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Where Raising Capital Remains Neighborly

BY ROBIN SIDEL

Big banks that want more capital usually turn to institutional investors, private-equity firms and sovereign-wealth funds. Some small U.S. banks are going door to door in their hometowns.

John Maxwell, chairman and chief executive of John Marshall Bank in Falls Church, Va., raised \$22 million from a tow-truck driver, beekeeper, pallet maker and 426 other local investors, who pitched in an average of about \$50,000 apiece.

"My brother turned me down," says the 48-year-old Mr. Maxwell, who had better luck with his parents and two sisters. "He said he needed the cash."

Since completing the stock sale in June, the two-year-old bank has opened a second branch. Mr. Maxwell expects the bank to become profitable in 2009, despite the industry's worsening turmoil.

It's a throwback to the classic film "It's a Wonderful Life," in which residents of the fictional Bedford Falls plunk down their savings to help beloved George Bailey rescue the foundering Bailey Building & Loan Association. John Marshall Bank's original branch sits at the corner of a suburban shopping center, sandwiched between a Jackson Hewitt tax office and a Latin American chicken restaurant. The section of Falls Church where the bank is located is known as Bailey's Crossroads -- after the famous circus family that once lived there, not Jimmy Stewart's heroic character in the 1946 movie.

Last week, Bank of America Corp. raised \$10 billion in a stock offering pitched at big investors. Wells Fargo & Co. has said it plans a \$20 billion offering as part of its pending takeover of Wachovia Corp. But with only so much capital to go around, especially in a market gripped by fear, small banks are looking for money in their own backyards.

In March, TIB Financial Corp., Sarasota, Fla., which has suffered three

consecutive quarterly net losses because of its exposure to the Florida real-estate market, got \$10.1 million from the Collier and Lutgert families. Both are local real-estate dynasties dating back to the 1920s, when advertising tycoon Barron Collier bought 1.3 million acres of land that opened part of southwestern Florida to development. The surrounding county is named for Mr. Collier.

"It's certainly good to have it, given the current conditions," says Stephen Gilhooly, TIB's chief financial officer. The bank has 20 branches.

Shopping-center developer Jon Wheeler of Virginia Beach, Va., didn't hesitate when the CFO of Monarch Financial Holdings Inc. called to ask if he would invest in the Chesapeake, Va., bank-holding company. Mr. Wheeler offered \$250,000 and has no regrets. "To me, it is a very sound investment," Mr. Wheeler says. Monarch has largely avoided the mortgage mess so far, reporting its highest-ever profit in the second quarter.

"Are you sure this is really a good time to do this?" Steve Feinberg's wife asked when he told her that he wanted to sink \$25,000 into Heritage Bank, a New York bank set to open later this month. Mr. Feinberg, chief creative officer at an advertising agency, won her over by saying that small banks like Heritage are in better shape than "poorly positioned" banking and securities giants.

"There are banks that are going away, and there are banks whose reputations have been tarnished, and there are those that are distracted and can't focus on their own clients," he says.

At John Marshall, the "Brother, can you spare a dime?" strategy began this past November. Mr. Maxwell, who worked as a bank janitor in high school and a teller in college, was negotiating to take a controlling stake in Security One Bank. Launched in 2006 to cater to northern Virginia's large Hispanic population, the bank wasn't growing fast enough and was burning through its \$15

million capital base.

In February, Mr. Maxwell and former colleagues from another community bank he sold for \$144 million eight years after starting it with \$7.5 million struck a deal to buy Security One with \$6.8 million of their own money. They renamed the bank after Mr. Marshall, the Virginia statesman and celebrated 19th-century U.S. chief justice.

To turn a profit, John Marshall Bank needs to increase its assets to about \$160 million from the current \$93 million. So Mr. Maxwell and the bank's directors started dialing for dollars.

For two months, they solicited high-school buddies, sent prospectuses to their parents and hosted wine-and-cheese receptions for local business owners. Michael Foster, an architect who helped form Mr. Maxwell's previous bank, whittled a list of 100 potential targets down to 25 people. "I would not put any money in that you need to take care of your family for the next 30 months," Mr. Foster says he warned.

Dan Price, a former venture capitalist who now raises honeybees and says he knows nothing about banks, got a call from Mark Moore, a bank officer he has known for 25 years. Jen Sterling, president of a branding company, heard about the bank from someone she knows through the chamber of commerce. John Britt, owner of a pallet-making company and manager of a fruit orchard in West Point, Va., caught the banking bug from a friend of a friend. They all invested.

At first, Ms. Sterling, 39, laughed when she learned that John Marshall Bank was seeking a minimum investment of \$25,000. "I don't fit into that range," she told Paul Bice, the bank executive who made his sales pitch at a lunch meeting where they were discussing ideas for the bank's new logo. "If you can do \$5,000, that would be great," he responded.

She said yes. "I'm not too nervous about it, though I probably should be, because I've never invested this much

before," she says.

The \$50-a-month investment club she is in with her girlfriends owns household names like Apple Inc., BP PLC, Mattel Inc. and Lowe's Cos. -- but no bank stocks.

Some of the bank's new investors showed up for the annual shareholder meeting during the summer. Despite worrying that "at least half of the meeting will be in a language I don't understand," Ms. Sterling says the event turned out to be surprisingly straightforward. She even made a successful motion to officially ditch the bank's old name.

John Marshall Bank hired her to design its new logo, which features an eagle's head on a red star. She is hoping that her piece of the bank will eventually become a gold mine for her 4-year-old daughter. "I would love for this bank to kick a-, so I could pay for my kid's college education," she says.

Given the deepening global financial crisis, Mr. Maxwell is relieved that the bank raised the money when it did. "I would like to think we would be able to raise it today, but I know it would be a lot harder," he says.

Write to Robin Sidel at robin.sidel@wsj.com