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Who's Attracting Capital? Those Who Don't Need It

■ **BY DAVID BREITKOPF**

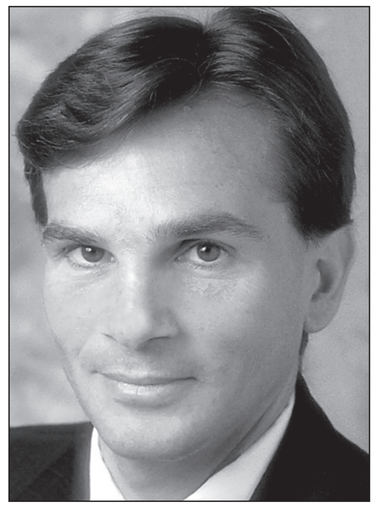
Banking companies that do not need capital are having the easiest time raising it, and in some instances they are raking in far more than they initially requested.

Take Signature Bank in New York, which set out last month to raise $100 million and in less than two weeks ended up with $148 million.

Unlike many companies these days, the $6.5 billion-asset Signature does not need the capital as a cushion for loan losses or because its capital ratios are in danger of falling below regulatory minimums. It intends to use the proceeds to lure customers and bankers away from larger competitors.

By contrast, the deeply troubled BankUnited Financial Corp. in Coral Gables, Fla., has been trying to raise $400 million since May, but many industry observers say they doubt it will succeed. And even if it did, the observers say, it would be unclear whether $400 million would be enough for BankUnited to cover losses in its mortgage portfolio and remain well capitalized.

"We've got a bifurcated environment where we've got companies that are in the have camp, where they have good credit quality, they have solid liquidity, and the have nots are viewed as having some serious doubt about how they're going to make it through the cycle," said Peyton Green, an analyst with First Horizon National Corp.'s FTN Midwest Securities Corp.



Plans: Koelmel, left, says First Niagara would consider buying branches. DePaolo says Signature wants its asset total to top $8 billion.

Other companies that have raised money with ease in recent weeks include Texas Capital Bancshares Inc. in Dallas and First Niagara Financial Group Inc. in Lockport, N.Y.

Investors are putting their money into companies that are already well capitalized, have put up solid earnings in recent quarters, and have managed to avoid serious credit problems. Generally, these companies have raised the funds through private placements, using only current investors.

Bankers and other observers say now is a good time for healthy companies to raise capital, because so many others are retrenching and concentrating on fixing balance-sheet problems, not winning new business. Also, it does not hurt to have a little extra cushion to satisfy regulators and assure customers that their money is safe.

Customers have asked, " 'If Lehman Brothers is going under, why am I protected at Signature Bank?' " said Joseph J. DePaolo, Signature's president and chief executive officer. "Having that clean balance sheet and having that strong capital...is strength for us in attracting clients."

Signature has lured away relationship bankers and their books of business from large companies in the New York area, and it intends to use the additional capital to try to boost assets to $8 billion over the next 18 to 24 months, Mr. DePaolo said.

The $4.6 billion-asset Texas Capital initially sought to raise $30 million last month, but it ended up with $55 million. George Jones, Texas Capital's president and CEO, said it had planned three days of marketing calls, but "we were so oversubscribed we finished it in two."

Texas Capital would almost certainly not use the proceeds to make an acquisition; it has never bought a bank in the 10 years since it was founded. It would also likely not add branches to the nine it has today, nor would it add new products, Mr. Jones said.

Like Signature, Texas Capital has grown primarily by hiring teams of bankers from other banks, and it is sticking with that strategy, he said.

With all the "turmoil, we see a lot of our competitors turning inward trying to raise capital, worried about problem assets," Mr.

Jones said. “We have a real opportunity in the near-term future to gain market share in almost every one of our markets.”

He said it also wanted to boost its total risk-based capital ratio, which has dipped in the last year but remains above the regulatory well-capitalized requirement of 10%.

The $9.1 billion-asset First Niagara needed only about a week late last month to raise $115 million, or roughly $15 million more than it was initially targeting.

“We had more interest in the stock than we were looking to issue, which is a great position to be in,” said John Koelmel, First Niagara’s president and CEO. “It underscores the fact that there are ample investment dollars available for quality opportunities.”

Upstate New York has not been hit as hard by the financial crisis as other areas have, Mr. Koelmel said, and he sees opportunity to attract other banks’ customers. One of its biggest competitors is Bank of America Corp., which is a strong company but has “a very full plate” digesting Countrywide Financial Corp. and Merrill Lynch & Co. Inc.

Speaking of acquisitions, Mr. Koelmel said First Niagara would be interested “if some of the bigger players opted to sell branches or smaller banks opted to sell themselves.”

T. Rowe Price & Co. invested in Signature, Texas Capital, First Niagara, and the $4.1 billion-asset Pinnacle Financial Partners Inc. in Nashville, which raised $21.5 million in July. Chris Fortune, the regional bank analyst for T. Rowe Price, said the Baltimore company invests in two types of companies: those “raising capital from a position of strength” and those that may be damaged and are using the capital to “plug a hole in the balance sheet, but there’s light at the end of the tunnel — there’s still franchise value there.”

The companies he puts in that class include First Horizon and East West Bancorp Inc. in Pasadena, Calif.

First Horizon and East West raised capital early in the year, before the doors slammed shut for banks with loan problems, Mr. Fortune said.

T. Rowe Price has shifted its focus in determining whether to invest in a bank, he said. The companies that do get T. Rowe Price investments need to earn money two or three years out, but “what drives earnings per share, that’s what really changed,” Mr. Fortune said. “Two or three years ago it was things like net interest margin and the yield cover. Today we’re much more focused on credit quality. Do you have enough capital to make it through the cycle? Or do you have to raise dilutive capital, which will dilute your earnings power down the road?” ■