

## Can Start-Up Banks Become an Investment Niche?

By Ben Jackson

When his small Dallas bank was sold to Houston's Sterling Bank last year, Patrick Adams never dreamed that the next step in his career would be to start a bank.

"I know how to run one, fix one, and sell one, but I didn't know how to start one," said Mr. Adams, who had been the president of the \$68 million-asset Eagle National Bank.

Today he is organizing First Metroplex Capital Inc. in Dallas, with plans to open in the first quarter. The application is pending at the Office of the Comptroller of the Currency, and Mr. Adams and 16 other investors are working to raise \$12 million to \$14 million of capital.

First Metroplex is one of 20 banks in formation that turned to Dan Hudson, the chief executive officer of NuBank, a consulting firm in San Luis Obispo, Calif. Mr. Hudson says that over the past two decades he has helped charter 125 banks.

NuBank attracts customers through one-day seminars designed to give an overview of everything — from the various types of bank charters to how to raise capital. Mr. Adams attended a seminar in January. (NuBank held 22 seminars nationwide in September and October.)

They cost just \$25 to \$75 a person: NuBank makes its money when attendees hire it to guide them through the complicated chartering and launching process. The firm charges a fee equal to 5% of the start-up capital raised, which is says averages \$400,000 to \$500,000. NuBank helps organizers do feasibility studies on potential markets, find investors, prepare regulatory applications, train directors, and develop marketing materials.

Mr. Hudson said this is a particularly good time to start a bank: Money is cheap, the economy is improving, and consolidation has left plenty of dissatisfied customers looking for alternatives.

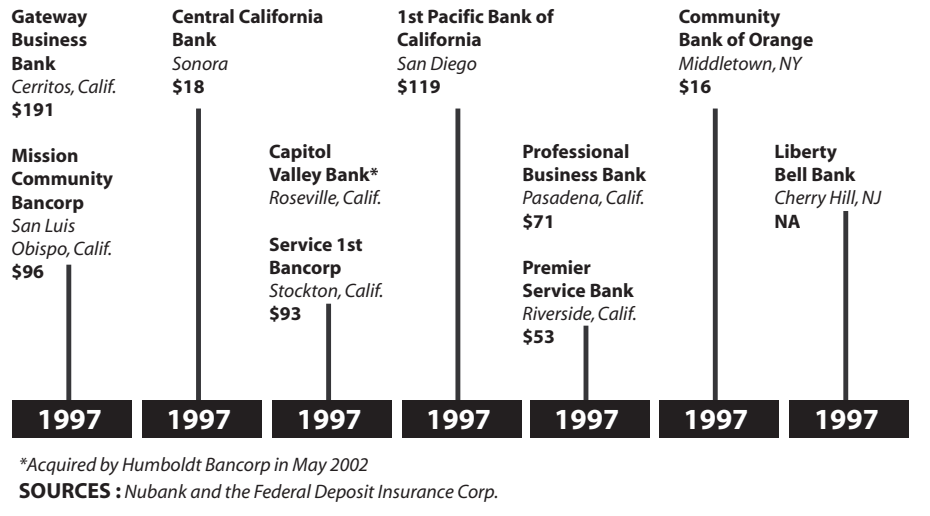
"We happen to be at a point in time where everything is right," he said in an interview.

Most banks get their start-up funds from a small circle of investors, but Mr. Hudson advises selling stock widely.

"Don't just sell your stock to people who can write a check — sell it to people who can be customers of your bank," he said.

### Guiding Hand

Banks that NuBank has helped start since 1997. Assets in millions.



John C. Donnelly, the managing director of Donnelly, Penman, French, Haggarty & Co., an investment banking firm in Detroit that also helps charter banks, said he used to think going public was the best way for new banks to raise capital.

But today the additional costs are not worth the benefit of a wider ownership base, Mr. Donnelly said. In the late 1990s bank stocks suffered as investors piled into technology stocks. "The public can have a short-term memory that they have bought a long-term investment," Brian Hyzdu, the president of the \$92 million-asset Service 1st Bank in Tracy, Calif., attended a NuBank seminar four years ago after working for 20 years in the Stockton area as a commercial lender.

Mr. Hyzdu decided that there was opportunity for a community bank offering high-touch service to small businesses in an area dominated by large companies. He talked with three other firms and hired Mr. Hudson, he said, because NuBank was the only consultant that could help with all aspects of the launch.

"What Dan's program offers is a turnkey kind of approach to getting a bank open," Mr. Hyzdu said. "He can successfully bend your vision around a corner so you know what the next step is and how the whole picture looks when it's done."

The hardest thing was finding the last few million dollars, according to Mr. Hyzdu. Ini-

tial funds came from potential directors, business associates, friends, and family, but the final \$4 million to \$5 million was tougher to raise, he said.

Service 1st followed Mr. Hudson's advice and went public right away. The initial offering was oversubscribed, and the bank raised about \$12 million.

Mr. Hudson got his start 20 years ago when a banker approached him about helping raise capital for a start-up. In 1999 he launched a Web site, startabank.com, that lists NuBank partners in accounting, law, and technology.

New banks are a good long-term investment, Mr. Hudson said, since their chances of survival are better than other startup businesses. They "don't fail, because regulators watch them carefully and partner with them for three years."

According to the Federal Deposit Insurance Corp., the number of new-bank charters slid 35% in each of the past two years, falling to just 94 last year. But 50 were chartered in the first six months of this year, putting 2003 on track to surpass last year.

Mr. Donnelly of Donnelly Penman said interest in starting banks is picking up. His firm has one new charter in the pipeline, but he said he has turned away several other projects because of problems raising capital.