

Why are so many banks interested in Richmond?

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By Nathan Stovall and Zuhaib Gull

In a slow growth environment, Richmond, Va., is proving that being stable is enough to attract many new banking entrants.

Banks have poached lending and wealth management teams, opened new offices and looked to acquire banks in the Richmond MSA. Banks eyeing expansion in metro Richmond have been attracted to the stability of Virginia's state capital, its favorable market demographics and the opportunity to take market share from the four largest banks in the area, which hold close to 78% of the market's deposits, according to SNL data.

The Richmond MSA never experienced the same level of development as many other areas in the Southeast and did not suffer as severe a downturn when the housing bubble burst. The area is home to a handful of Fortune 500 companies and a number of universities, including the largest medical school in the state, Virginia Commonwealth University's School of Medicine. Stone Brewing also just announced a \$74 million development project for an East Coast facility in metro Richmond that will include a production brewery, packaging hall, destination restaurant, retail store and administrative offices.

Bankers in metro Richmond point to the local economy's stability and say it lacks the same peaks and valleys of many other areas. T. Gaylon Layfield III, president and CEO of Richmond-based Xenith Bankshares Inc., said that growth in Richmond usually is modulated during really good times but also tends to have a floor under it when times get tough. The appeal of Richmond has attracted banks to the

market that may not see the same level of potential loan growth in their home markets.

"I don't really quite understand why there seems to be the interest on the part of so many institutions in trying to come to this market. In some ways, it is perhaps a reflection on lack of opportunity in other places," Layfield told SNL.

Matthew Steilberg, head of retail banking at C&F Financial Corp. unit Citizens and Farmers Bank, agreed that many new competitors in the Richmond MSA are coming from markets with little to no growth opportunities.

"A lot of these banks that had made their bread and butter in rural markets are forced to come to the metro markets to find loan growth," Steilberg told SNL.

Steilberg's company announced plans to expand significantly in the Richmond market close to a year ago, purchasing Powhatan, Va.-based Central Virginia Bankshares in October 2013. The deal helped significantly grow C&F's deposit base in the metro Richmond market, and the company has managed to hold onto its market share.

A number of other banks have expanded in Richmond this year. Park Sterling Corp. entered the market early in 2014 and hired a commercial banking team and two former StellarOne executives to head up its wealth management and mortgage banking operations. The hires came around the same time that StellarOne merged with Richmond-based Union Bankshares Corp. Park Sterling plans to open a second branch in the Richmond market and said on its third-quarter earnings call Oct. 30 that Richmond has "taken off," hitting a "great stride" in the first year of the new expansion.

Top market-share gainers in Richmond MSA

Company (ticker)	City, state	Active branches		Deposits in MSA (\$B)		YOY change in deposits (%)	Deposit market share (%)		YOY change in market share (bps)
		2014	2013	2014	2013	(%)	2014	2013	(bps)
C&F Financial Corp. (CFFI)	West Point, VA	17	11	0.75	0.46	63.84	4.02	2.56	146
Xenith Bankshares Inc. (XBKS)	Richmond, VA	2	2	0.36	0.21	72.48	1.92	1.16	76
Community Bankers Trust Corp. (ESXB)	Richmond, VA	9	8	0.48	0.34	44.22	2.58	1.87	71
BB&T Corp. (BBT)	Winston-Salem, NC	43	43	2.87	2.65	8.33	15.30	14.72	58
Cordia Bancorp Inc. (BVA)	Midlothian, VA	6	4	0.25	0.21	20.14	1.32	1.14	18
Union Bankshares Corp. (UBSH)	Richmond, VA	42	42	1.68	1.58	6.30	8.98	8.80	18
Franklin Financial Corp. (FRNK)	Glen Allen, VA	8	8	0.69	0.64	7.96	3.67	3.54	13
First Citizens BancShares Inc. (FCNCA)	Raleigh, NC	2	2	0.08	0.06	29.09	0.43	0.35	8
Fulton Financial Corp. (FULT)	Lancaster, PA	2	2	0.09	0.08	14.36	0.49	0.44	5
Capital One Financial Corp. (COF)	McLean, VA	2	2	0.06	0.05	26.00	0.30	0.25	5
Other market participants		220	240	11.44	11.73	-2.48	60.99	65.17	-418
Market total		353	364	18.76	18.00	4.20			

As of Oct. 22, 2014.

Analysis includes the top 10 banks by deposit market share based on FDIC summary of deposits data as of June 30, 2014.

2014 data is pro forma for completed mergers and acquisitions since June 30, 2014.

Data based on FDIC summary of deposits filings as of June 30 each year.

Excludes branches that belong to credit unions and financial institutions determined by SNL to be nonretail in nature. The classification criteria includes charter type, brokered deposits, credit card deposits and general participation. Certain institutions fitting these criteria may still be considered retail if they have been deemed to offer a full range of banking services.

Deposits are capped at \$500 million at each branch.

MSA= metropolitan statistical area

Source: SNL Financial



Top banks by deposit market share in Richmond MSA

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		2014	2013	2014	2013		2014	2013	
Wells Fargo & Co. (WFC)	San Francisco, CA	63	65	4.33	4.31	0.63	23.10	23.92	-82
BB&T Corp. (BBT)	Winston-Salem, NC	43	43	2.87	2.65	8.33	15.30	14.72	58
SunTrust Banks Inc. (STI)	Atlanta, GA	45	46	2.38	2.37	0.42	12.68	13.16	-48
Bank of America Corp. (BAC)	Charlotte, NC	25	26	2.06	1.99	3.28	10.98	11.08	-10
Union Bankshares Corp. (UBSH)	Richmond, VA	42	42	1.68	1.58	6.30	8.98	8.80	18
C&F Financial Corp. (CFFI)	West Point, VA	17	11	0.75	0.46	63.84	4.02	2.56	146
Franklin Financial Corp. (FRNK)	Glen Allen, VA	8	8	0.69	0.64	7.96	3.67	3.54	13
Community Bankers Trust Corp. (ESXB)	Richmond, VA	9	8	0.48	0.34	44.22	2.58	1.87	71
First Capital Bancorp Inc. (FCVA)	Glen Allen, VA	8	7	0.47	0.46	2.93	2.51	2.55	-4
Village Bank and Trust Financial Corp. (VBFC)	Midlothian, VA	12	13	0.39	0.42	-7.12	2.08	2.33	-25
Other market participants		81	95	2.65	2.79	-5.13	14.10	15.47	-137
Market total		353	364	18.76	18.00	4.20			

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Source: SNL Financial



Other banks have hired former StellarOne executives to help with their Richmond expansion efforts as well. In February, Kilmarnock, Va.-based Bank of Lancaster announced plans to open a loan production and wealth management office in the Richmond market. The Bay Banks of Virginia Inc. unit hired a former StellarOne executive to serve as Richmond region president. Bank of Lancaster noted that many of its customers have second homes in the Virginia Northern Neck but have primary residences in the Richmond area and the expansion will allow it to better serve those customers.

Midlothian, Va.-based Cordia Bancorp Inc. set the stage to grow in the area shortly thereafter. The company raised capital in April and planned to use the funds to support loan growth as well as the opening of two branches in metro Richmond in August.

A few weeks earlier, the market produced an even bigger shakeup, with TowneBank agreeing to acquire Glen Allen, Va.-based Franklin Financial Corp. in mid-July for \$278.4 million. The deal offered eight branches in the market. In the aftermath of the deal, TowneBank Chairman and CEO G. Robert Aston Jr. said many would-be buyers are simply looking for sellers in potentially higher growth markets.

With new entrants coming into Richmond regularly, the consistently competitive market has become "even more competitive," according to Xenith's Layfield.

Other bankers tell a similar story and say that competition has not only pressured loan pricing, but also the structure of many credits. G. William Beale, president and CEO of Richmond-based Union Bankshares, said on his company's third-quarter earnings call that it is seeing credits move to other banks offering loans with looser covenants. He said there are still too many banks and nonbanks chasing a limited supply of loans, increasing competition in the marketplace.

The dynamic has caused people to lose their discipline when making many loans, he said.

D. Anthony Peay, chief banking officer at Union Bankshares, added that some competitors are being a "little more aggressive" than they should be and noted that some community banks are doing nonre-course lending.

Bankers in Richmond also said that they have seen some banks offer loans with fixed rates to win new business, but said the practice was not yet the norm. Bankers cautioned against using the practice regularly since it could bring interest rate risk and term credit risk.

"By and large, most banks are steering clear of doing long-term fixed-rate financing," Tony Seaman, senior vice president and chief credit officer at C&F Bank, told SNL. "Right now, we're not losing deals or feel like we're losing deals because banks are doing a lot of fixed-rate financing."

Bankers said they see some form of competition across various lending segments. Seaman said that the bank sees plenty of competition for apartment loans and financing in the medical office space. He said the retail lending category is not as intense, though, noting that there is a lot of supply on the market.

The executive further said that the bank has been able to do all the acquisition and development lending and business line of credit lending it really wants since many banks turned their focus away from A&D lending in the wake of the credit crisis. Many developers and lenders are coming back to that market now, though, he said, causing a relaxation of pricing and underwriting standards.

"There are too many banks that are involved in it that shouldn't be involved in it and there are developers that really shouldn't be developing and that's starting to happen again. We're being careful to pick and choose," Seaman said.

Despite the competition, banks have found ways to grow market share. Community Bankers Trust Corp., for instance, had grown its deposit market share by 40 basis points from year-ago levels. Community Bankers President and CEO Rex Smith III said the company has added quality people in its branches and to its small business lending team. He said that the small business lending arena has not been as competitive as some other business lines and noted that his company can effectively compete with larger institutions in that arena.

"Our whole game plan is to be the bank with answers, to be the bank that the customer gets satisfaction from beyond the larger institutions and I think that's where we've gotten most of our market share," Smith told SNL. "They're obviously very convenient and have a lot of locations, but we've heard over and over that they can't keep the same people in the same locations. You can't find a banker that is your banker."

Xenith Bank has managed to grow its deposit market share even more and increase its deposit base in metro Richmond by more than 70% in the process. Xenith's Layfield said that his company is primarily focused on the middle market commercial space and works

to take away market share from the biggest banks. He said the company has built a team with deep experience in its market and focuses on executing and making decisions in an "effective and timely way."

C&F has managed to grow market share in Richmond the most, heavily supported by its acquisition of Central Virginia. C&F's Steilberg noted that he has also attracted 15 to 20 retail bankers from his previous employer, Bank of America Corp., to join C&F Bank to help grow market share in the area.

He further said C&F takes time and pays attention to understand its customers' goals and attributed the company's market share gain to its retail, small business strategy. He said the company's branch managers and relationship bankers receive day one training on business and e-commerce products and certain "soft skills" that teach them how to better help their customers. He also said the company works to integrate itself into the local community, hosting monthly networking events that feature speakers that can help educate customers on issues even outside of banking.

"This is not a real complicated business. You just have to get out and wear holes in the bottom of your shoes," Steilberg said. *i*