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# Startup banks face tough fund-raising environment

Charlotte Business Journal - by [Will Boye](#) Staff writer

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The organizers behind **United Partners Bank** overcame a legal battle in their quest to launch a new bank here.

But they couldn't overcome what some are calling the most difficult fund-raising environment for banks in decades.

The United Partners group raised less than half of the \$35 million

in capital that regulators required of the proposed bank, which planned to provide correspondent lending services to community banks in the Southeast.

In the aftermath of the credit crunch, raising that money became more difficult than expected. Last week, the group returned the money to investors and joined **Pacific Coast Bankers' Bank**, a similar bank based in California.

"That was one of the major challenges," says Jon Ellis, who was slated to be chief operating officer of United Partners, regarding the fund-raising climate. "It's a tough sell for any new bank right now that's out trying to raise capital."

Other startup banks have noticed a shift since the credit crunch began in August, with investors becoming reluctant to put money into a new bank.

Michael Mayer, the chief executive of **Colony Signature Bank**, a proposed bank to be based in SouthPark, says his group has raised about a third of its \$33 million minimum in startup capital. He feels fortunate to have that much.

"We're going to get there," he says. "It's just harder than it would have been. What we've heard is it's the worst market in 30 years to raise capital for a bank."

Colony Signature has not yet hired any outside firms to assist it with raising capital, but it is interviewing some, he says. Mayer expects to reach the capital goal within six months and open this year.

The banking industry took a beating in the second half of 2007, with bank stocks swooning on news of the subprime-mortgage meltdown and the related tightening of credit.

Although few community banks have direct exposure to those issues, the general woes of the banking sector and the economic downturn have still affected small institutions.

In the last 12 months, the stock prices of banks founded in the last 20 years along the East Coast, excluding Georgia and Florida, have dropped to 15.7 times earnings from 19.6 times earnings a year earlier, according to investment-banking firm **Danielson Capital** and **SNL Financial**. And the median return on equity of those institutions has fallen to 6.25% from 8.2%.

With earnings more difficult to produce and stock prices sagging, the investment appeal of



photo NANCY PIERCE

Jim Marshall, BlueHarbor's CEO, says the bank has benefited from strong support in the Mooresville area and good timing. The bank raised more than \$20 million in startup capital and opened for business this week.

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new community banks isn't what it used to be, says David Danielson, president of investment-banking firm Danielson Capital, which assists startup banks with raising capital.

"It's not as attractive as it was a few years ago," he says. "You'd put your money in and double it in three years. That's just not happening anymore."

In particular, institutional investors who were drawn to the "de novo" bank market in recent years are shying away. As those funds and investment vehicles have pulled back, the organizers of new banks have to target individual investors -- and more of them.

"You have to see twice as many people," says Dan Hudson, a California-based consultant to startup banks. An investor who would have put in \$50,000 a year ago is now likely to give \$25,000 at most in today's market, he adds.

"If you go out there and think it's very easy and it's just going to roll in your front door, you're probably dead before you've started."

Last month, **Founders Bank and Trust**, a Leesburg, Va.-based startup, sold its assets to a rival Virginia bank after falling short of its capital-raising goal.

The United Partners group faced an early lawsuit from **The Bankers Bank** in Atlanta, their former employer, but it was dropped in June. Over the last couple of months, the group began talking with Pacific about joining that bank as employees. Ellis says because United Partners wasn't a typical bank startup, the group may have faced an additional hurdle when it came to selling stock.

"It was more of a unique story," he says. "In the institutional market, that was maybe a tougher sell."

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