

June 24, 2009

Tough Times for New Banks

The most interesting data in this report may be about the banks that will not be part of the report going forward. Since the beginning of 2009, two new banks have failed and another eight new banks were sold. The two failures were the first new banks to fail since 2004 and are as many as there had been since the recessionary phase of the early 1990s. The eight new banks that sold in the first quarter were just two less than in all of 2008 and at least five of these appear to have been distressed sellers.

New Banks Exiting via Failure or Sale

	Date <u>Est.</u>	As of March 31, 2009			Sale Price/ <u>Book</u>
		<u>Assets</u> (In mill.)	<u>Earnings</u> (in thous.)	<u>NPAs/ Assets</u>	
<u>Failures</u>					
Cape Fear	6/98	\$492	\$(3,059)	8.83%	n/a
Citizens Comm.	10/04	41	(9,023)	19.44	n/a
<u>Sold</u>					
Central Jersey	7/98	\$577	\$6,209	.82%	114%
First Capital	12/98	473	5,094	1.74	74
CNB Financial	5/02	297	(1,589)	1.60	106
Tristone	11/04	158	(1,865)	.47	58
Carolina Commerce	6/04	104	(3,679)	2.33	56
Nuestro Banco	9/07	17	(4,650)	-	29
First Bankshares	1/03	174	937	.98	n/a
First Americano	1/97	162	(17,967)	8.48	n/a

Another notable item is the reduction of ethnic niche banks. In the second quarter of 2009, two of the eight banks sold were Hispanic-oriented: Nuestro Banco and First Americano. Additionally, in mid-2008 another Hispanic-oriented bank, Security One in Northern Virginia, never reached critical mass and was subsequently recapitalized with new investors, moving it away from its original ethnic orientation and renaming itself John Marshall Bank.

New bank openings have also dropped dramatically as investment funds become harder to come by and regulators are slower to approve new charters due to possible negative effects on existing community banks. In the region covered by this report, there were 28 new banks opened in 2008, an average of seven per quarter. In the first quarter of 2009, there were only two openings.

The losses reported by new banks over the last twelve months also point to continued difficulties. Since the beginning of 2003, more than half of the new banks have lost money over the past twelve months, and in only one year since 2001 have the banks established in that year produced positive median net income. In that year, 2002, the eleven banks opened had a median net income of just \$364,000 over the last twelve months.

New Banks by Year Opened
Median Assets and Last Twelve Months Net Income

<u>Year Opened</u>	<u>Number of Banks Opened</u>	<u>Median as of 3/31/09</u>	
		<u>Assets (in mill.)</u>	<u>LTM Net Income (in thous.)</u>
2009	2	\$37.6	\$(2,204)
2008	27	52.3	(1,989)
2007	30	92.0	(1,536)
2006	29	127.6	(1,101)
2005	22	249.2	(900)
2004	19	200.9	(673)
2003	11	147.1	(34)
2002	11	222.5	364
2001	15	155.1	(711)
2000	23	233.5	302
1999	28	293.0	324
1998	17	472.8	170
1997	10	373.8	(136)
1996	9	633.5	2,001

To find a year with new bank median earnings above \$400,000, one has to go back to 1996. The \$2 million in median net income for the nine banks opened that year is impressive, but for the ten banks opened a year later, the median result over the last twelve months was again a loss.

As discouraging as new bank performance has been, the losses endured by the two new super-capitalized community banks are staggering. These banks started with capital exceeding \$80 million and have lost a combined \$36 million over the last twelve months. This was not unexpected as these banks had lent well outside their home market and had to originate a large amount of loans in a short period of time in order to justify their capital bases.

Super-Capitalized New Bank Results

<u>Bank</u>	<u>City, State</u>	<u>Date Est.</u>	<u>Initial Capital</u>	<u>Assets</u> (in mill.)	<u>LTM Net Income</u>
Square 1	Durham, NC	8/05	\$99	\$1,242	\$(13.6)
Tri-State	Pittsburg, PA	1/07	83	1,297	(22.2)

Better times are coming, but 2009 will see more new banks failing, selling at distressed prices and/or raising money at large discounts to initial investment values. For those that fall into any of those categories, this is not a pleasant outlook. At any rate, raising new capital at whatever price is preferable to failing or being sold for a pittance.

What makes problems for one bank, however, may also create opportunities for another. Many of the second quarter sales involved buyers that are new banks themselves or groups looking to start a new bank. This trend is likely to continue as regional banks, the traditional acquirer of new banks, are either gone or marginalized on account of their own problems.

New Banks Buying New Banks – Since December 31, 2008

<u>Buyer</u>	<u>Date Established</u>	<u>Seller</u>	<u>Date Established</u>
Ist Financial Services	4/04	AB&T Financial	9/04
Carolina Trust	12/00	Carolina Commerce	6/04
Xenith Corp.	In Org.	First Bankshares	1/03
MidCap Financial	In Org.	ISN Bank	5/01

In the midst of all these problems, there are several recent startups that have performed well with traditional banking franchises. Alma Bank (Astoria, NY) broke even in six quarters and Capital Bank (Vineland, New Jersey) broke even in just its seventh quarter. It is difficult, but it can be done.

Respectfully,



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