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Strong growth spurs stampede of small banks in Texas

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Only two months after opening its doors, a new Alvin-based national charter bank is planning its first expansion into Pearland. Meanwhile, in Katy, a recently opened state charter bank has raised nearly \$25 million in capital and intends to expand into Bellaire and north Houston.

These are heady times for new banks in the Houston area, which are riding a wave of population and economic growth that continues to outpace other markets across the country.

And with 19 separate groups now seeking permission to open new banks in Texas, including two in the Houston area, the boom in banks shows no sign of letting up any time soon.

In 2006, seven start-up Texas banks arrived on the scene. The bankers tapped to lead those new banks say the opportunity has been created by consolidation among bigger regional and out-of-state banks, leaving room for new community banks not driven by volume to flourish.

In Houston, one of the latest to make an impact in its local community is Texas Advantage Community Bank NA, a national chartered bank that opened at Fairway Plaza Shopping Center in Alvin in late December. The bank is in temporary digs pending a move into permanent space in June.

Texas Advantage raised \$6 million in initial capital within 45 days and already has \$4.5 million on deposit, according to local veteran banker Michael Hoskins, president and CEO.

"What I saw was an opportunity in that a niche customer base wasn't being served, catering to small businesses and executive professionals who needed a banker and not just a new credit card or branch facility for deposits," Hoskins says.

As is the case with many fast-growing communities within commuting range of Houston, Hoskins already has seen new competition spring up just as Texas Advantage was opening its doors, with Hometown Bank of Galveston and Clute-based First State Bank preparing to enter Alvin with new branches.

Texas Advantage pooled its capital from a base of 140 investors, described by Hoskins as "enthusiastic."

"They were excited about this both as an investment, but also to be part of a community bank," Hoskins says.

Texas Advantage's local investor organizers include: Board Chairman Jay Hawkins, owner of an Alvin oil pipeline servicing company; Tommy Herring, an Alvin farmer and real estate investor; David Wight, owner of an underground utility construction firm; George Clark, a prior bank organizer and owner of a construction industry services firm; Greg Knape, a large-animal veterinarian; Mark Patterson, who previously owned a local lumber company; Doyle Swindell, a

local resident for 60 years who works in marketing for an auto dealership; and Linn Eignus, a prior bank organizer with 49 years in the insurance business.

Despite big bank expansion and a continuing parade of newcomer institutions, bank organizers see plenty of room for new banks in Texas.

"They may not have all the luster other industries have but, for the most part, they've been profitable. There have been very few failures and it can be a very safe investment with very good returns," says Byron Richardson, an Atlanta-based bank consultant currently assisting with start-up banks planned in Denton and Frisco, in the Metroplex area.

Hugh Barrett, a banking industry consultant at Houston's Strategic Alliance Group LLC, says the dynamic being played out all over the state is particularly true in smaller, fast-growing communities near large metropolitan centers. If a national or regional bank has snapped up some existing community banks, an opening exists for a de novo operation looking to tout its grassroots image.

The newest group of 19 wannabe banks all have filed with a regulator for a bank charter. That process typically takes six to nine months.

'Knock-your-socks-off growth

The same growth that led to Florida, California and Georgia topping the list of new bank openings in 2006 with 23, 22 and 21, respectively also is found in Texas.

In the north Dallas suburb of Frisco, for example, total bank deposits grew to \$1.7 billion in 2006, up from \$276 million five years earlier -- or an average annual growth rate of 103 percent.

"The numbers just knock your socks off," says Richardson, who is currently advising on a deal that would establish only the second bank based in Frisco, population 84,600.

Organizers at Katy's Westbound Bank, which opened in early January just south of Interstate 10 at the corner of Kingsland Road and State Highway 99, turned in their own impressive set of numbers for a de novo bank.

Bruce Reichstein, Westbound Bank chairman, says the minimum investment required by the bank's charter was \$19 million, but that the investment group hit its permitted ceiling, raising \$24.9 million from a pool of 500 investors.

"We worked very efficiently and effectively, using a variety of road shows and raised the bulk of the money in less than 90 days," Reichstein says. "We worked the plan hard to get over our minimum."

The bank also is in temporary facilities, pending the completion of its standalone 7,400-square-foot building across the street by the end of September. But Westbound Bank is already forging ahead with plans to turn its Bellaire loan office into a fully operational branch and to open a north Houston branch by year's end.

Statewide, new banks also face additional competition. Some experienced bank chiefs are skipping the charter process by raising money to buy existing small banks and relocate them to Houston and Dallas.

Pegasus Bank, for example, which opened in 2006, is led by Joe Goynes, former president of Lone Star Bank, a Dallas institution that was bought by the Houston bank now known as Amegy Bank NA, which was subsequently bought by Zions Bancorp of Utah.

Money is not the only factor in starting a new bank. Regulators also look for an experienced management team.

"I'll take a good board and good management with a bad market before I'll take a good market with a bad board and bad management any day of the week," Richardson says.

But that poses a problem, bankers say. Because while business opportunities for new small banks are plentiful, skilled bankers are not.

"A lot of banks are hurting for experienced, really solid community bankers, especially (in Houston) where there's more opportunities than fits the supply," says banking consultant Barrett. "There isn't this new supply of younger bankers coming along at a speed anywhere near the demand."

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