks more often focus on real estate development and land investment loans as their first and fastest source of profit.

Texas Trinity's differentiated approach is necessary, bankers and financiers say, because business as usual for startup banks won't be nearly as fruitful or easy in the this year because of the slower economy, tighter credit and more competition.

Further, bank executives and the advisers who help startup financial institutions say the window for starting banks is closing, in Texas and nationally.

Struggles at the big national banks have had a trickle-down effect. With those operations preoccupied by the mortgage morass, they're spending less time focused on growth and acquisitions.

In the second half of 2007, bank acquisitions in Texas dropped from 13 in the first half of the year to five.

"I still have buyers calling me for banks. They don't want to get into a competitive bidding situation," said Dan Bass, a banking-focused investment banker with Carson-Medlin Co. "They still want to do deals, they just want to go slower. Then you get to price -- sellers are lowering their expectations."

That means new community banks have more competitors, a slower economy and, hence, fewer loans on the real estate side.

The result will translate to fewer new, or de novo, banks in 2008.

## **Capital closeout**

"It's getting literally harder by the day to raise capital," said Lee Bradley of Commerce Street Capital. "And institutional investors have pretty much abandoned the de novo markets."

Bradley, based in Duluth, Ga., specializes in assisting startup banks trying to raise capital.

The institutional investors tell him that they can buy an existing bank for pretty much its book value, and there's less need to get in on the ground floor of a new bank.

Bass says private equity funds are less likely to back startups in 2008 because they view the management teams to be the "junior varsity" squad.

"The strong lenders have already done their deals," Bass said. "The newer round doesn't have as much depth as the ones did in previous years."

And further, he predicts that bank regulators will be less likely to hand out licenses to new banks, given the economic doldrums.

### **Deposits doubly key**

New banks are putting a greater emphasis on getting deposits in the door cheaply, as a way of keeping costs down from the outset.

"What we've found drives the profitability of a community bank is getting your funding costs as low as possible," said Texas Trinity's Scheef. "If you're good at that you really control your own destiny on loans. What should drive that is on the funding side rather than taking unacceptable risks on the asset side."

Texas Trinity's target geography should be a rich place for that. The north bank of the Trinity River is home to manufacturers and a growing number of design-related firms.

The southern side is home to heavy industry fabricators, metal benders, stampers and grinders, including a number of mature and well-established businesses.

A long-running manufacturing business is likely to be a net depositor more than a borrower, said Jason Crispin, Texas Trinity's chief lending officer.

"Sourcing and identifying depository relationships are only more important because it has become more competitive," he said.

The Trinity Texas operation isn't betting on improvements around the river as part of its business plan.

"We're excited about it, but outside of that, there was reason to be here," Crispin said.

McKinney's Valliance Bank opened last April, and at first was paying top dollar for savings accounts.

That became a challenge when interest rates began to fall.

"The deposit market across the board is so competitive," said Valliance President Rex Yarborough. "2007 was a tough year to start from a deposit standpoint. Rates were high, and all of a sudden they started to go down."

In Richardson, six-month-old Opportunity Bank is paying more for deposits, but only because its lending profile is able to support that, said President and CEO Bud Heflin.

He previously ran a factoring company, which gives companies cash in exchange for taking their accounts receivable. Such loans command interest rates in the teens to 20s.

From factoring to asset-based lending to small-business loans, Opportunity Bank is focused on business in the Richardson area.

"We have the ability to take a new or relatively new company through all the forms of financing," Heflin said.

Specifically, the bank doesn't want to fund speculative real estate projects, Heflin said.

Texas Trinity's Crispin says institutions started this year will have one key advantage over the new bank classes of 2005, 2006 and 2007.

"We don't have a portfolio, and so over the next couple of years won't be dealing with the issues that other banks will be dealing with in their portfolios," he said. "We will have capacity."

Commerce Street's Bradley, who's based in the Atlanta area, says Texas remains comparatively attractive for bank startups, more so than in other parts of the country.

"The economy in Texas is still good, and you haven't been over-de-novo-ized like the Southeast," he said.

Houston-based Bass agreed: "In these markets, there's enough business to go around, knock on wood."