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New banks with clean slates doing well in downturn

Washington Business Journal - by Bryant Ruiz Switzky Staff Reporter

Despite launching just before a cataclysmic financial downturn, new banks in the Washington area continue to grow steadily.

“We’re about where we thought we’d be,” said David Pijor, CEO of Fairfax-based First Virginia Community Bank, one of five new, or de novo, banks that opened within the past three years.

The other de novos are Laurel-based Revere Bank, McLean-based Chain Bridge Bank, Annandale-based John Marshall Bank and Arlington-based 1st Commonwealth Bank of Virginia.

The Arlington bank is too new to have a performance record. It just opened March 16.

De novo banks typically need two to three years to become profitable, and some say it could take longer now, given the market challenges.

But new banks have a few things going for them. They don’t have all the baggage of bad loans that are plaguing many of their brethren, allowing them to focus on growth rather than on portfolio triage.

Also, new banks are sitting on a pile of capital that gives them plenty of money to lend, though that extra money is a bit of double-edged sword.

Banks with excess liquidity lend that money to other banks through the Federal Reserve System’s borrowing window. But with the Fed’s benchmark rate now between 0 and 0.25 percent, down from about 5 percent in 2007, banks get next to nothing in return for that money, which squeezes profitability.

First Virginia Community Bank opened in November 2007. Its loans increased to $57.4 million by the end of 2008 and its core deposits reached $62.9 million. The bank reported $102.6 million in assets and expects to reach profitability this year — well ahead of the three-year norm.

“We believe this is very unique opportunity for small, well-run community banks to take market share from the big guys,” Pijor said.

First Virginia, and banks in general, have to contend with a recession that has pushed many well-run businesses into survival mode, rather than expansion mode, constricting loan demand, he said.

But “countermanding that trend, some other lenders have pulled back on their lending, so we’ve actually seen an increase in our deal flow,” Pijor said.

Revere Bank also opened in November 2007. By the end of last year it had $32.6 million in loans and $32.6 million in core deposits. Assets came in at $59.6 million, and the bank hopes to reach $100 million in assets by the end of this year.

Revere is starting the build-out on a new Rockville location April 6, its first branch expansion since launching. The new branch is scheduled to open in June or July.

The bank is about on track with deposits, although it is not as far along on the loan side as it would like to be, said CEO Drew Flott.

Many borrowers have fairly good collateral but had a rough 2008, so cash flow is an issue, which means much of the bank’s underwriting is based on projections for this year and next, which can be complex, he said.

A key advantage: “We can be creative,” Flott said. “We don’t have anything that is considered a typical deal. It doesn’t have to fit into a box for us to do it.”

Many larger banks have become too concentrated in certain types of loans, so they’re pulling back in those areas and not lending to otherwise creditworthy businesses, he said. “We don’t say we don’t want to do this [type of loan] because we have too much of it. We don’t have too much of anything.”

Chain Bridge Bank, which has been operating since August 2007, has seen its loans increase pretty steadily to $43.3 million as of Dec. 31. It reported $92.3 million in core deposits and $126.8 million in assets.

“We’re actually right on our original business plan in regards to loan growth,” said CEO John Brough, though loans haven’t grown nearly as quickly as deposits.

“We opened the bank with a very conservative culture. ... That’s why we haven’t accelerated the loan growth to the same extent that we’ve grown deposits," he said. "We are focused on becoming profitable rather than simply growing the bank. We want to start generating returns for our shareholders as soon as we can."

John Marshall Bank started out in April 2006 as Security One Bank with a focus on the Hispanic market, but the niche concept never took off. Last year the bank got new leadership, fresh capital, a new name and a more traditional lending strategy.

Since then John Marshall Bank has grown swiftly. It opened a Leesburg branch in January and will open an Arlington branch April 6.

"It's been great," said CEO John Maxwell. "We had about $40 million in loan growth in the fourth quarter, and we're still growing $10 million to $12 million in loan productivity every month."

The bank finished up 2008 with $117 million in loans, $60 million in core deposits and $136 million in assets.