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Bank & Thrift - Industry

De novo Digest: Chicago capital keeps 'em coming

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By [Bree Fortney](#)

The natural relationship between M&A and de novo activity is perhaps nowhere more evident than in Chicago, where the reception to [Signature Bancorp. Inc.](#)'s recent \$23.8 million capital raise suggests a continued healthy market for startups.

[Signature Bank](#) President and CEO Michael O'Rourke told SNL Financial that the organizers' decision to start the de novo, which opened Aug. 4, was based upon a need in the community. "There wasn't that independent, community-focused bank that would serve both retail and middle market businesses in the Chicago area anymore," the executive said.

Signature had set out to raise \$12.5 million to \$17.5 million for the startup, yet the end result was much higher than anticipated. "I think basically nine days before the capital raise we knew we were over the \$17.5 million, and we just wanted to see at that point what would happen. And literally the last five days it was incredible to see the money coming in," O'Rourke said.

Part of the interest in the bank was due to the massive amount of consolidation in the city, the executive said. "It's a very similar story to what every other market is going through. Because of consolidation, decision making has been taken out of the local markets and taken to other cities. ... We're going to be an independent bank where you'll know the decision makers."

Marty Fiascone, operating partner for Starboard Specialty Funds LLC, a niche private equity fund in downtown Chicago whose initial fund, Starboard Fund for New Bancs LP, invests in startups and recently chartered banks across the country, described O'Rourke and his management team as "really talented, energetic bankers that identified a market opportunity and decided to capitalize on that." (Starboard did not invest in Signature, but did invest in First Community Bank of Joliet, which raked in more than \$17.0 million at the time of its inception in June 2004. According to Fiascone, First Community Bank of Joliet "is embarking on a strategic growth strategy [involving] somewhat decentralized community bank expansion under the holding company in Will, Kendall and the surrounding counties.")

Signature Executive Vice President Kevin Bastuga told SNL that every merger between two commercial banks within the city of Chicago helps the bank's objective to stand out as the reliable local banking option. "A lot of people get lost in the shuffle during the merger and it just creates unsatisfied customers, and that in turn creates more commercial opportunities for us."

M&A activity has remained strong in the Chicago-Naperville-Joliet, Ill./Indiana/Wisconsin MSA over the past several years, with 10 deals announced in 2006 as of Dec. 8, with an aggregate deal value of \$1.05 billion, and 13 deals announced during both 2005 and 2004, with aggregate deal values of \$933.0 million and \$59.75 billion, respectively. ([JPMorgan Chase & Co.](#)'s \$58.78 billion purchase of Bank One was announced in January 2004.)

Ryan Beck & Co. analyst Kevin Reevey attributes the strong M&A activity to the attractive demographics of the Chicago market. "Based on our analysis, Chicago ranks third in the country based on projected wealth creation over the next five years. In addition, if you look within the outer lining suburbs of Chicago, they have very attractive demographics as well."

Reevey said that the suburbs of Chicago have been increasing in population due to the availability of land and cheaper real estate. "That's all driving M&A activity because banks want to be where people are and where the money is."

As a result of the M&A activity, de novo activity has increased, and with it, investor interest, the analyst said. "If the M&A environment continues to heat up, that means more institutions taken out of the market. And

when those institutions are taken out of the market, sometimes the key executives decide ... [to] start a de novo bank. They have credibility because they've started one before, built it, ran it, and sold it. So, investors like that track record," Reevey said.

At Signature, O'Rourke brought with him nearly 20 years of commercial banking and management experience, while Bastuga has 13 years of prior experience in commercial and real estate development lending. Both executives previously held positions at Associated Bank Chicago and LaSalle Bank NA.

Fiascone said there will always be a need for Chicago startups, "provided that we continue to get ongoing consolidation and wealth of talented bankers, and we have a very deep banking market, the second-largest banking market in the country by some measures."

"I think it is incorrect to categorically compare good community banks founded with certain attributes — local ownership, talented local bankers — and to just try to categorically lump them in with expansion that is done by large regional banks," Fiascone said, adding, "And so even though there has been a tremendous amount of expansion by larger regional banks with respect to bricks-and-mortar branching in the Chicagoland market, I don't think a sophisticated investor compares a branch of a large regional bank with a good well-structured startup local bank."

Other Chicago startups have been successful with attracting investors. Deerfield, Ill.-based CenTrust Bank NA, which opened April 14, also topped the list for high capital startups. In regard to its capital raise, CEO Carl Vander Wilt told SNL, "We raised closer to \$23 million, but we only accepted just over \$20 million. We had a \$20 million target and we stewed over it, but we decided to stay at \$20 million. ... So, we were a little oversubscribed."

Top Chicago-Naperville-Joliet, IL-IN-WI (Metro) de novo banks			
Based on total equity capital established between 2001 and Q2'06			
Company	Established	Total equity capital (\$000)	Total assets (\$000)
CenTrust Bank, National Association	04/14/06	18,220	22,449
First Community Bank of Joliet	06/15/04	17,316	19,113
LincolnWay Community Bank	08/29/05	14,443	20,244
STC Capital Bank	01/17/06	14,316	30,902
Providence Bank LLC	09/20/04	14,258	18,078
Belmont Bank & Trust Co.	06/14/06	11,454	13,339
Advantage National Bank	01/22/01	9,971	29,264
Community First Bank- Chicago	11/01/05	9,863	13,020
Metropolitan Capital Bank	01/25/05	9,256	10,847
All American Bank	08/15/05	8,955	10,875

Note: Financials as of first filing period
Source: SNL Financial

The interest, as with Signature, came mostly from local investors. "There are a few that are nonlocal [investors]. ... The intent was to get as many local people in our market area as we reasonably could," Vander Wilt said.

The possibility of a potential sale down the road is another reason de novo investing is appealing. Hovde Financial LLC Senior Vice President Eugene Katz told SNL that with Chicago's "highly fragmented" and extremely competitive environment, de novos that were started between five and eight years ago are now starting to sell.

Looking at de novos formed in Illinois 10 years ago, three of the eight formed in 1996 have since sold to other institutions. Illinois State Bank of Lake in the Hills sold to North Shore Bank FSB in November 2005 for \$27.0 million, 2.3x total equity capital of \$11.8 million at the time of the sale, and 9x the \$3.0 million in equity capital it started with in September 1996. First Capital Bankshares Inc. sold to First Busey Corp. in June 2004

for \$41.4 million, 2.7x total equity capital of \$15.2 million at the time of the sale, and 7.8x the \$5.3 million in equity capital it started with in September 1996. Mid-America Bank sold to Community Financial Corp. in December 1997 for \$5.6 million, 1.2x total equity capital at the time of the sale and 1.5x the \$3.7 million in equity capital it started with in January 1996.

Banks in the 1996 class of Illinois de novos that remain independent include Barrington Bank & Trust Co. NA, Community Bank Of Oak Park River Forest, Ravenswood Bank, Valley Community Bank and Cambridge Bank.

Piper Jaffray & Co. managing director John Harris told SNL that people are willing to invest because they see what some of the takeout values are. "I think the strategy behind many of the startups is let's get this thing to a size and we'll sell it again. I think that is one of the things that is attracting the ease or access to capital in these situations. Mergers and acquisitions are causing dislocations in the markets, so you get good people, disinfected customers and potentially pretty interesting investment opportunities," Harris said.

The future is yet to be seen, but Signature's O'Rourke has no intention of treating his bank as just a potentially high-return investment. "We wouldn't grow [the bank] just to sell it because we committed to this process. We want to be the largest independent bank in Chicago. And that is going to take a number of years." O'Rourke said the bank's plan is to grow within the first three to seven years by staying in Chicago and expanding.

Other recent de novo developments in the Chicago area include:

- American Eagle Bank of Chicago, a new unit of Orchid Financial Bancorp Inc. set to serve the Ukrainian Village, Buck-Town and River West neighborhoods of Chicago, pending approval of its Sept. 15 FDIC application to form a second chartered institution. In the application, Orchid said it initially plans to capitalize the new bank with about \$8.0 million through the issuance of 10,000 shares at \$800 apiece.

- PeopleFirst Bank, a Joliet, Ill.-based de novo that issued an offering circular in July, seeking to raise up to \$18 million. PeopleFirst's proposed president and CEO recently told SNL that they are almost done with the capital raise and have collected about \$16 million to \$17 million. The bank expects to open for business Jan. 8.

- Old Plank Trail Community Bank, a de novo bank formed by Wintrust Financial Corp., that celebrated its grand opening in March.

Mike Raab contributed to this article.

The De novo Digest is a new, monthly column featuring de novo banking trends across the country and highlighting new banks in organization. We welcome comments and tips on other de novo developments from you, the readers. Please e-mail bfortney@snl.com with your items. Also, look out for the Dec. 16 release of the new SNLi, which will feature a new report in the Industry Data section called Banks In Organization and will track banks currently in the formation process.

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