

Investors reward bank's strategy

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First Sound Bank, which wowed local bankers by quickly raising \$20 million in startup capital in 2004, has pulled in another \$11 million in investor funds.

According to the Seattle bank's executives, the added cash will boost the size of loans available to the bank's business customers, and give it a leg up on the flurry of startup banks that have opened in the two and a half years since First Sound launched.

The move illustrates how First Sound has flourished, turning its first profit in December 2005 — two quarters ahead of schedule — and bringing in 2006 earnings that were twice as high as it expected. First Sound President and Chief Operating Officer Steve Shaughnessy said the growth convinced the bank that it should go ahead with the latest round of fundraising, even though it hadn't originally planned to raise more money for at least another year.

"We looked at our growth curve and said, if we're going to continue at this pace, we're going to need more capital," Shaughnessy said.

First Sound isn't the only local bank bringing in serious cash. The Puget Sound region has seen eight startup banks in the past two years, and all of them have met or exceeded their maximum capitalization limit, according to Brad Williamson, director of the banking division at the state Department of Financial Institutions.

One explanation for banks' popularity among investors: Historically, many community banks have been sold at a high

premium in recent years, and investors expect at least a few of the new banks to follow in their footsteps, Williamson said.

Williamson added that First Sound's strong performance has made it a particularly appealing investment.

"They've been pretty darn successful right out of the block, and they have a management group that appears to have performed very well to date," he said.

Shaughnessy insists First Sound will remain independent for the long haul, and attributes the bank's fundraising success to its unique business model.

Unlike most community banks, First Sound operates out of an office in a downtown Seattle high-rise, and has no plans to open branches. This helps keep costs down while allowing First Sound to attract the small- and medium-sized businesses that are its core customers, Shaughnessy said.

According to Shaughnessy and Don Hirtzel, First Sound's chairman and chief executive officer, the investor response to First Sound's latest offering was so positive that the bank had to turn away investors. Under DFI rules, a bank can collect only 10 percent more cash than the maximum amount it declares it will raise. That forced First Sound, which hoped to bring in \$10 million, to stop collecting money when it reached \$11 million.

Hirtzel did not specify exactly how much



Hirtzel

money First Sound had to turn down, but said it was less than \$100,000. The bank raised the money without help from an outside firm, gathering the funds from around 300 individual investors, two-thirds of whom were among First Sound's original investors.

The added funds allow First Sound to increase its limit on individual loans to \$5.7 million, up from \$3.5 million, according to Hirtzel. Hirtzel expects this to help the bank lure business customers away from bigger, national banks, in part because it will decrease the amount of time those customers must wait for First Sound to approve their loans.

Since First Sound is now able to approve larger loans itself, instead of partnering with other banks, "we can respond within a matter of days, instead of a matter of weeks," Hirtzel said.

Bob Rogowski, managing director of corporate finance at Seattle's McAdams Wright Ragen Inc., said most small banks would wait to boost their returns even further before turning back to the capital markets. By recognizing that investors are eager to pour money into new banks, and striking while the iron's hot, First Sound has protected itself against the possibility that it will need future funds at a time when the investment climate has cooled.

"I think it's a brilliant move," Rogowski said. "It's a signal to the market that they're going to grow to a pretty good size — this is not going to be your typical, slow-growing community bank."

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