

# Proposed startup community bank in Statesville ends bid

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A third proposed startup community bank in North Carolina, Spirit Community Bank of Statesville, has withdrawn its application with the N.C. Banking Commission.

The commission confirmed Thursday that Spirit ended its bid Dec. 31.

Spirit unveiled its plans in March. Its president was William Long, former chief executive and president of Yadkin Valley Financial Corp. who retired from that bank in 2011.

Spirit joins Dogwood State Bank of Raleigh and Carolina State Bank in Greensboro in taking that step.

Dogwood officials are now attempting to acquire management of Sound Bank of Morehead City to jump-start their startup attempt in Raleigh.

Meanwhile, officials with Winston-Salem's Community Bank of the Carolinas said Thursday it continues to pursue its capital-raising effort. The bank exceeded in November the halfway mark of at least \$25 million, and potentially up to \$30 million.

American Bank and Trust, based in Monroe, received tentative approval from the commission on Nov. 14. It also is working to complete its capital raise.

If approved, American Bank or Community Bank would be the first startup bank to begin operations in North Carolina since 2009.

Tony Plath, a retired finance professor at UNC Charlotte, said it's not unexpected to see startup community banks struggle to open the door.

"It's quite complicated to complete an application for a new charter, and the process is time consuming, like around six to nine months of work, and expensive," Plath said.

The Federal Deposit Insurance Corp. typically requires startup banks to have in place a certain amount of capital, in this case \$25 million for Community. The N.C. Commissioners of Banks also requires start-up community banks to raise at least \$25 million to gain a state charter.

“It’s just plain difficult to accomplish a successful capital raise in the current equities market,” Plath said.

“Investors have plenty of cash, but they’re spooked by the volatility, and hence risk, of the market, and thus unwilling to take a chance on a new, unproven business.”

In a separate development, the commission said Belmont Federal Savings and Loan Association, based in Belmont, applied to the state banking commissioner Jan. 3 to convert to a state-chartered savings bank. That’s the conversion step that Piedmont Federal Savings Bank of Winston-Salem took in 2008.

## Community Bank

Community Bank, led by Simpson “Skip” Brown Jr. as chairman and chief executive, officially began its initial public offering effort in June.

By comparison, startup banks in the early to late 2000s typically were required to raise about \$15 million in capital.

Community Bank was conditionally approved by the FDIC in December for deposit insurance.

The bank also must receive a bank charter from the N.C. Office of the Commissioner of Banks, and have continued operation within the parameters of an approved business plan for its first three years.

More than 400 local investors have committed to participate in the Community Bank IPO.

“Investors believe the time is right to bring back community banking,” Brown said Nov. 12. Many customers are simply being underserved by big banks.”

The public offering of between 2.27 million and 2.73 million shares, priced at \$11 per share, will expire Feb. 28. Organizers, however, have the option to extend the deadline.

Investors must buy at least 2,000 shares, representing a \$22,000 expenditure. They are limited to acquiring no more than 100,000 shares, representing a \$1.1 million expenditure. The average investor has provided about \$50,000, Brown said.

Community has plans to open a branch at 312 Jonestown Road. The site is a former TriStone Community Bank branch, which Brown ran as chief executive before TriStone was bought by First Community Bancshares Inc. for \$10.8 million in 2009. TriStone raised \$16.5 million in 2004 at \$11 a share in a public offering.

Besides serving Forsyth, Community organizers also plan to serve individuals and small- to medium-sized businesses in Davidson, Davie, Guilford, Stokes and Yadkin counties.

## Profit goals

Most start-up banks require between two to five years to reach profitability. In many instances, start-up banks are sold within five to 10 years, primarily to enable bank executives and investors to recoup a profit.

**“Prior to 2008, almost all bank investors had experienced a great investment with bank stocks,”** said Lee Burrows Jr., Chief Executive Officer of financial-services firm Banks Street Partners, which specializes in assisting startup banks initiatives.

**“Rarely did any investor have a horror story resulting from a bank investment due to near failure or failure.”**

Burrows said the Great Recession and its aftermath through 2013 **“changed all that, and most historic bank investors have now experienced a horror story from an investment perspective either personally, with family or with friends.”**

Burrows said the reality of the \$25 million to \$35 million capital raise requirements, the prospects for a startup needing at least two years to make money, also limits investor appetites.

**“For a 3 percent of return on shareholder’s equity”** for a \$35 million investment, **“you could do a lot better with an FDIC insured CD,”** Burrows said.

**“Investors are increasingly savvy about the structure of offerings that often reward insiders with increasingly aggressive levels of stock options (or warrants) and restricted stock (free stock).”**

**“This is great for the insiders, but has a detrimental impact on non-inside investor returns.”**

Burrows said **“the recipe for a successful de novo offering includes: launch in a high-growth market area; raise as little capital as reasonably possible and allowed by regulators; insiders need to make significant investments of at least \$300,000 per director and officer.”**

He also suggested that startups **“don’t get greedy by including too many dilutive options, warrants or restricted stock.**

**“Management teams and boards need to be proven and have a track record in banking by making bank investors a lot of money in their past.”**