

A focus on fast growth

Rapid loan increases attract investors to banks

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Industry lulls tend to produce stagnant stock prices.

Two local managers who run a hedge fund that only buys bank stocks say there are always exceptions, though.

Dented by rising interest rates, bank stocks have underperformed the broader market during the last year. The Nasdaq Bank index has appreciated just 0.45% for the 12 months ending Feb. 3, compared with 6.23% for the Standard & Poor's 500 index and 9.96% for the Nasdaq Composite index.

Driven by necessity and a tested investment strategy, Jon C. Bruss and Robert C. Ollech, through Fortress Partners Capital Management in Hartland, seek opportunities in companies that have discovered ways to grow faster than their peers.

They aren't alone.

Another local money manager said in this space last week that he, too, is looking for banks that can increase their loan portfolios rapidly. Michael J. Steppe focused on a company that didn't rely heavily on retail deposits collected in brick and mortar branches to fund its loans.

Mercantile Bank Corp. (MBWM) (\$39.01) is used to paying a market rate for funds by offering certificates of deposit through brokers, so it isn't vulnerable to a sudden shift up in deposit costs, said Steppe, partner and chief investment officer at Brookfield Investment Partners LLC.

Bruss and Ollech see it quite differently.

They want fast-growing banks, too. But they'd rather buy the stock of those that have a lot of local deposits and relationships, and either are in regions where their strategy propels faster-than-average growth or in fast-growing demographic areas.

Take **Enterprise Financial Services Corp.** (EFSC) (\$25.26).

St. Louis-based Enterprise isn't in an area that's growing particularly rapidly. But the bank has been able to snag high-caliber people as bigger out-of-town banks have made acquisitions that left some bankers job-hunting, Bruss said.

"They and other banks in St. Louis are having a field day picking the bones of the M&Is, National Cities and Bank of Americas," he said. There have been seven bank start-ups in St. Louis in the last year, he said.

Enterprise also has defined several promising niches, Bruss said.

The bank gears its services on the loan side to small businesses and professionals, and has on the investment side built a trust and asset management business from scratch. That business, staffed with chartered financial analysts and using a wide variety of mutual funds, already has \$1.4 billion of assets under management, Bruss said.

"Enterprise has also developed a very interesting life insurance business and packaged that together with other aspects of wealth management to create a really attractive business model," he said.

Alliance Bankshares Corp. (ABVA) (\$17.15), Chantilly, Va., is a northern Virginia bank that caters to the fast-growing, suburban Washington, D.C., market.

The company has carved out a niche providing a high level of service and convenience to about 100 title companies, the type of customers who keep a fair amount of escrow money on hand, Ollech said. As of the end of September, 48% of Alliance's deposits were in non-interest bearing accounts, so the bank had a low cost to maintain them.

"Each time the prime rate goes up 25 basis points, they love life," Ollech said.

Alliance has a highly experienced officer group with demonstrable track records who have generally come from larger banks that were acquired. "And they love the race, the game if you will," said Bruss. A bank like Alliance doesn't have to have a real active acquisition plan, with all the associated risks, because it can acquire people.

"They don't have to pay a premium over book value to get them, and they'll typically bring along \$50 million to \$150 million of deposit relationships," said Bruss, who says he's usually not interested in acquisition-hungry banks.

The biggest risk they associate with this stock is the possibility Alliance's management team could falter and fail to continue implementing their business model consistently and successfully. Bruss says he isn't worried about that, having seen similar models work well in other markets.

Despite Alliance's focus on title insurance companies, Bruss says a slower real estate market shouldn't dramatically hurt the bank. "During the last major real estate earthquake in the 1980s on the East Coast, my sense is most of these guys learned their lesson and learned it well," he said.

If the size of the federal government shrunk, Alliance might suffer because of its geographic location, but Ollech says that risk is a long shot. "Unless you believe that

government and defense are going away, we don't think they'll be seeing any big falloff in their ability to grow the business," he said.

Bruss and Ollech began buying Alliance shares last summer and have full positions. They would buy these shares up to \$18 and say they could go as high as \$23 in the next 12 to 18 months.

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