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Rare US bank launch targets 'It's a Wonderful Life' values

Ben McLannahan

Summer debut: left, Bill Greiner, Primary Bank chairman, and CEO Bill Stone

It was when Bill Greiner was denied a $2m loan to buy a building that he knew big banking was broken. This was May 2008, not long before the Lehman crisis, so it was understandable that his bank manager might have demurred a little.

But the property and restaurants entrepreneur of New Hampshire, co-owner of the T-Bones and Cactus Jack chains, was putting down $1m of equity. He also had a solid yield from steady tenants who were on a lease longer than the loan he was looking for.

Even so, the shutters had come slamming down at Citizens Bank, an arm of the Royal Bank of Scotland — then the biggest bank in the world by assets — which had the lion's share of business across Hillsborough County.

"They said we've got all these balance sheet issues that are nothing to do with New England, but we don't know whether we're imploding or not and so, no, we can't lend you any money," says Mr Greiner, 48. "It blew my mind."

For the next few years he got close to smaller, community-focused banks. But after two of the leading players were swallowed up by regional lenders, he decided to go a step further and build a bank of his own.

By early July he hopes to cut the ribbon on the first branch of Primary Bank in the small town of Bedford, which abuts Manchester, the state's largest city. Half a mile away from the site on a small shopping plaza just off Route 101 is a nursing home called Bedford Falls, named after the fictional setting of the Frank Capra movie, *It's a Wonderful Life*.

The way Mr Greiner sees it, Primary can serve as a modern-day Bailey Bros. Building & Loan, the film's fictional lender: accessible, responsible, dependable. "When the big banks shut their windows, they took [bailout] money but they stopped their lending, and I'm not sure they've really gone back full force into it," he says. "If not for the small community banks, we'd be in a tougher spot than we are right now."

No one is pretending that the launch of Primary — poised to become only the second new commercial bank in the US since 2010 — means that America's banking industry is back on its feet.

The past few years have been the least productive for new lenders since the Federal Deposit Insurance Corporation started collecting data more than 80 years ago. Even during the savings and loan crisis of 1984-1992, when more than 1,800 mostly small lenders collapsed after overextending, about 200 new ones sprung up each year.

James Stewart in 'It's a Wonderful Life'

Analysts offer several reasons for the dearth of new lenders since Lehman: tougher regulatory requirements, weak demand for credit and — perhaps most significant — the ultra-easy monetary policy of the US Federal Reserve. Banks depend on earning a spread between the cost of their deposits and the price of their loans. As long as the Fed holds short-term interest rates near zero, those margins will be slender and investors will probably find better uses for their money than backing a bank.

Some say the FDIC had a lot to do with the squeeze on new lenders, by asking for more start-up capital and subjecting business plans to tougher stress tests. The regulator, for its part, says its standards did not change, and that it was always willing to accept new applicants.

But Scott Martorana, a principal at FinPro Capital Advisors in New Jersey, which has held the hands of dozens of would-be new banks through the start-up process, says that there was a definite "shift in sentiment" towards applications and an unofficial freeze in states which saw a lot of bank failures, such as Nevada and Georgia.

"We were top of the pile," says Mr Greiner. "We were the pile."

Unlike the only other bank approved by the FDIC in recent years — Bank of Bird-in-Hand, which is focused on agricultural loans in Pennsylvania's Amish country — Primary wants to roam across sectors and state boundaries. It plans to offer personal and home-equity loans as well as loans to small businesses from its 6,000 sq ft building, just over the road from The Inside Scoop ice-cream parlour and Shorty's Mexican Roadhouse.

That is why Mr Greiner had to go to extraordinary lengths to get his conditional approval in March.

Pre-crisis, the FDIC looked for a handful of heavy-hitting non-executive directors on the board. Primary put up 10, including an ex-director at Citizens and a former four-term governor of the state of New Hampshire. And while chairmen used to put together half a dozen investors in the initial round of risk capital, Mr Greiner brought in 133, capping contributions at $50,000 to maximise participation.

The same people who chipped in $3m have committed at least another $6m in the second round. Now the chairman is aiming to raise up to $31m more to bring the total pot to $40m.

Terry Jorde, Washington DC-based chief of staff at the Independent Community Bankers of America, hopes the Primary launch will "open the floodgates". Contrast the big US banks bailed out by the government, she says. Community banks are "very much free-market operating. Only the strong survive".

Mr Greiner, an avid basketball player and fly fisherman, is a relatively recent transplant to Bedford. Until 1999 he was living in Boca Raton in Florida, helping to run money for a Denver-based hedge fund called Rockmont Capital.

He uprooted to New Hampshire for two reasons: his pregnant wife wanted to be closer to her family in Massachusetts and he wanted to do business in one of only two US states without any sales or income taxes.

Within a year he was on the town council, urging Bedford — a mostly white, well-to-do and staunchly Republican community of about 21,000 people — to build its first high school.

Joe Correia, owner of a tobacco store just inside the border with Massachusetts, says he will probably switch his banking business to Primary once he pays off the final chunk of a loan from another bank this summer. "They want to be around for the long-term, and I'm with that," he says.

"Being able to pick up the phone and not be pushing a bunch of numbers in different languages is a big deal to me," adds Rick Petersen, president of Interim HealthCare, a local home-help business.

He threw in $50,000 to the first financing round and his two children did the same. "My sense is, we are all in this together."

Business model: Lean by necessity

The economics of setting up a bank have rarely been tougher. Eight years ago, $20m invested in one-year US Treasuries would have earned almost $1m a year. Today, you'll get less than $50,000 — barely enough to hire a couple of tellers.

That means size is everything. If Primary raises its maximum $40m in capital, it could get to about $500m in assets on a simple 8 per cent leverage ratio. But if it just scrapes the minimum $25m, things could be trickier. As it warns in its prospectus, anything less than $32.5m could mean additional capital raisings before the initial six-year business plan is out.

Meanwhile, costs need to be taken out wherever possible. While the Bedford branch is taking shape, three Primary executives are sharing a cramped office down the road. The two Bills — chairman Greiner and chief executive Stone — are squeezed in the office next door, their desks about two feet apart.

Mr Stone was hired last summer with a $275,000 salary, less than he was on as president of Bank of New England, a Salem-based bank with $620m in assets. Mr Greiner will not be paid for three years.

And there will be no preferential rates for friends or investors. Just lollipops on the counter, says Mr Stone, and doggy treats at the drive-through window.

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