

# Three local banks reach five-year milestone

By [Danielle Douglas](#), [The Washington Post](#), Published: January 15, 2012

There are no party plans in the works at Chain Bridge Bank in McLean, but its five-year anniversary in August will be a cause for celebration.

The community bank is profitable, well capitalized and has logged consistent asset growth since its founding. That's no small feat considering it opened for business months before the onset of a severe recession and the implosion of the financial markets.

Those events crippled hundreds of banks across the country, many of which were founded in the past decade. Chain Bridge, however, is part of a cohort of local bank start-ups that used lessons from the downturn to thrive, despite the tough operating environment.

That cohort of three banks founded in 2007 — including Revere Bank in Laurel and Fairfax-based First Virginia Community Bank — all boast healthy balance sheets. But the young commercial institutions must still contend with pressures of low-interest rates and economic uncertainty that threaten to stymie growth.

Revere chief executive Andrew Flott is concerned about the squeeze on net interest margins — the difference between what banks earn on loans and pay out on deposits — brought on by the low-rate environment. Still, he remains bullish on the bank's prospects.

“We've been able to grow mostly by stealing market share,” he said. “We're able to take good quality deals from players who aren't as interested, aren't as creative in terms of structure and credit philosophy.”

Starting out, Revere had the advantage of being unencumbered by troubled loans. Established banks saddled with nonperforming assets were reluctant to lend, giving the new kids on the block an easy way to gain market share. New banks, or de novos, without an existing portfolio of high-interest earning loans also did not suffer as much as their older counterparts when rates fell and reduced earnings.

To avoid making the same mistakes as some of its peers, Revere has been conservative in underwriting loans, Flott said. The bank held \$184 million million in loans, of which less than a half percent were nonperforming, at the end of September 2011. Flott said the bank closed out 2011 with \$270 million in assets on the books.

Similar to Flott, John Brough, chief executive of Chain Bridge, said the lack of legacy assets positioned the bank to take advantage of the dysfunctional market.

“People at that time were looking for a bank that didn't have any legacy problems, and we benefitted from that,” he said.

## **Technology helps**

Chain Bridge, he noted, also benefitted at the time from emerging technology. Rather than incurring the expense of opening multiple branches, the bank relied on remote deposit capture, whereby customers can scan and transmit check images to a bank for deposit. Brough said that allowed the bank to maintain low operating costs. To this day, Chain Bridge, with \$250 million in assets, only has one branch.

“Banks have a lot more costs they have to absorb because of compliance-related expenses,” Brough said. “And with margins being stressed, finding a way to maintain acceptable profitability is a challenge. That makes controlling costs even more important.”

Investing in technology allowed First Virginia Community to have the capabilities of a bigger bank and attract large clients, said the bank's chief executive, David Pijor. Last year, the bank won a bid to provide the Circuit Court of Prince William County with online cash management services. Pijor said the bank's nonprofit clients are also frequent users of the tool.

Brough is noticing a change in the products that are in demand at Chain Bridge as the strain of the downturn eases. Customers are requesting more “ancillary services,” such as processing remittances and bills, he said. The small businesses the bank caters to are regaining some of their confidence in the recovery.

Still, there is a cloud of uncertainty hanging over mom-and-pop operations that may prevent them from taking on new debt to expand their businesses in the coming year, Pijor said. He suspects the divisive political environment and ongoing European debt crisis will continue to rattle small-business owners.

## **Room to grow**

First Virginia Community weathered early market volatility with significant capital. The bank came out of the gate with \$23 million in capital, then raised an additional \$6.4 million last year, followed by another \$6.6 million a few months ago.

“That huge capital infusion enables us to continue to grow at a fairly rapid pace and bring in new shareholders to the bank,” Pijor said, adding that the bank hit profitability in 24 months, whereas it takes the average de novo 36 months.

“Almost 85 percent of our shareholders are customers,” he continued, “and that helped the bank grow when the economy was not growing.” First Virginia Community ended 2011 with in excess of \$260 million assets.

But is there room for further growth?

“When you're a community bank in a big market like this, there is always room for growth,” said banking analyst Bert Ely. “Your growth is a function of the economy, but also the extent you can take share away from other banks, particularly big banks.”

John Donnelly of investment banking firm Donnelly Penman & Partners agrees organic growth is a viable option for the three de novos, but contends that it may not be enough for them to remain competitive.

“Scale is important,” said Donnelly, who has started 10 banks in the last decade. “M&A activity is anemic ... but a lot of folks are talking about mergers. The burden of regulation for a \$200 million bank is significant.”

All three banks said being acquired or acquiring another institution is of no interest, but they would consider the option if it enhanced shareholder value.