

THE LIFE AND TIMES OF ALBEMARLE FIRST

The Charlottesville, Va., banking market experienced significant consolidation in the mid-1990s, leading a few new community banks to open their doors. For one it was a bumpy but ultimately successful ride

BY DOUG CAMPBELL

Editor's Note: *This article was produced by the Research Department of the Federal Reserve Bank of Richmond based primarily on interviews with bankers and businesspeople in Charlottesville, Va. The Reserve Bank's Department of Banking Supervision and Regulation, which oversees banking institutions throughout the Fifth District, declined to comment and did not provide any information for this article, with the exception of items already in the public domain.*

On a cruise ship somewhere in the Caribbean Sea, Jim Fernald checked his e-mail. A message had arrived from John Taggart, chairman of Albemarle First Bank of Charlottesville, Va., of which Fernald was also a director. The note said there had been a terrible development: Albemarle First, it had just been discovered, had lost potentially millions of dollars in a check-kiting scheme.

"My wife started laughing when she read it. She thought it was a joke," Fernald recalls. "But I knew Jack Taggart. I knew it was not a joke. And I could feel my breakfast coming up."

It was late February 2003, only four years into the short but eventful

history of Albemarle First. Not long before Fernald received that e-mail, the bank's founding chief executive, Charles Paschall, had resigned amid questions about loan quality. Profits had been elusive, with Albemarle going into the red in both 2001 and 2002. And now this — two local businessmen had been juggling money from checks drawn from Albemarle First and another bank, despite having insufficient funds in either account. The toll on Albemarle First was \$2.4 million — a potentially fatal blow to such a young bank.

Let it be said that most new banks do very well, providing their communities with a new source of funds and enhancing competition. For the most part, Albemarle First was no exception. But it certainly encountered its share of troubles, the check kite probably being the biggest. The story of Albemarle First offers a case study

regarding the sort of problems startup banks can encounter and how those problems can be resolved.

The story begins with two friends talking one night in 1997. They observed that, at the time, two of Charlottesville's leading banks — Jefferson National and Central Fidelity — were being acquired by Wachovia. Together they had 46 percent market share of all bank deposits in Charlottesville. It seemed like an obvious opportunity for starting a new, locally owned bank. Charlottesville was growing fast, and the technology boom was still booming. There was money around town looking for good investments.

The two men were Taggart, arguably Charlottesville's top divorce lawyer, and Charles Gross, a faculty member and surgeon at the University of Virginia School of Medicine. They soon enlisted friends Frank Cox, who



PHOTOGRAPHY: DOUG CAMPBELL

owned his own urban planning firm, and Craig Wood, a partner at law firm McGuire, Woods, Battle & Boothe. These four would become the founding organizers of Albemarle First Bank (with Fernald and several others joining up soon thereafter).

It was a close-knit group. All four had degrees from the University of Virginia. Only Dr. Gross had significant experience with banking, owing to his family's one-time ownership of a small bank in Kentucky and his own service on the board of a small bank in Memphis. All four founders were prominent Presbyterians, and there was something of a religious passion in how they planned their bank. Yes, it would be a good investment for shareholders, but it would also be a bank for the little guy who was ignored by Charlottesville's other banks.

There are many reasons to open a bank. One of them is the financial incentive: Community banks historically have been safe, sometimes outstanding, investments. Another reason is prestige. In smaller towns, especially, the hometown bank tends to be at the center of important, local economic activity. Then there are those who see a genuine need and harbor a genuine desire to help their town's businesspeople. Community bankers like to style themselves as true friends of small business, always willing to listen and possibly lend when big banks and their impersonal credit-scoring models turn good borrowers away.

By all accounts, the organizers of Albemarle First were not motivated by the appeal of making money; they were already wealthy individuals. What they wanted was to make a valuable contribution to Charlottesville. "We wanted to form a local Charlottesville institution for banking," Gross says. "We thought we could serve the community well."

Whither Small Banks?

Economists usually define community banks as having less than \$1 billion in assets. In the United States, banks of this size represent about 90 percent of

all banks but account for less than 20 percent of deposits and loans. They endure in a time of big banks — with their economies of scale and vast branch networks — in major part because of their hometown advantage. That is, hometown loan officers can sometimes collect better information about borrowers, knowing more about their backgrounds; and the ability to make decisions without consulting higher-ups in other towns can be used as a marketing advantage. "Because large banking organizations, because of their size, tend to be centralized or rule-oriented, it makes it more difficult for them to provide 'relationship' lending in the way small banks do," says Gregory Udell, an economist who studies banking at Indiana University.

The focus on a small-business clientele is also natural. For one thing, small banks have less money than big ones to lend out; they can't serve Fortune 500-size firms. But new banks in communities where other banks have recently been acquired have an extra incentive to focus on small business: Banks which have been absorbed by larger banks, studies show, ratchet back their volume of small business lending. Other banks in the community then can pick up the slack, Udell says.

Albemarle First aimed to be this kind of new bank. It ended up with a 10-member board of directors (the 10th member being the CEO, Paschall). They included Fernald, who works as general sales manager at the local NBC-TV affiliate, and Marshall Pryor, at the time a partner with a local men's clothing store. The director with the deepest experience in banking was Richard Selden, a retired economics professor who had served 17 years on the board of First Virginia Bank. He was pragmatic. "I think I can truthfully say that I was by far the most knowledgeable person [on the board] about banking," Selden says. "I was never a true believer about any mystique about community banks. They all fail or succeed for the same reasons. I just wanted to have a good bank."

CEO Charles Paschall was recruited from a bank in the small southwest Virginia town of Tazewell, of which he served as top officer. Paschall had more than 20 years of banking experience and grew up in a sort of blue-collar section of Charlottesville known as Belmont; his father had been pastor of Belmont Baptist Church. His bank had been acquired by First Virginia, and Paschall was eager to take on a new challenge in his hometown. "I think the strength of our bank was that we were trying to put a premium on customer service and personal relationships," Paschall says today. "We were going after a broad market, not an affluent market."

Paschall began work for Albemarle First in May 1998. He set about building a bank where "customers were treated with respect and dignity." By Paschall's order, no employee had voice mail; customers would always speak with a live human being. "We had a really good approach," Paschall says. "People loved coming to our bank, loved our staff members, and loved our position in the community."

Albemarle First opened its doors on Dec. 28, 1998, with an office at 1265 Seminole Trail, just north of the University of Virginia campus, on the city's main retail strip. It had raised \$7.2 million in capital. This was not a lot of money, though it was within the norm of \$7 million to \$10 million for starting capital of Virginia banks during that time.

Albemarle First was hardly alone in opening that year. In 1998, nine new banks opened in Virginia, the most since 10 opened in 1988. Unfortunately for the founders of Albemarle First, they weren't the only ones in Charlottesville with the idea of starting a bank. The other was Virginia National Bank, and it in fact had a five-month head start.

The Other Charlottesville Startup

The founders of Virginia National saw the same opportunity Albemarle First's founders saw — a growing

market with no locally owned bank. In particular, they saw that three large, out-of-state banks held about 70 percent of the town's deposits. The three founding directors at Virginia National were local businessmen Hunter Craig, C. Wilson McNeely, and Reid Nagle. They raised \$18 million in 21 days.

To hear Nagle — founder of the research firm SNL Financial — tell it, the Virginia National organizers never viewed Albemarle First as a formidable rival. "They [Albemarle First] didn't start with enough capital. Secondly, they didn't have the caliber of management that Virginia National started with," Nagle says. (Nagle resigned from the Virginia National Board in 2003.)

Paschall obviously doesn't agree with the second part of Nagle's assessment, but he does think that Virginia National's first-mover advantage helped it raise more money. "We probably should have had more," Paschall says.

Even before filing an application for their charter, the Virginia National organizers hired a CEO — finding Marcus Giles, a University of Virginia graduate, running a \$1.5 billion bank in Houston. What Giles liked about Charlottesville was the competitive landscape. "If ever there was an opportunity for a successful local bank, it was Charlottesville," Giles says. "I'd had experience running a bank, but more relevant was my experience competing against ... big banks. It's not just being there, saying 'we're local' but it's having a set of strengths that compare favorably to how they do business. That's the trick."

The two organizing groups were aware of each other. Giles describes a meeting he had with Frank Cox (one of the four Albemarle First founding organizers). They discussed whether some formal meeting between the two groups might be desirable to figure out if there was indeed room for both of them. Giles recounts the meeting: "His response was, 'We've thought about it, but no, we think this town is big enough for the both of us and there's too many philosophical differ-

ences between our organizing group and your organizing group.'"

By "philosophical differences" Cox may have been alluding to the perceived target markets of the new banks. Virginia National was seen as going after an upscale clientele whereas Albemarle First fancied itself a working man's bank. Around town, people joked that it was a battle between The Blueblood Bank and The Bubba Bank. Gross puts it this way: "We were aiming for the small businessman in Charlottesville, the ordinary citizens, not necessarily the wealthiest."

Giles doesn't agree with those characterizations, calling them "baloney" and marketing spin. It's true that Virginia National's strategy made it "choosier in the loans we went after," he says, but that's because the bank's focus has been in developing deposit relationships first, then lending relationships second.

Lending Culture

New banks have to be careful. "Any new bank in a community will face a pool of potential applicants that includes a backlog of those previously rejected over some period of time," wrote Philadelphia Fed economist Sherrill Shaffer in a 1997 paper. Shaffer concluded that newly chartered banks experience "substantially higher loan charge-off rates during their third through ninth years, consistent with theory." Particularly vulnerable, other research has shown, are new banks that start with low initial capital cushions because those cushions can quickly be eroded by a few bad, big loans.

"We were aware of that," Paschall says today, referring to Albemarle First's status as not only a new bank, but also the second new bank to open in a period of months. "We didn't relax our standards in order to get business. But we did try to find ways to make loans. When possible, we tried to mitigate the risk because, obviously, you don't make money if you don't make any loans." By "mitigate the risk," Paschall meant things like



Virginia National Bank entered the Charlottesville market shortly before Albemarle First.

requiring additional capital, changing payment structures, or lowering loan amounts. All loans were fully documented, Paschall says, and those of \$300,000 or greater were approved by the board's loan committee.

Back when he was a director at First Virginia, Selden had spent some time on the bank's loan committee, watching directors fire question after question at loan officers before granting approval. "They were tough. That was the foundation of the greatness of that bank," Selden says. "That was lacking at Albemarle First." Selden described meetings at Albemarle First where it was regarded as poor form to ask too many questions about a borrower's financial status. He also wondered, and frequently asked, why the bank hadn't hired a chief lending officer and worried that the bank was operating as a de facto "welfare agency."

Fernald says, "I've had people tell me, 'You were the only ones who gave me a loan in 1999, and I'll never forget you. Sometimes little businesses grow into big ones ... We wanted to give some people an opportunity to get funding that they might not [otherwise] get. That being said, in the process we obviously made some mistakes.'"

During 2001, many banks were beginning to have a rough time, with bad loan ratios rising from 1.12 percent nationwide to 1.41 percent, thanks to the combination of recession and the Sept. 11 terrorist attacks. The Federal Reserve Bank of Richmond schedules regular checkups with the banks that it regulates throughout the Fifth

District. In such meetings, discussions often focus on loan portfolio issues. The Richmond Fed provided regulatory oversight for Albemarle First.

The reason bank examiners exist is because deposits at commercial banks are insured by the Federal Deposit Insurance Corp. (FDIC) up to \$100,000; without this protection, there would be little basis for outside supervision. Whether to put a loan on a “watchlist” or to downgrade it to “substandard” is often a judgment call — but one that carries with it consequences to a bank’s balance sheet. A substandard classification can require, for example, that a bank transfer earnings to a reserve account for possible loan losses. For these reasons,

discussions between bankers and regulators can sometimes be sensitive.

Discussions about credit quality heated up at Albemarle First during the fall of 2001. On Dec. 20, 2001, Albemarle First issued a statement that Paschall had resigned. (Today he works as a consultant in North Carolina.)

Gross was a member of the loan committee during this time. While not discussing details, he explains Paschall’s resignation this way: “The chief executive wasn’t being quite as prudent at managing the bank, especially the loan portfolio, as we felt he should be.”

Here are the numbers: In 2002, Albemarle First ranked No. 134, out of more than 7,000 commercial banks nationwide, in worst ratio of non-performing loans (past due more than 90 days or no longer accruing interest) to total loans, at 5.27 percent. The national average in 2002 was 1.46 percent. By comparison, Virginia National has yet to post a year-end non-performing loan ratio of higher than .03 percent. (The information conveyed in these ratios is limited, however, in that they do not tell us whether there were a large number of troubled loans or just a few, big-dollar problems.)

Albemarle First slid into the red in 2001 and 2002, posting annual losses of \$346,000 and \$280,000, respectively. (By comparison, Virginia National earned profits of about \$750,000 each of those years.)

These are not good numbers. But at the same time they don’t suggest that Albemarle First was necessarily near failure. To Paschall they may misrepresent the true quality of the loan portfolio he developed. He says that profitability would not have deteriorated (Albemarle First had posted its first profitable month in mid-2000) and the bad-loan ratios would not have climbed as much had he been allowed to stay. “How a loan is worked out or collected has everything to do with the skill of the person who is collecting,” Paschall says. Moreover, he says he disagreed with many decisions about whether to classify certain loans as troubled.

Paschall is correct that loan portfolio management does contain a significant subjective component, but his assertion that regulators were overzealous is the sort that almost any banking analyst would view with strong skepticism. Tony Plath, a business professor at the University of North Carolina at Charlotte who closely follows the banking industry says that, in general, successful community banks are wary of taking on big risks in hopes of raising profits. “That is never a winning game for community banks. The regulators are not trying to put a bank out of business,” Plath says. “They’re trying to keep the bank in business.”

Jake Richardson worked as a loan officer at Albemarle First from January 2001 until February 2003. He worked in banking since 1982, though he now works in a different line of business. One of the main reasons Richardson came to Albemarle First was to work with Paschall, whom he had long admired.

Richardson puts the number of loans that were identified as troubled during the fall of 2001 at about 12, with most of those eventually being paid off to a large extent. He says he thinks it was “prudent to point out the troubled” loans. But in Richardson’s eyes, some directors were simply waiting for an opportunity to do what they had been pondering for some time — to show Paschall the door. “I honestly believe that [the board] panicked and the situation could have been worked through,” he says.

The decision of the directors, however, was clear: Albemarle First needed to take a new direction and that meant change at the top. With Paschall’s departure, Albemarle First moved quickly to hire a new CEO, Tom Boyd, and pay greater attention to its lending culture. Boyd was recently retired from running Eastern Virginia Bankshares, a \$400 million bank in Tappahannock. A Charlottesville native, he was asked to serve at least two years in helping Albemarle First right itself, and he agreed.

Growing Market Share

Virginia National Bank nosed into Charlottesville’s top 5 in deposit market share by 2006; Albemarle First was a distant No. 7.

1998

BANK	MARKET SHARE
Wachovia	32.24%
NationsBank*	21.59%
Crestar	18.64%
Guaranty Bank	9.20%
One Valley	7.81%

2002

BANK	MARKET SHARE
Wachovia	28.50%
Bank of America	22.08%
SunTrust	15.85%
Guaranty Bank	7.92%
BB&T	7.72%
Virginia National	6.53%
First Virginia	4.68%
Albemarle First	4.58%

2006**

BANK	MARKET SHARE
Wachovia	24.39%
Bank of America	23.23%
SunTrust	15.61%
BB&T	12.73%
Virginia National	8.45%
Union Bank	5.78%
Albemarle First	3.49%

* NationsBank became Bank of America

** Data as of June 30

SOURCE: Federal Deposit Insurance Corp.

An accounting firm was called in to assess the loan portfolio. Then the bank hired a “workout” artist to clean up, restructure, and rebuild the troubled loans. There were some changes in the lending personnel, and soon the bank hired its first-ever chief lending officer. “We charged off some and worked with others and constructively tried to get what we could back on their feet,” Boyd says. “There were some success stories, and there was a lot of blood, sweat, and tears.”

In its 2002 year-end press release, Albemarle management suggested that a corner had been turned: “We believe we have now identified the large majority of problem loans in the portfolio and are pursuing resolution on these as quickly as possible.”

The Kite

The following information was culled from documents filed in Albemarle Circuit Court: Sometime around June 2000, Charlottesville businessmen John Reid and Alan Pinkerton Jr. opened a demand deposit account at Albemarle Bank for a company called RPD Properties. RPD was one of three affiliated companies, including Ivy Industries, for which Reid and Pinkerton served as officers. Shortly after opening the Albemarle First account, Reid and Pinkerton embarked on a classic check-kiting scheme.

Basically, the point of a check kite is to take advantage of the float — the period of time between when a deposit is made and when a bank actually collects the deposited funds. Reid and Pinkerton would draw checks — in multiples of \$5,000 — from one of their accounts at SunTrust Bank and deposit them to their Albemarle First account. Albemarle First would accept the checks, provide credit to RPD Properties, send the checks to the Federal Reserve Bank of Richmond, which in turn would present the checks to SunTrust for payment. Meanwhile, during this one- or two-day float period, Reid and Pinkerton deposited checks drawn from their Albemarle First account into their SunTrust accounts.

This juggling gave the appearance, thanks to the float, of adequate funds when in fact none existed. In July 2001, for example, Reid and Pinkerton made 42 deposits at Albemarle First, totaling \$15.6 million. In the same month, the pair deposited 172 checks with SunTrust, totaling \$15.7 million, according to court documents. This pattern went on for more than three years.

On Feb. 26, 2003, the scheme unraveled when SunTrust notified Albemarle First that it was returning checks from Reid and Pinkerton unpaid. The returned checks summed up to \$2.42 million. In a final attempt to keep the kite alive, Reid deposited a check for \$2.42 million in the Albemarle account; it was drawn from an account at Southern Financial Bank. Reid then tried to cover the Southern Financial draft by depositing a \$2.42 million check drawn from the Albemarle account. The jig was up. (Reid had also falsified documents to get a loan at Albemarle First as well as several other Charlottesville banks. Virginia National, for example, lost what Giles recalls as about 20 percent of a \$1.2 million loan.)

“That was a mind-blower,” Fernald recalls. The directors moved quickly, though. Each of them put up personal funds, Fernald says. And from April 4 to June 10, 2003, the bank raised \$2.35 million in new capital, though it did not come cheap. The bank had to reduce the exercise price of warrants it had sold in a secondary offering two years earlier from \$10.50 to \$7. (A warrant is a certificate that entitles the holder to buy stock at an agreed price; usually, this means an investor can buy stock at the warrant’s exercise price and then resell it at a profit.)

Albemarle First sued the principals of the firms whose names Reid and Pinkerton had used in the check-kiting scheme. One of those was Francis Troost Parker, a retired, minority-owner of Ivy Industries. (That company had to close in the aftermath of the check-kiting scheme, causing a minor media sensation in Charlottesville while costing about 150 people their jobs.) The suit against

Parker was eventually settled, but before it was, Parker filed a counterclaim that contained a scathing critique of Albemarle First’s management.

Parker pointed out some seemingly obvious signs that a check kite was afoot, with the huge number of large-dollar amount deposits made by a relatively small business. “Prudence and reasonable care, if not regulatory requirements, demanded that the bank have in place computer programs and other safeguards that would cause it to detect this kind of fraudulent activity,” Parker’s counterclaim said. “Even a cursory review of the monthly bank statements and the magnitude of the activity should have caused bank personnel to question the activity in the Albemarle First account and discover the fraud.”

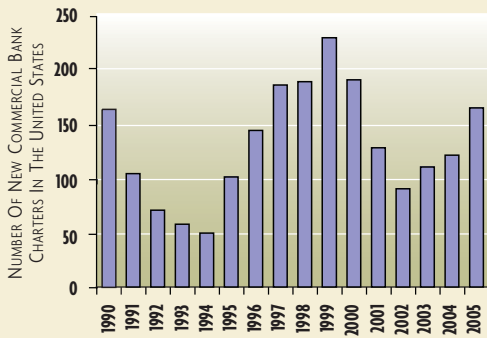
Albemarle First was able to recover some of the check-kite loss, making the final toll \$1.8 million. The bank also ended up losing almost exactly that amount in 2003.

More Twists

New banks have historically been good investments. David Danielson, president of bank consulting firm Danielson Associates in Vienna, Va., says that a recent sign of this is that new banks increasingly are being started by investment groups with no ties to the community where they aim to start a bank.

In the past, it was former executives of acquired banks that typically launched new banks. In recent years (though it’s unclear yet how much it’s still happening amid the housing market moderation in 2006), some of this has been just timing with the economy. “Most small commercial banks make a lot of real-estate backed loans,” Danielson says. “And with the rise in real estate, we had banks with pristine loan quality and the ability to make these loans backed by real estate.” That makes new banks, in general, an investment that is “very steady and with very good returns,” he says. It is also a highly regulated, highly transparent business, and lately very safe. In 2005,

Open for Business



SOURCE: Federal Deposit Insurance Corp.

not a single U.S. bank (of any size) failed.

The flip side for investors, however, is that new bank stocks can be illiquid — hard to sell — during their first five or 10 years — unless the bank is bought out.

It was just as Albemarle First was putting the check kite and its lending problems behind it that Charlottesville businessman Richard Spurzem became the bank's largest outside investor. He had actually been buying up shares since 2001, but only started buying in big bunches in 2002, he says, figuring that the bad loans were largely behind Albemarle First and that any bank in the hot market of Charlottesville had to have a future. By 2004, he had amassed an 8.55 percent stake in the bank, making him the largest outside shareholder.

(It was about this time that Richard Selden quit the Albemarle First board. He didn't want to talk about the circumstances of his exit, but Gross acknowledged that Selden had "been a little critical." It also should be pointed out that Selden was 82 at the time.)

Meanwhile, Spurzem was impatient. The loan portfolio looked in better shape, true, and profits were beginning to trickle in. But with Albemarle's still relatively small capital base, there were limits to how much and how fast the bank could grow.

At the time, shares in Albemarle were trading, though thinly, at just less than \$10, which had been the initial offering price six years before. In late December 2004, Spurzem sent a proposal to Albemarle's board: Sell the bank. Boyd said in a state-

ment that the bank would indeed consider the request, which wasn't the only one.

According to a filing with the Securities and Exchange Commission, the search for a suitor officially began in January 2005. A consultant identified 29 potential acquirers. That list was quickly whittled down to six banks that had an interest in buying Albemarle First. The initial high bidder was Premier Community Bankshares of Winchester, Va., offering a \$29 million deal with 80 percent stock and 20 percent cash that would eliminate the name "Albemarle First." But then Millennium Bankshares of Reston, Va., came in with a bid that was 50 percent cash and 50 percent stock. Additionally, Millennium said it would preserve the name Albemarle First and keep two directors on the merged board.

On June 9, the boards of Albemarle First and Millennium approved the deal. "We are very excited to have a partner in Millennium Bankshares, a fine Virginia bank holding company that really believes in the traditional community bank concept," Albemarle First CEO Boyd said in a statement announcing the \$29 million deal.

Shares of Albemarle First immediately jumped to near the proposed sale price of \$15.82. And that ought to have wrapped up the Albemarle First story. But then came along an investor named David Harvey. He figures in the Albemarle story twice: Harvey at one point owned more than 9 percent of the bank's outstanding stock, picking up a sizable chunk in the bank's secondary public offering in the beginning of 2001. He sold off those shares fairly quickly, however. But he resurfaced in the summer of 2005, this time as a shareholder of Millennium.

On Aug. 5, 2005, Harvey's investment firm, Hot Creek Capital of Nevada, announced that it had bought a 6.21 percent stake in Millennium. In a letter attached to the SEC filing, Harvey objected to the Albemarle deal. Besides being disappointed with Millennium's returns to shareholders of late, Harvey said he disapproved of

"your pursuit of a merger transaction which is highly dilutive to tangible book value per share."

Harvey's group was soon joined by like-minded investors in saying they would oppose the transaction. Millennium needed a two-thirds OK for approval of an amendment to its articles of incorporation that would increase shares of stock from 10 million to 20 million, and in the Nov. 28 shareholder meeting, it failed to get the necessary super-majority.

But by Jan. 13, a new deal was in place with original high bidder Premier Bankshares as the buyer. The bid this time was more favorable to Albemarle, including a 50-50 split between cash and stock as payment and with the preservation of the name "Albemarle First Bank" as a Premier unit. The \$29 million price stayed the same. The deal closed July 1, 2006. Two Albemarle directors, Fernald and Thomas Beasley, joined the board of Rockingham Heritage, the Premier bank under which Albemarle First now operates. Boyd stayed on as chief of Albemarle First.

To Harvey, this was about as good an outcome as Albemarle First could have expected. Harvey recalls buying up shares in Albemarle First with optimism back in 2001 only to quickly become discouraged. "In the case of Albemarle, we hoped for materially better performance. Our theory of investment evolved from one of looking over the long term, waiting for them to build a nice bank, to a short-term one hoping for a sale. When we saw evidence of their defective credit culture, that led to sale of the stock."

There are inevitable comparisons with the other Charlottesville bank that opened in 1998 — Virginia National. At the end of 2005, Albemarle First had generated profits of \$243,000, with three branches and \$101 million in deposits. Virginia National's profit was \$3.1 million, with six branches and deposits of \$250 million. Virginia National held about 9.5 percent of the Charlottesville market, trailing only four big banks; Albemarle's market share was 3.8 percent.

“Albemarle ultimately and inevitably became sold,” Harvey says. “The other bank [Virginia National], not necessarily so. It’s going to make people a lot of money simply by producing return on equity.”

Reid Nagle, the former Virginia National director, notes that several other banks have entered the Charlottesville market since 1998, including a startup. All of them have been fairly successful, and that’s good for Charlottesville, he says. “It serves the market best to have this effective competition,” Nagle says. “Albemarle First wasn’t effective competition.”

A New Beginning

Despite all the setbacks — from opening just months after another new bank had hit the scene to the lending crisis to the check kite and to the first, failed merger — this looks like a happy ending. The leaders of Albemarle First overcame the early problems and successfully built up a franchise with more than \$100 million in deposits and a name valuable enough that the new owners didn’t want to change it. For shareholders who bought the stock in 1998, Albemarle’s sale price equals about a 5.9 percent annualized return. Many stocks have done worse than that. (On the other hand, Virginia National, which first started trading at \$10 a share in 1998, today trades at around \$40.)

“It turned out to be a good investment,” Gross says. “Obviously it would have been better had there not been the kite.” Says Boyd, “I think those [shareholders] who have elected to stay with the new bank will find that it’s a good investment. We’re a growing bank in a growing market.”

Robert DeYoung, associate director of the FDIC’s division of Insurance and Research, is one of the nation’s leading researchers of community banks. He says that startup banks in particular face four major risks: over-aggressive loan growth; dependence on noncore (which include deposits exceeding \$100,000 and brokered deposits) funding; poor cost control; and a poor local economy. Aside from this final factor, all the others are within management control. “When you look at two banks in the same market and why one did well and the other didn’t, you have to look square at management,” DeYoung says.

That said, DeYoung adds, the vast majority of new banks succeed. In one study, DeYoung found a new bank failure rate of 16.5 percent over 14 years, which is substantially lower than the 60 percent failure rate of other new businesses. In fact, the 16.5 percent rate happened during a period which included the savings and loan crisis of the 1980s, the nation’s worst time of bank failures since the Great Depression.

Asked what sort of advice he would give aspiring bank organizers, Fernald says: “You absolutely have to have a president and chief lending officer that you have 100 percent faith in. And I think the bank board should have at least three outside directors with experience on previous bank boards ... I think bank directors need to go out and get business, of course, and I’ve tried to do that. They also really need to be able to follow the financials and fully understand them.”

To Spurzem, it all comes down to the board. “These people took a bank in one of the best markets in the country, and they couldn’t do it.”

As it happens, Spurzem at one point wanted to join the board. Sometime in 2004 Spurzem says he had lunch with Taggart to talk about it. Spurzem says that Taggart explained how the board was virtually conflict-free. The suggestion was that Spurzem’s addition would disrupt this geniality.

“I thought I could help them out,” Spurzem says, though the board obviously thought differently. “On a board, you should have some contentious issues, some dialogue. If everyone is saying the same thing, someone is not asking the right questions.” **RF**

Postscript: *In reporting this story, I contacted each of the nine founding directors of Albemarle First (with the exception of Marshall Pryor, who in 2004 became an employee of the bank) and asked for an interview. Only three responded — Gross, Fernald, and Selden.*

I was most interested in hearing from John Taggart, the founding chairman. I first called him just a few days after the sale to Premier closed. He said he’d be glad to talk with me — but first he needed to check with officers at Premier. He asked me to call back later that day. When I did, I got his voice mail.

Over the next two weeks I left six more messages and one e-mail. Twice, a secretary told me Taggart wanted to talk and would soon call me back. He never did.

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