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The assessment and application of patient satisfaction variables in marketing a psychiatric practice

Donald E. Christensen

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HOW TO ORGANIZE A NEW BANK
IN THE STATE OF VIRGINIA

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IN PARTIAL FULFILLMENT OF THE
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INTRODUCTION

The purpose of this paper is to provide the user with a comprehensive, step-by-step procedures manual for the organization and opening of a state-chartered, Federal Reserve member community bank in the Commonwealth of Virginia ¹. This paper is written under the assumption that the organizers of a new bank have limited experience in the processes of organizing an effective Board of Directors, assembling a management team, selling stock in a new venture, gaining regulatory approval and opening the doors of a new commercial bank. This manual will attempt to address the strategic issues such as market analysis and financial projections as well as the "nuts and bolts" procedures of application preparation, professional services and getting the first banking office operational.

The opening of a new bank in today's financial services industry is a difficult and challenging task. Bank failures in recent years have increased to the highest level since the Depression. One result of this is that banking regulators are more cautious in the approval of new banking charters ². Any implicit or explicit weakness in the organization of the new institution will be grounds for denial of the application by the state bank regulators.

The approval process begins when the idea to start a new bank is first conceived by the original organizers. These people should first do two things. First, read this book. Second, make an appointment with Mr. Sidney A. Bailey, the State Banking Commissioner, and Mr. Nicholas G. Kyrus, Deputy Banking Commissioner. During this interview, be prepared to explain the basic concepts of the new bank proposal and be prepared to listen to what the regulators say. These gentlemen do not engage in idle chatter. When they say something concerning a possible weakness in the proposal, they are saying that this is a problem that must be addressed explicitly during the application and approval process. Also, do not underestimate the important role played by Mr. Kyrus. He recommends or does not recommend applications to the Commissioner. Use him as the main contact with the regulators during the application stage.

The regulators view a new bank proposal as a combination of several different ingredients which contribute to the chances of success for the new institution. These ingredients include the capitalization, the stockholder base, the Board of Directors, proposed management, the market area, the expenses incurred during organization, the application itself, and other factors. If some of the ingredients are weak, it is possible that these can be offset by strength in other areas.

The key to gaining approval lies in recognizing those areas that the regulators may consider to be a weakness and address them

It may seem at times that this paper is describing "how to get approved" as much as how to organize a new bank. While this is true to some degree, the reasoning is that a new bank business plan which gains the endorsement and approval of the regulators will be characterized by strength in the previously-mentioned factors which go into the plan. This in turn predicts a strong probability of success for the new institution.

Notes

1. Between 1981 and 1985, 15 new state-chartered banks opened for business in Virginia. All 15 began operations as members of the Federal Reserve System. (Source: BFI Annual Reports)

2. Of the 19 new bank applications acted on by the Bureau of Financial Institutions during the period 1981 through 1985, three applications were either denied or withdrawn. All three of these applications were denied or withdrawn in 1985. (Source: BFI Annual Reports)

CHAPTER TWO

OVERVIEW OF THE ORGANIZATIONAL PROCESS

The process of organizing a new bank generally begins with a group of investor as who have reason to believe that a new commercial bank will be able to operate soundly and profitably in a particular market. These individuals should fully expect to spend the better part of the next year nurturing this project from the idea stage to its culmination in a fully operational bank.

The first task facing this group is to develop a preliminary plan for the organizational period and to begin a a strategic, external investigation of the proposed market. This process should confirm, strengthen and formalize their understanding of the perceived advantages of opening a new bank in the proposed trade area. Chapter Three of this text describes the methodology of performing the initial strategic planning and analysis of the proposed venture.

When the organizer have laid the strategic planning foundation, the process of building the new bank begins. A Board of Directors must be recruited which can add depth to the original organizing team, help raise capital, and meet the

qualifications for serving on the board of Directors of a financial institution. Chapter Four outlines the roles and qualifications of an effective Board of Directors. Concurrent with the assembly of the Board, the organizers must identify a candidate for the Chief Executive Officer of the new bank. CEO qualifications are discussed in Chapter Five.

The new bank will require professional services during the organizational period which will include legal advice, accounting and marketing services and possibly a consultant. The projected requirements in these areas are discussed in Chapter Six.

Chapter Seven Describes the process of raising the initial capitalization of the proposed bank. This can be the most time-consuming and challenging phase of the project. The success of the stock issue will depend on a variety of factors including the ability of the Board to sell, the investment community's perception of the proposed venture, and the use of advertising and other marketing tactics.

Once the capitalization goal is within reach, the bank must file its application to begin business in the Commonwealth of Virginia as a new bank with the Bureau of Financial Institutions of the State Corporation Commission. This document presents the business plan of the proposed

institution to the state regulators. While the application is only one aspect of the Commissioner's examination of the new bank proposal, the importance of submitting a professionally presented, carefully written and consistent application cannot be over-emphasized. Chapter Eight presents section-by-section instructions on the preparation of the State application.

Chapter Nine describes the application process for membership in the Federal Reserve System. Much of this application will have been developed in the preparation of the state application, however, there are certain additional requirements.

Chapter Ten addresses the need for a training program for the Board of Directors. The directors, as a rule, will have limited background in such areas as banking finance, the regulatory environment, lending and bank products and services. The most effective way to develop a quality board is to educate them in-house starting early in the organizational process. This training should be implemented into the regular Board meetings.

Once the institution receives regulatory approvals, the commencement of banking operations must begin as quickly as possible. The bank cannot begin the road to profitability until the tellers start taking deposits and management starts

making loans. Chapter Eleven discusses several important issues affecting the timeliness and cost effectiveness of opening the first banking office.

The appendix contains financial information of 14 banks which opened in Virginia between 1981 and 1985. This information is presented to assist the organizers in projecting the financial performance of the proposed new bank.

CHAPTER THREE

ORGANIZATIONAL PLANNING AND MARKET ANALYSIS

The initial group of organizers have entered into the process of starting a new bank because their familiarity with and knowledge of the market has indicated to them that a new bank can attain profitability and growth. It is a useful and necessary exercise at the beginning of the organizational period to write down exactly what the organizers are trying to achieve and why they believe the new bank can and will succeed. This mission statement should define 1) the trade area to be served by the new bank; 2) The general market segments which will be targeted by the bank; and 3) The major competitive advantage(s) that will be enjoyed by the bank in operating in the proposed trade area.

TRADE AREA: It is assumed that the organizers have a general idea of where the bank will open its first branch office and, consequently, the geographic area from which the bank will draw the majority of its customers in its first two to three years of operation. Formal definition of the trade area involves three levels:

Primary Trade Area: 65% - 75% of the banks customers
will live or work in this area.

Secondary Trade Area: 75% - 90% of the banks customers
will live or work in this area.

General Market Area: 100% of the Bank's customers will
live or work in this area

It is important to note that the trade area definitions are a short term concept. Naturally, if the organizers project that the bank will expand geographically through future branching (which they, should, indeed project) the geographic primary and secondary trade area will change over time. However, the success of the first years of operations will depend on the bank's penetration of the primary trade area and it is logical to presume that the bank's second office will be located within the secondary trade area boundaries.

The definition of the trade areas should be somewhat obvious to the organizers. The following examples illustrate how the primary trade area, secondary trade area and general market can be defined:

Primary Trade Area: Downtown Portsmouth, Virginia
Secondary Trade Area: City of Portsmouth, Virginia
General Market Area: Southside Hampton Roads

Primary Trade Area: Kempsville Borough of Virginia Beach
Secondary Trade Area: Cities of Virginia Beach and
Norfolk
General Market Area: Southeastern Virginia SMSA

A very useful aid in identifying trade areas is a census tract map of the general market area, available from the city or regional planning department. Census tract boundaries can particularly be used to define the primary trade area. This method is useful in performing demographic and economic analysis of the trade areas, as there is a great deal of information available by census tracts.

DEFINING TARGET MARKET SEGMENTS : Through their familiarity with the trade area, the organizers should be able to the types of customers which will be actionable and targetable within the proposed bank's primary and secondary trade area¹. These market segments should be identified in the Mission Statement. Some examples of targetable market segments for banks are as follows:

- Upscale Retail Market (Upper Middle Income, White Collar workers and residents)
- Middle Retail Market (Middle Income, Blue Collar workers and residents)
- Professional Clientele (Doctors, Lawyers, Accountants)
- Commercial and Industrial
- Retailers and Service Industries
- Governmental Units

The identification and definition of target market segments depends on the demographic and economic characteristics of the trade area ². A downtown market may offer an actionable professional and upscale market. Suburban Markets may be characterized by a large middle market and a strong retailer and service industry sector. Substantial commercial and industrial development in the trade area should also be considered, with the cautionary that large commercial firms tend to have credit needs that supercede a smaller bank's legal lending limit. The community bank will generally target small to medium-sized commercial concerns.

COMPETITIVE ADVANTAGES The organizers should be able to identify a central, sustainable competitive advantage, which the proposed new bank will be able to implement in order to attract business from the targeted market segments in the primary and secondary trade areas. Typically, for a smaller community bank, some of the following factors can be considered as competitive advantages:

- Personalized, Friendly Service. We don't treat our customers like numbers.

- Convenience. Good Location, convenient facilities (parking, drive-up) and extended banking hours.

- Locally owned and operated. We know the market. By banking with us, our customers are supporting their community.

- Experienced, Competent Management.

One or more sustainable competitive advantages should be identifiable if the new bank is to have a reasonable chance for success.

MISSION STATEMENT: Having thought out and defined the geographic trade areas, the market segments to be sought, and the competitive advantages the bank will be able to sustain, the organizers should draft a Mission Statement to summarize the results of this preliminary analysis of the venture. The mission statement will simply be a short statement outlining these three factors. Further analysis and findings may cause the organizers to make changes in the Mission Statement, but at the outset they should have a general understanding of where the new bank is heading.

OTHER PLANNING REQUIREMENTS: The organizers' preliminary planning should address several other important issues:

TIME FRAMES: A preliminary schedule of events should be drafted outlining the organizers' projections of when each major step of the organizational process will take place and be completed. The following projection is based on a review of the experiences of several new banks which have applied for charters in Virginia over the past five years:

ORGANIZATIONAL EXPENSES: The organizers should also prepare a budget for the organizational period. Organizational Expenses are paid from the capital that is raised during the organizational period. The organizers' projections of these expenses must be disclosed in the stock subscription offering circular. The major areas of organizational expenses are discussed below:

Salaries: The CEO will be on the payroll for the majority of the organizational period. Other officers should not come on until the last one or two months prior to opening, with the possible exception of the Operations Officer. The issue of whether to hire a secretary during the organizational period is debatable. The opinion here is don't hire one or hire one part time.

Employee Benefits: During the organizational period, the bank should provide only the minimal health and life coverage. No cars or fancy perks should be provided until after the bank is operating.

Advertising: The sale of stock will require outlays for advertising. A marketing agency must be retained to assist in production and coordination of media usage. These expenditures can become quite heavy if not closely controlled and monitored by the organizers.

Printing Expense: Outlays for printing will be incurred for the production of offering circulars, stock certificates, direct mail solicitations, and stationery.

Postage: Postage on direct-mail and other correspondence should be budgeted.

Insurance: The organizers must obtain fidelity bond coverage for the amount of capital to be raised.

Application Fees: The Bureau of Financial Institutions requires a \$3,500 application fee with the charter application. Also budget for the cost of filing for incorporation as a bank in organization at the outset of the organization.

Legal Fees: Legal Counsel will be necessary in the preparation of the offering circular, subscription agreement, corporate bylaws and articles of incorporation. Attorneys should also review all leases and major contracts negotiated during the organizational period.

Rent : It may be necessary to rent a small amount of office space. This should be postponed until as late in the organizational period as possible. If one of the organizing

directors has some extra space in his or her place of business that can be used for free or cheaply for a few months, this possibility should be explored.

It is extremely important to minimize organizational expenses. A good rule of thumb is to keep them under \$100,000. The state regulators look very closely at the organizers' management of expenses as an indication of their ability to run a bank in a prudent manner. Excessive organizational expenses is very likely to result in denial of the charter. Keep the following guidelines in mind concerning organizational costs:

1. Do Not purchase fixed assets such as furniture, equipment or data processing hardware during the organizational period
2. Any contracts which must be signed during the organizational period should be made contingent on the approval of the bank's charter application
3. Keep staffing to a minimum. Keep recruitment of the management and staff of the bank as confidential as possible so that the individuals hired can offer notice to their current employers as late as possible.

4. The Board of Directors should not pay themselves directors fees until after the bank is open for business.

DEMOGRAPHIC AND ECONOMIC ANALYSIS OF THE MARKET: Having performed several necessary planning steps, the organizers should be ready to get the show on the road. Among the many important tasks facing the bank organizers is the performance of a formal and thorough economic and demographic investigation and analysis of the proposed market and trade areas. This study will accomplish two things for the bank: First, it will either confirm or change the organizers' preliminary analysis of the market as stated in the mission statement described earlier in this chapter. Secondly, this analysis will be an important part of the bank's application to the state and Federal Reserve.

A logical question is "Shouldn't the economic study be done prior to the drafting of the Mission Statement?" Ideally, yes, it should. Realistically, this study is a somewhat time-consuming project that may be contracted out to a third party or, more likely, assigned to the CEO as one of his first tasks. Considering that the organizers have a number of other weighty tasks ahead, such as recruiting a Board and selling the stock, it is probably more expeditious that this study be performed concurrently with some of the other operations at

hand.

Upon completion, the economic and demographic analysis should be presented to the Board for their study. The results should be compared to the organizers' original analysis of the market. If a rethinking of the target market segments and/or competitive strategies is in order, the mission statement should be redrafted to reflect the realities of the market. More likely, the study may result in some fine tuning of the bank's strategic focus and perhaps the recognition of some previously unrealized opportunities in the market.

The first step in the study is to gather, through research, the following types of information about the Market and the Primary and Secondary Trade Areas+4:

General Market Area:

1. Population Growth Trends
2. Employment/Unemployment Statistics
3. Demographic Trends:
 - A. Household Income
 - B. Education
 - C. Labor Statistics (Population by Occupations)

- D. Age Distribution
- E. Population Distribution by Race
- 4. Economic Trends:
 - A. Taxable Sales
 - B. Construction Activity
 - C. Deposits in Financial Institutions
 - D. Consumer Price Index (Available by SMSA)
 - E. Housing Unit Growth / Non Residential Activity
 - F. Assessed Real Estate Values

Primary and Secondary Trade Areas:

- 1. Population Growth Trends
- 2. Employment/Unemployment
- 3. Demographic Trends:
 - A. Household Income
 - B. Education
 - C. Labor Statistics (Population by Occupations)
 - D. Age Distribution
 - E. Population Distribution by Race
- 4. Economic Activity:
 - A. Taxable Sales
 - B. Construction Activity
 - C. Deposits in Financial Institutions
 - D. Housing Unit Growth / Non Residential Activity
 - E. Assessed Real Estate Values

- G. Profile of Businesses (by type of Firms, Number of Firms, Number of Employees)
- H. Traffic Counts (Near proposed first office and comparisons)
- I. Commuting Patterns

SOURCES:

U.S. Bureau of the Census (Population, Income, Education, Labor, Age by SMSA, Municipality, and Census Tracts)

Virginia Employment Commission. Population and Labor Force Data (Unemployment, Employment by Industry)

Taylor Murphy Institute of the University of Virginia. Deposits in Commercial Banks

Local Sources:

Chamber of Commerce

City Planning Commission

Commissioner of the Revenue

Real Estate Assessors Office

Industrial Development Authority

While the above lists are not all-inclusive in terms of useful statistics and sources, it does outline the basic requirements of the analysis of the proposed trade area. Once the information has been gathered and tabulated, it is the task of the people responsible for the study to interpret the information with respect to the proposed new bank. General Market Information should be compared to national trends. Trade area statistics should be compared to the General Market. Are the trends in such areas as population, economic activity, income, etc. positive or negative.

Notes

1. George S. Day, Strategic Market Planning: The Pursuit of the Competitive Advantage. (St. Paul: West Publishing Co., 1984) p. 17.

2. William Handel, The Strategic Planning Manual (Chicago: Whittle and Hanks, Inc., 1984) III - 18.

3. Day, op. cit. p.26.

4. Handel, op. cit. III - 34.

CHAPTER FOUR

THE BOARD OF DIRECTORS

One of the most important elements in the approval process of the new bank as well as in its chances for ongoing success, is the selection of its Board of Directors ¹. This Chapter will outline the responsibilities and duties of the Board of Directors and describe the characteristics the organizers should attempt to install when recruiting the Directors of the bank.

Responsibilities of Directors: The following is a list of 24 responsibilities and duties of the Board of Directors of a Bank as proposed by George N. McNath in his address to the Virginia Community Bankers Directors Conference in October, 1985 ²:

1. Select Management
2. Give general oversight to the bank's activities.
3. Approve the organization plan.

4. Adopt personnel and operating policies (after receiving recommendations from management ranging from dress code to vacations; from working hours to benefits; from duties of position to civic participation.
5. Set Goals
6. Adopt Budgets
7. Review progress in meeting budgets.
8. Establish loan policy, including lending limits.
9. Discuss (giving guidelines) interest rates.
10. Establish objectives on ratios of loans.
11. Authorize certain loans which require Board action.
12. Supervise investments.
13. Approve a public relations campaign.
14. Decide on capital investments --both equipment and buildings.

15. Set management salaries.
16. Review financial reports.
17. Review new business reports.
18. Examine Auditor and examiners reports.
19. Review Insurance coverage.
20. Set dividends.
21. Compare financial figures with other banks of similar size, such as loan ratios, cost of salaries as related to assets, and profit.
22. Study the role of the bank in the community and see that the bank fulfills that role.
23. Consider and adopt plans for growth.
24. Plan for the future.

If these are the responsibilities of the board, then perhaps they can be grouped and summarized into four opportunities:

- I. To establish goals.
- II. To create the tone of the operation
- III. To set policy.
- IV. To review the success of the bank.

Characteristics of the Board of Directors: There are two main issues to consider in the recruitment of the Board of Directors: 1. What type of Board composition will best serve the interests of the stockholders of the new bank and 2. What Board composition will meet the approval of the regulators. While these two criteria are not necessarily in conflict, there are instances when a bank charter was denied primarily due to the fact that the Commissioner felt that the majority of the proposed directors were unsuitable to direct a bank. The following list summarizes characteristics of the Board, both individually and as a whole, which would result in both an effective directorship of the new bank and acceptability by the banking regulators:

1. Cross-Section of the Community: The bank's Board should represent all sectors of the proposed trade area. This means women should be included as well as minorities --if the trade area is characterized by a significant minority

population. Business backgrounds should be diverse and representative of the economy. The Board should not be skewed towards one particular occupation (e.g. lawyers.)

2. Directors should be well-known and respected in the community. Typically, bank board members have a high degree of involvement in community affairs and are high-achievers in their vocational endeavors.

3. Financial Integrity & Stability. Bank directors should have a relatively strong, stable personal financial statement. The charter application requires the filing of personal financial statements and biographies on all proposed directors (statements are treated confidentially.) This information is scrutinized carefully during the Bureau's investigation of the bank's application. The proposed directors should complete these forms with diligence and full disclosure. As one wag remarked "Don't fill it out like you're applying for a loan." When an individual is approached by the organizers as a possible board candidate, the first thing to be required is a financial statement and a credit report. Any individual who has unsatisfactory performance on obligations, shaky or shady financial dealings, or any other skeletons in the closet should not be considered for the Board of Directors.

4. Board members should be required to make a substantial financial commitment to the bank^s. This is not to mean that the organizers should "sell seats" on the Board, but, in order to be effective, a director should have a stake in the bank he is supervising. However, no one director should purchase more than 5% of the initial capitalization, nor should more than 10% be controlled indirectly through family or business interests (this applies to anybody, not just directors.)
5. The Board should be characterized by a range of different ages.
6. There should be an odd number of Directors (to avoid tie votes.)
7. The Board should not be too large --maximum of 11 members. Minimum size by statute is five members.
8. Board members should be individuals who can sell the bank's stock during the organizational period and bring business into the bank through their personal and business contacts once the bank is open ⁴.
9. The Board needs to have some members with previous

experience in banking, either in management or, preferably, as a director. The Commissioner likes to see one-third of the board with prior experience in banking. While this is often difficult (experienced bank directors are usually already directing a bank,) the organizers need to give the Bureau some banking experience on the proposed Board of Directors.

Notes :

1. Larry w. Martin and Diane R. Sauter, "Analysis of High and Low Performance De Novo Banks" Magazine of Bank Administration. March 1986, p. 24.
2. George N. McNath, "A Director's View of Directing the Bank", (Address given to the Virginia Bankers Association Community Bank Directors Conference, October 2, 1985, Charlottesville, VA.)
3. Paul s. Nadler, "What the Board Can Do for the Bank" Bankers Monthly Magazine, December 15, 1978.
4. Masters and Sauter op. cit. p. 25

CHAPTER FIVE

CHOOSING THE CEO

In an analysis of 30 de novo banks in Colorado, Larry W. Martin and Diane R. Sautern found the selection of a Chief Executive Officer with the proper background and perspective to be the single most important factor for success of a new bank. This chapter will outline the general roles of the bank CEO and discuss some of the important factors to be considered in the selection of the bank's president.

ROLES OF THE CEO. There are numerous models and analyses of organizational behavior and structure which discuss the roles of the Chief Executive Officer. Henry Mintzberg, in his research and observations of managers at work, has described the CEO's job in terms of behavior and roles ¹:

INTERPERSONAL BEHAVIOR: Mintzberg defines three interpersonal roles of the CEO. As a figurehead, the CEO represents the bank for ceremonial duties. He also is the leader of the organization as a work unit. And the CEO must serve as liason to contacts outside the bank.

INFORMATIONAL BEHAVIOR. The CEO must serve as a monitor of

information from within and without the organization. This means that the CEO must be exposed to outside information (industry literature, conferences) as well as implement a system of management information reporting which gives the CEO sufficient information to review the operating results of the various areas of the bank. As a disseminator of information, the CEO is responsible for seeing that the internal and external information that he or she monitors is disseminated to the appropriate individuals and functionaries within the bank. As spokesperson for the Bank, the CEO's role is to report information concerning the bank to individuals and entities outside the bank such as stockholders, regulators and the media.

DECISIONAL ROLES. The CEO is the key decision maker for the bank. Mitzenberg identifies the decisional roles of the CEO as follows: The entrepreneurial role requires the CEO to recognize and act upon strategic business opportunities available to the bank in its market. As a disturbance handler, the CEO must have the skills to be able to make decisions during times of crisis and be able to solve disputes between individuals or work units within the bank. As resource allocator the CEO has responsibility for the allocation of capital and human resources amongst the different areas of bank operations. And finally, as negotiator, the CEO must handle or monitor all major contracts

and purchases concerning major loan or investment deals, facilities expansion and other major capital decisions.

QUALIFICATIONS OF THE CEO. Some of the following CEO qualifications were reported as results of the Master and Sauter paper. Other factors were indicated in interviews with staff members of the Bureau of Financial Institutions whom offered their opinions of the qualification they sought in the approval process of a new bank:

EDUCATION. CEO's of successful de novo banks generally had a bachelor's degree in a business related area such as finance, marketing or management. MBA's did not seem to register as a success factor. Additionally, college degrees were typically supplemented with related graduate studies at schools of banking. Conversely, CEO's of low-performance de novo banks in the study tended to have fewer educational credentials, particularly in business and bank-related areas ².

EXPERIENCE. Typically, the CEO's of high-performance banks had 10 years or more of banking experience in a broad range of activities, with a heavy concentration in commercial lending (five years or more.) The study indicates the de novo banks with CEO's who lack direct, in-bank experience -- i.e. those with non-bank backgrounds and limited lending experience --often experienced poor performance³. Interviews with the

state regulators indicated a strong preference for a CEO with prior experience and a successful track record as a CEO of another bank. The educational credentials and lending experience were also highlighted as important in the approval of a CEO for a new bank proposal.

EQUITY POSITION. The Master and Sauter paper reported a strong correlation between the CEO's ownership position in the bank and its performance. The indication, of course, is that the organizers should fully expect their CEO to make a significant investment in the new bank.

MANAGEMENT STABILITY. The study also reported a correlation between the high-performance banks and CEO's who had been with the bank since it opened. They found a converse correlation between poor-performance and bank's which had changed CEO's since opening.

Notes :

1. Henry Mitzenburg "The Manager's Job: Folklore and Fact", Harvard Business Review, July-August 1975, pp. 49-61.

2. Masters and Sauter, loc. cit.

2. Masters and Sauter, loc. cit.

CHAPTER 6

PROFESSIONAL SERVICES

The Bank in organization will require the services of outside firms for the provision of several important services. Two key considerations should be kept in mind while selecting the firms to provide legal, accounting and other services: 1) Minimize the cost associated with these necessary services and; 2) Try to avoid insider transactions --i.e. dealings with firms represented on the board of directors.

LEGAL SERVICES As we all know, businessmen can hardly make a move these days without having a lawyer say grace over any and all transactions. There are several important areas in the organizational process which will require the service of a competent legal firm.

Preparation of Corporate By-Laws and Filing for Incorporation. One of the first steps in the organizational process is to incorporate as a "bank in organization." This will require filing for incorporation with the State Corporation Commission. In order to receive the corporate charter, the bank must prepare corporate by-laws as part of its filing. The bank's attorneys should assist in the process of preparing by-laws

and filing for incorporation in order to assure compliance with state and local incorporation statutes.

The Offering Circular and Subscription Agreement. The process of raising the initial capitalization of the bank requires the preparation of an offering circular and subscription agreement. The offering circular is a prospectus for a new business. It is essentially one long disclaimer that describes in detail all of the risks inherent in the investment in the new bank. It also provides additional information about the organizing directors, the projected organizational expenses and other areas.

The subscription agreement is a legally-binding contract between the bank and the investor, wherein the investor agrees to buy a certain number of shares of the bank's common stock. It will require a down payment (usually 20% to 25% of the subscription price) and a provision that the remainder of the subscription will be due at some future date.

The bank's attorney should assist in the preparation of both the offering circular and the subscription agreement to ensure full disclosure, compliance with SEC and state laws, and legality of the contract.

Leases and Contracts. The organizing bank should have their

attorneys review all major leases and contracts both during and after the organizational period. A good attorney can be very helpful in negotiating favorable terms for the bank as well as reviewing the legality and viability of contracts. It is also important to assure that all contracts and leases negotiated prior to the approval of the bank's applications to the regulatory authorities be contingent on such approvals.

MARKETING SERVICES. The new bank will need to retain the services of a marketing agency during the organizational period. Marketing services will generally be utilized in two phases: 1) The marketing of the bank stock; and 2) the preliminary marketing of the bank itself. In the first phase, the marketing agency must assist the organizers in designing and implementing a program of media usage, direct-mail solicitation and direct selling (by directors) that concentrates on getting the stock sold. Once the capitalization goal is met, the marketing firm must be prepared to immediately change the program to begin marketing the bank to its target market segments in anticipation of the opening of the bank.

ACCOUNTING SERVICES. The organizers should contract with a reputable public accounting firm to provide audits and financial advice during the organizational period. If the calendar year-end occurs during this period, the bank must be

audited and an annual report prepared by the accounting firm. Additionally, if the bank has more than 500 stockholders at year-end, The SEC requires the filing of an F-1 report within 45 days of the year end. The F-1 will require the assistance of the accounting firm.

ESCROW SERVICES State law requires that proceeds from the subscriptions in a bank in organization must be deposited in escrow with insured financial institutions or invested in U.S. Government obligations ¹. An expeditious way to meet this requirement is to set up a trust account with the trust department of a commercial bank. The funds must be under the control of at least two of the organizing directors. The designated directors will be authorized to direct the trustee's investment of the capital funds and request withdrawals for organizational expenditures. The funds should be invested by the trustee in insured bank CD's and U.S. Treasury and Agency obligations.

CONSULTING SERVICES. The use of a consultant should be considered, especially if the organizing directors and management have limited experience in organizing a new bank. The use of a consultant can have the effect of having a management team available during the organizational period which the bank would otherwise not be able to afford. Some of the areas in which a consultant can be helpful include the

following:

1. Economic and Demographic research of the Market.
2. Marketing assistance during sale of stock.
3. Preparation of State and Federal Reserve applications.
4. Preparation of financial reports for the Board.
5. Preparation of financial projections, budgets, and break-even analyses.
6. Training and education of the Board of Directors.
7. Recruiting of management and staff.
8. Operational assistance in preparing for the opening of the first office.

One unique idea, which has been used in Virginia, is to contract with another community bank to provide consulting services. This would normally be a bank which does not directly compete in the new bank's trade area.

Notes :

1. Division of Research and Structure, Bureau of Financial Institutions, State Corporation Commission of Va. "Bank Directors Responsibilities", (Richmond, Commonwealth of Virginia), May, 1985, p. 11.

2. See: Community Trust Bank, Application of New Bank. State Corporation Commission Document Control Case No. RFI1850148. The Commissioner and Deputy Commissioner's report cited the applicant's use of another established community bank as consultant as a factor in it's decision to approve the application.

CHAPTER SEVEN

RAISING THE CAPITAL

Perhaps the most challenging task facing the organizers of the new bank is the marketing of the bank to the investing public through the initial stock issue. This chapter outlines the key issues in the capitalization process:

Setting the Capitalization Goal. For the past several years, de novo bank organizers generally assumed that \$2.0 million is the minimum capitalization acceptable to the regulators. Well, times are changing and this number may as well be revised up to \$3.0 million. They won't tell you that, but the logic is as follows: The "safe" range for the capital/asset ratio of a bank is 7.5% to 8.0%. An initial capitalization of \$2.0 million, then, will support a bank of approximately \$27.0 million in assets ($\$2.0 \text{ million} / 7.5\%$). In a metropolitan market, such as Hampton Roads, Richmond, or Northern Virginia, this asset level should be achievable in a relatively short time frame, if the new bank projects reasonably successful operations. If we assume that this can be achieved within three years, the bank has reached a growth limitation (its capital account) not too long after it first begins to break even. The earnings projection will be explored further in the

next chapter, but the point here is that at \$3.0 million in capital, the de novo bank can grow to approximately \$40 million in assets before becoming limited by its capital. At this level, however, the bank should be in an earnings mode where 1. the capital account is growing through earnings; and 2. its earnings trend will allow it to go to the capital market and sell additional stock. The regulators will be very unlikely to approve the application of a de novo bank with less than \$3.0 million in initial capital, except possibly in a rural market where growth will be relatively slower, and the organizers can demonstrate that the bank can operate profitably on this initial capitalization level.

The Offering Circular. As described in the previous chapter, the offering circular tends to be a rather negative document which emphasizes all of the risks associated with the investment and is not exactly a marketing tool. However, it should be professionally prepared and printed so as to present a good image to the potential investor.

The Subscription Agreement. The subscription agreement should also be professionally prepared and printed as well as be a legally binding contract. An important decision that the organizers is determining the par value of the stock, the subscription price and the amount of the required deposit or down payment to put into the subscription agreement. A good

suggestion is: \$10.00 subscription price, \$5.00 par value, and \$2.00 deposit. The main reason is that these numbers are easy to work with. It is easy to quote the full price of a given number of shares and the required deposit (e.g. 100 shares costs \$1,000 and the down payment is \$200.)

It is very important to require the subscribers business address on the subscription agreement. The regulators will need this information when evaluating the geographic distribution of the stockholder base.

Concentration and Distribution of Stock. The regulators require a complete list of stockholders with the application. They will look very closely at the number of shareholders, the concentration of ownership of stock, and the geographic distribution of the stockholder base. They do want to see a large number of stockholders, which indicates broad based support for the bank. They do want to see a majority (60% or more) of the stockholders living or working in the primary and secondary trade area. They do not want to see a large concentration of ownership in the hands of a few individuals. This means that no more than one or two stockholders should own as much as 5% of the bank's stock ¹.

Director Salesmanship An extremely important factor in recruiting the Board of Directors of the new bank is to find

people who can sell the bank's stock. During the capital raising period, these individuals must literally pound the pavements to move the stock. During this phase of the organization, the Board should meet weekly. These meetings should be primarily sales meetings, during which the directors develop lists of potential investors, exchange leads, and report their progress on an individual-by-individual basis.

Marketing Tactics. As previously mentioned, the most important marketing strategy is sales through the directors' contacts. These efforts must be supplemented through the use of other marketing tactics. The marketing agency comes into play as the use of newspaper ads, direct mail solicitation, and calling programs are implemented.

Stockholders Accounting A sophisticated, computerized stockholders accounting system should be implemented at the outset of the capital raising process. The system should be effective in both financial and database applications. This will be valuable to the bank in several ways. Primarily, the importance of accurate financial recordkeeping should be obvious. The stockholders accounting should balance to the bank's investment schedule and profit and loss statement. Additionally, information on individual subscribers should be easily retrievable and accessible. Also, the database applications will be necessary for preparation of stockholders

list by various sorts (geographic, who hasn't paid) and to implement communications with stockholders through direct-mail and other word-processing functions.

Notes :

1. Bureau of Financial Institutions, op. cit. p. 4.

CHAPTER 8

PREPARING THE STATE APPLICATION

As soon as the capital-raising campaign is off the ground, the organizers must begin preparing the applications for authority to begin business as a state-chartered, Federal Reserve member bank. This task should generally be assigned to the CEO, assuming this individual has been hired. This chapter discusses the application to the Bureau of Financial Institutions of the State Corporation Commission of the Commonwealth of Virginia.

The state application explains to the Banking Commissioner the following issues and factors concerning the proposed bank:

1. How much capital has been raised.
2. Who the shareholders of the bank are.
3. Who will operate the bank (management and directors)
4. How much it will cost to organize the bank.
5. Where the Bank plans to operate.
6. What the organizers project for the financial performance of the bank.
7. Characteristics of the Trade Area.

8. Competition in the Trade area.

9. The overall business plan of the bank.

The application should be professionally prepared and presented. The BFI recently revised its application forms to 8.5" x 11" paper, making them easier to prepare than the previous legal sized forms. All documents and supplements should be prepared on 8.5" x 11" paper as well. If a copy of a lease or other legal sized documentation needs to be included, use a reducing copier to standardize the sheets. The application must be submitted in duplicate. It is a good idea to put the application in a three-ring binder with labeled section dividers. Remember --neatness and professionalism count!

The Table of Contents of a state application may look like this:

PREFACE

Request for Confidential Treatment

Insurance Binder - Bank Organizational Bond.

APPLICATION

- I. General Information
- II. Bank Quarters
- III. Investment in Furniture & Fixtures
- IV. Estimated Organizational Expenses
- V. Adequacy of Capital Structure
- VI. Future Earnings Projections
- VII. Public Interest

SUPPLEMENTAL INFORMATION

- I. Maps
- II. Directors Certifications
- III. Directors Financial Statements
- IV. List of Subscribers
- V. Permanent Quarters Information
- VI. Offering Circular
- VII. Resume of CEO
- VIII. Community Reinvestment Act Statement and Notice

The remainder of this chapter will provide step by step guidelines and instructions on preparing the state application following the Table of Contents above. See Appendix A for a copy of the State application for a new bank.

PREFACE

Request for Confidentiality. This short statement requests that the personal financial statements of the Board of Directors be treated as confidential information. New bank applications are public information and as such are available for inspection at the State Corporation Commission Document Control Center. This request ensures that the directors finances will not be treated as public information along with the rest of the application. An adequate request will read something like this:

REQUEST FOR CONFIDENTIALITY

In accordance with the New Bank Application Information and Instruction Sheet, the personal financial statements of each director of (Bank Name) have been included in this application. Public disclosure of these statements would result in unwarranted invasion on personal privacy. Accordingly, we respectfully request confidential treatment

of the personal financial statements of each director.

Insurance Binder. The organizers must obtain fidelity bond coverage for a bank in organization. It should cover the bank up to the amount of the projected total capitalization. A copy of the Binder or final policy should be included in the preface to the application.

APPLICATION

I. General Information. Much of the information on the first page of the application is self-explanatory. A few points bear discussion here:

Location: This should be the address or description of the location of the bank's first banking office. Do not make the mistake of using a temporary mailing address or the regulators will interpret this as the location of the first branch.

Trust Powers: Not much has been said about trust powers in this paper as not many new banks open with a trust department. If the applicant plans to open with a Trust Department, the application will have to address the issues of management experience and ability in the Trust area within the application, particularly in Public Interest

Section B.

Subscriptions Information The number of authorized shares and par value will have been designated in the corporate bylaws and disclosed in the offering circular. Authorized shares, of course, will exceed the number of shares offered for sale to allow for future growth of capital through the sale of stock.

The Subscriptions to Date, Number of Shares Subscribed, Sales Price, Number of Subscribers and Subscriptions Paid in Cash should all agree to the totals on the listing of stockholders in the supplemental information section. The expected subscriptions on opening date (total number of shares projected to be sold multiplied by the sales price) should not greatly exceed the subscriptions to date. In other words, the applicant should have 85% to 90% of the total expected capitalization sold at the time of application. The organizers must also be confident that the Expected Subscriptions on Opening Date figure on the application will be obtained within six to eight weeks of the application date.

There are important reasons for submitting an accurate figure for the expected capitalization. First, the Commissioner will require a final listing of subscribers

prior to issuing approval of the application. Therefore, the figure on the application must be obtained prior to receiving the Certificate of Authority. The expected subscriptions figure is the also capitalization base used in the extensive financial projections required later in the application. If a figure is submitted and not attained, the regulators will require a complete revision of the financial projections using the actual capitalization realized through the stock issue. Obviously, this will cause delays in the approval process. Another reason is that it reflects unfavorably upon the organizers to submit an expected capitalization which has only been 50% or 60% attained, especially if it is not realized and the application requires major revisions. It gives the impression of overly-optimistic and overly aggressive directorship and management of the bank --an image that is certainly to be avoided when dealing with the Commissioner.

Expected Opening Date. Add five or six months to the application date.

II. Quarters. This Section should contain a detailed description of the permanent and temporary premises to be occupied by the new bank upon opening for business. The description should include the following information:

- The address or description of the location.
- The square-footage to be occupied.
- Brief description of the physical characteristics of the building .
- If it is to be leased, an outline of the exact terms of the leasing agreement.
- If it is to be purchased, a description of the terms of sale.
- If the building is to be built, an estimation of the construction costs and information relating to the contractor.
- If the bank is to occupy temporary quarters, such as a bank trailer while a permanent location is under construction, the rents and timing of these arrangements should be described.
- If any subleasing of premises by the bank is anticipated, estimations of the net rental income should be disclosed.

Leasing the permanent quarters in the beginning years of operations, other things being equal, will be regarded more favorably by the Commissioner than purchasing and/or building the bank's first location. The reasoning is that a substantial investment in premises (\$500,000 or more) ties up a significant portion of the new bank's capital in

non-earning assets, a situation which generates a substantial opportunity cost in terms of interest income versus leasing. Another caveat is that the commissioner is very wary of "monument building" by the Board of Directors of a new bank.

An arrangement that some new banks have utilized with success is to work out a deal with a developer and investor to build a bank building to the bank's specifications and lease it to the new bank. This offers the financial advantages of leasing and the physical advantages of the bank building its own quarters.

The bank may want to put an option to purchase at some future date into the lease to allow for ownership when the bank can afford it.

III. Investment in Furniture and Fixtures and Equipment. This section requires an estimation of the outlays that will be required to acquire the fixed assets necessary to outfit the bank premises into an operational banking office. The schedule is itemized by major categories. Experience dictates that the new bank should be able to open the doors with an investment of \$100,000 to \$150,000 in FF&E. The actual figures will depend on a number of factors, particularly the physical configuration of the building.

The CEO and/or organizers must contact vendors of bank equipment and office furniture and solicit proposals. There are several companies (LeFebure, Mosler) which can sell and install everything the bank will need with the exception of furniture. This includes vault, teller line and equipment, security equipment and drive-up facilities.

A typical estimate of the investment in furniture, fixtures and equipment is shown below:

ITEM	# UNITS	COST	RENTAL
-----	-----	-----	-----
Vault Door	1	13,500	---
Safes	1	4,500	---
Safe Deposit Boxes	200	7,000	---
Counter & Cage	5	6,750	---
Drive-Up Window	1	14,000	---
Night Depository	1	5,500	---
Security Equipment	--	5,350	---
Automated Teller Mach.	0	0	---
Furniture	--	25,000	---
OTHER:			---
Prefabricated Vault	1	19,000	---
Carpet & Drapes	--	5,000	---

TOTAL		105,600	

IV. Estimated Organizational Expenses. I suggest that this section be presented on a separate sheet of paper and inserted behind page 4 of the application as an attachment. More detail can be disclosed this way than the application schedule allows. As discussed earlier in this paper, the organizational expenses are very important in the Commissioner's evaluation of the proposed bank. At this point in the organizational process, the majority of the

organizational costs should have been incurred, and an estimation of the total organizational expenses can be accurately computed. Attorneys fees, advertising, printing and postage expenses associated with the incorporation and sale of stock will have been paid. The major expenses to be incurred during the remainder of the organizational period will be salaries, pre-opening marketing, occupancy expenses and office expenses. These cost should be both controllable and relatively easy to project.

Needless to say, the accounting and control of expenses should be an ongoing process from the very beginning. The bank will have to be prepared for a "mini-examination" of the books when the BFI investigators pay a visit on the applicant shortly after the filing of the application.

How will Expenses be paid? Answer: Organizational Expenses will be paid by subscribing stockholders based on the percentage of total shares subscribed

V. Adequacy of the Capital Structure. This section requires a summarization of deposit projections, an itemization of the beginning capitalization of the new bank, a statement of the proponents' attitude toward raising capital in the future and a list of the investment of the directors and major stockholders in the bank.

A. Estimate of Deposits for the Proposed Bank. The techniques

for estimating and projecting deposits are described later in this chapter. This section will be completed after the applicant has performed complete financial projections for the new bank. However, I will be using an example of a new bank throughout the financial projections section, so I will introduce the model bank now. I am basing the projections on a bank which starts out with \$3 million in capital:

TYPE OF DEPOSIT (000's)	First Year	Second Year	Third Year
Non-Interest Bearing	2,100	3,800	5,500
Time Deposits	4,200	11,500	16,500
Savings Deposits	2,700	5,700	9,000
TOTAL DEPOSITS	9,000	21,000	31,000

B. Proposed Capital Structure. The Reserve for Operations is simply an accounting maneuver by which new banks set up a reserve against which operating losses are charged rather than carry a negative retained earnings account:

Expected Subscriptions Opening Date	Capital Stock	Surplus	Reserve for Operations
3,000,000	1,500,000	1,000,000	500,000

Capital Stock is the Number of Subscriptions times the par value per share. The reserve should essentially be \$400,000 to \$500,000. The Surplus computed by subtracting Capital Stock and the Reserve for Operations from total subscriptions.

C. List of Directors, Officers, and Stockholders over \$25,000.

This listing is fairly self-explanatory. What the regulators are looking for here is: 1. What the Board has invested in the bank; 2. Does anyone control more than 5% of the banks stock; 3. How much concentration of ownership exists; and 4. If the directors own the required amount of shares free and clear.

To complete the Amount Borrowed column, the applicant should ask the directors if they have borrowed to buy their stock and report their disclosure. As far as non-directors are concerned, the only way the applicant knows if they borrow to purchase the stock is if a lending institution contacts

the bank to notify them to deliver the shares to the lender as collateral upon issuance of the stock certificates.

VI. Future Earnings Prospects. This section will be developed in detail later in this chapter under the Public Interest Section C.

VII. Public Interest. This four-part section of the application is the real meat of the document. In the public interest section, the applicant demonstrates their knowledge of the market, their overall marketing and operating plans, and their projection of the financial viability of the proposed new bank.

Public Interest Section A: "Define the Trade Area and describe its economic base and development, its economic and demographic growth and potential, and the level of financial competition."

The applicant has already prepared this section (or should have.) The analysis of the Trade Area and General Market described in Chapter Three is the foundation and framework for completing this section of the application. The applicant should address and analyze the following characteristics of the trade area and general market:

1. Geographic Description
2. Location of the Bank
3. Current Developments and projects planned or underway in the trade area.
4. Commuting Patterns and trends.
5. Traffic Counts near the proposed location.
6. Occupational Statistics and trends.
7. Population Growth
8. Retail Sales
9. Building Activity
10. Education
11. Income
12. Deposit Growth in the Trade area in Banks, S&L's and Credit Unions.

Public Interest Section E: "Discuss the characteristics of financial services offered in the trade area and specify how the proposed institution will differ or compare in the quantity and quality of services to be offered."

Begin this section with a general discussion of the other financial institutions in the area. Identify the level of competition from regional banks, other community banks, S&L's, Credit Unions and non-bank financial institutions. Discuss patterns and trends in deposit growth. Merger

activity may indicate that a niche is available for an independent bank in the trade area.

Recognize the fact that the trade area has full-service banking available at present and that the proposed bank will not differ greatly in the products and services to be offered, and then go into a discussion of the identified competitive advantages that will allow the bank to compete effectively against the competition (from Chapter Three.) These advantages will include such factors as: Locally owned and operated; management expertise and background; Board leadership and marketing; convenience of facilities and hours. In this section it is appropriate to give brief biographies and backgrounds of each director, the CEO and, if possible, other members of the management team. Discuss the general structure of the bank and identify programs and policies under development which relate to competitive issues (marketing plans, call programs, etc.)

Next, present a description of the market segments to be targeted by the bank. Discuss the demographic information which supports the actionability of the segments and describe the characteristics of the segments which make them attractive as bank customers.

Include a list of products and services to be offered by the

bank and mention some services to be brought into the product line in the future, such as financial planning or automated banking.

Summarize by relating how the competitive advantages, policies and programs, and products and services will allow the bank to succeed in attracting the targeted market segments.

Public Interest Section C: "Show how the proposed institution will become viable within a reasonable period of time. In answering this question, you may wish to relate your deposit and earning projections (Section VI) to the market characteristics described in this section and other pertinent factors."

The approach to this section is to give a detailed description of the financial projections presented in Section VI (which have not been done until the analyses in this section have been completed) and to further develop the business plan with respect to the financial management and profitability issues.

Suggested Outline for Public Interest Section C:

1. Organizational Period
2. Deposit Projections
3. Capitalization
4. Asset Management
 - A. Cash and Due Froms
 - B. Investments and Fed Funds
 - C. Loan Portfolio
 - D. Fixed Assets
5. Interest Income
6. Interest Expense
7. Net Interest Income
8. Other Income
9. Other Expenses
10. Financial Summary

1. ORGANIZATIONAL PERIOD. Give a brief description of the organizational period thus far. Include the starting date, how long it took to raise the capital, the staffing and headquarters arrangement, the anticipated timing of the collection of subscriptions due and the anticipated opening date.

Present the schedule of Organizational Expenses again (from Section IV.) At the end, include notes explaining the major expense categories. Also show projected interest income during the organizational period and show a net organizational expense figure. The following is an example of how this schedule may appear:

NEW BANK AND TRUST

PROJECTION OF ORGANIZATIONAL EXPENSES

Application Fees	4,500
Legal Fees	7,500
Consulting Fees	8,000
Salaries	43,500
Benefits	4,000
Advertising	25,000
Printing	5,000
Postage	1,500
Insurance	1,500
Supplies	750
Rent	6,750
Furniture Rental	1,500
Telephone & Utilities	3,000
Miscellaneous	500

TOTAL EXPENSES	----- 113,000
Interest Income	75,000
Net Organizational Expenses	38,000

NOTES:

Application Fees: \$1,000 - Incorporation, \$3,500 to State Corporation Commission for Application for State Banking Charter.

Legal Fees: To Jones, Jones & Smith for services associated with preparation of bylaws, filing for incorporation, preparation of offering circular and subscription agreement.

Consulting Fees: To Bigger Bank and Trust - \$1,000 per month for eight months for consulting services.

Salaries: CEO - \$50,000 annually for nine months = 37,500
 Part time secretary 8,000 annually for nine mos. = 6,000
 Total = 43,500

Advertising: Total billings associated with advertising of

stock issue: \$20,000. Project \$5,000 additional expense for pre-opening marketing activities.

Rent: Rental of 500 square foot organizational headquarters at \$750 per month for nine months.

Show how the interest income for the organizational period was derived by showing a projection of the bank's statements of financial condition during the period. Investment yield assumptions for the example on the following page are: U.S. Government Bonds - 7.50%, Certificates of Deposit - 8.00%:

Statements of Financial Condition - Organizational Period
 January - September 1986*

	Jan-86	Feb-86	Mar-86	Apr-86	May-86	Jun-86	Jul-86	Aug-86	Sep-86
Cash	15	5	17	6	10	10	10	10	10
U.S. Govt. Bonds	0	0	250	250	500	750	1,000	1,250	1,250
CD's	30	175	100	370	623	1,424	1,830	1,689	1,702
Total Assets	45	180	367	626	1,133	2,184	2,840	2,949	2,962
Capital Paid In	56	204	414	688	1,200	2,250	2,900	3,000	3,000
Interest Income	0	1	2	6	11	22	38	57	75
Expenses to Date	11	25	49	68	78	88	98	108	113
Net Capital	45	180	367	626	1,133	2,184	2,840	2,949	2,962

* - January through April: Actual
 May through September: Projected

Note that the Income and Expense figures tie in to the projections on the schedule. Throughout the application, consistency in the relationships of the numbers to other numbers in the analyses is important. The interest income was computed by applying the rate assumptions to the average balance of the Bond and CD investments for the particular month and adding one month's computed interest to the prior months cumulative total. Expenses during the projected months was simply spread evenly over the five remaining months.

2. DEPOSIT PROJECTIONS. The entire basis of the financial projections depends on the deposit projections. There are different methods for generating deposit projections for new banks. The most popular method seems to be to pick some numbers out of the air, but a more analytical technique is preferable.

The suggestion here is to perform the following exercise:

1. Compile the Tayloe-Murphy deposits for the new bank's trade area for the previous six to seven years.
2. Perform a regression analysis on these numbers to derive an equation that estimates future deposit growth for the area.
3. Based on the competition, the bank's marketing plan and

other perceived trends and factors, set a goal for the new bank's percentage share of total deposits in the trade area for the first 3 years.

4. Calculate the deposit projections using the projected deposits for the trade area and the share of market goals.

EXAMPLE:

Total Deposits in Thousands of Dollars

	1980	1981	1982	1983	1984	1985
UVB	55,000	60,000	67,000	80,000	85,000	90,000
SOVRAN	15,000	15,500	18,000	18,500	19,000	19,500
1st VA	8,200	8,900	9,500	10,000	10,450	10,800
DOMINION	4,000	5,000	6,500	7,500	8,000	9,100
BK OF VA	5,100	5,500	6,000	6,500	7,000	7,500
CENTFIDEL	2,000	2,500	3,000	4,000	4,500	6,000
Community Bank	15,000	15,500	18,000	22,000	25,000	30,000
Little Bank	8,000	9,000	11,000	12,500	14,000	17,000
S&L1	9,000	9,500	9,000	10,000	12,000	13,000
S&L2	5,000	5,000	6,000	6,500	7,500	8,000
S&L3	1,250	1,800	2,500	3,000	4,000	5,000
Credit Union 1	900	1,100	1,500	1,700	1,800	2,000
Credit Union 2	600	750	850	1,000	1,100	1,300
Total Deposits	129,050	140,050	158,850	183,200	199,350	219,200

A regression analysis of the above numbers yields the following equation:

$$\text{Total Deposits} = \$106,317 + \$18,657 \times \text{Year N}$$

Where:

\$106,317 = The base figure generated by the regression

18,657 = The projected annual increase in Deposits

Year N = The Year to be estimated (1980 = 1,
1982 = 2 ... 1987 = 8 and 1988 = 9, 1989 = 10)

Using the regression estimate, the total deposits for the trade area for the three years coming are:

	1986 ----	1987 ----	1988 ----	1989 ----
Total Deposits	236,916	255,573	274,230	292,887

Assume that the organizers set the following share of market goals for the first three years of operations (using 1987-1989 as Years 1 to 3):

	1987 ----	1988 ----	1989 ----
Share of Market Goal	3.50%	7.50%	10.50%

Applying the share of market goals to the deposit projections yields the following projection of total deposits for the new bank:

	1987 ----	1988 ----	1989 ----
Total Projected Deposits (Year End in Thousands)	8,945	20,567	30,753

Breakdown of Deposits. The next step is to break down total deposits into the major interest bearing and non-interest bearing categories. The following schedule of ratios was taken from the Bank Administration Institute U.S. Bank Performance Profile 1984 Directory. The ratios are for banks in the state of Virginia ¹:

MEDIAN VALUES	Bank Asset Size (Millions)		
	< \$10	\$10-\$25	\$25-\$50
Demand Deposits % Deposits	19.34%	17.32%	16.34%
Saving Deposits % Deposits	29.36%	29.92%	30.89%
Time Deposits % Deposits	45.41%	59.91%	56.69%

These numbers do not add up to 100% because they are median values for all banks within the resource group. Another comparison that can be made is to look at the experience of new banks in the state. The following table is the result of a compilation of the balance sheets of 14 new banks which opened in the Commonwealth of Virginia between 1981 and 1985 ² (See Appendix C.) The Call Report information used to compute these ratios does not break down time and savings deposits separately:

	Year 1	Year 2	Year 3
Demand Deposits % Deposits	28.59%	19.19%	19.44%
Time & Savings % Deposits	71.41%	80.81%	80.56%

A combination of these two estimators may be calculated by averaging the Demand Deposit Ratios and spreading the remaining Time and Savings ratio according to the BAI

ratios.

Year End (%)	Year 1	Year 2	Year 3
Demand Deposits % Deposits	23.97%	18.25%	17.89%
Saving Deposits % Deposits	29.85%	27.23%	28.96%
Time Deposits % Deposits	46.18%	54.52%	53.15%
Total Deposits	100.00%	100.00%	100.00%

Applying these ratios to the Total Deposit estimates generates the following breakdown of deposits:

Year End (000's)	1987	1988	1989
Demand Deposits	2,157	3,834	5,545
Saving Deposits	2,687	5,718	8,978
Time Deposits	4,156	11,449	16,477
Total Deposits	9,000	21,000	31,000

The following schedule gives a more detailed breakdown of the deposit projections (using rounded off numbers)

Year End (000's)	1987	1988	1989
Personal DDA	550	900	1,500
Commercial DDA	1,550	2,900	4,000
Total Demand	2,100	3,800	5,500
NOW Accounts	1,000	2,000	3,500
Money Market Accounts	1,600	3,500	5,050
Other Savings	100	200	450
Total Savings	2,700	5,700	9,000
Short Term CD's	2,000	4,500	6,500
Long Term CD's	2,000	6,650	9,350
IRA's	200	350	650
Total Time Deposits	4,200	11,500	16,500
Total Deposits	9,000	21,000	31,000

The more detailed breakdown will be based on perceived trends in the trade area, information which can be garnered from the competition, and a little "Kentucky Windage."

3. CAPITALIZATION. The applicant should discuss the importance of prudent management of the capital account and assert that the management and directors of the bank will at all times maintain a sound capital to asset ratio (7.5% to 8.0%.) Any contemplated programs for the stockholders which will allow them to increase their investment in the bank --such as dividend reinvestment plans or optional cash contribution programs --should be mentioned. A brief discussion of the initial capitalization and stockholder base should also be included.

ASSET MANAGEMENT. A similar approach to asset projections may be taken as with the deposit projections. First, total assets should be roughly estimated based on the capital and deposits projections:

Year End (000's)	1987 ----	1988 ----	1989 ----
Estimated Deposits	9,000	21,000	31,000
Projected Capital	3,000	3,000	3,000
Total Assets	12,000	24,000	34,000

The compilation of the new banks in Virginia Balance Sheets gives us a break down of assets for the first three years of operations to use as an estimator:

Major Balance Sheet Categories as percentage of Total Assets - Composite of 14 New Banks opened in Virginia 1981 - 1985

	Year 1 -----	Year 2 -----	Year 3 -----
Cash Assets % Total Assets	7.73%	7.04%	6.62%
Investments % Total Assets	16.96%	23.26%	24.51%
Fed Funds % Total Assets	18.14%	9.53%	5.21%
Total Loans % Total Assets	51.97%	54.52%	57.71%
Loan Loss Reserve % Assets	-0.31%	-0.35%	-1.03%
Fixed Assets % Total Assets	4.05%	4.18%	4.39%
Other Assets % Total Assets	1.46%	1.81%	2.59%
TOTAL ASSETS	100.00%	100.00%	100.00%

Applying this schedule to the estimate for total assets:

Year End (000's)	1987	1988	1989
	----	----	----
Cash Assets	1,856	1,690	2,250
Investments	4,071	5,583	8,334
Fed Funds	4,353	2,288	1,771
Total Loans	12,473	13,084	19,622
Loan Loss Reserve	(75)	(83)	(352)
Fixed Assets	973	1,003	1,494
Other Assets	349	434	881
	-----	-----	-----
Total Assets	12,000	24,000	34,000

Now we can add a little detail to the projections based on the educated guess system:

Year End (000's)	1987	1988	1989
	----	----	----
Vault Cash	70	80	100
Due Froms	860	1,620	2,150
	-----	-----	-----
Total Cash Assets	930	1,700	2,250
Investments	2,000	5,600	8,300
Fed Funds	2,640	3,100	2,810
Installment Loans	700	3,000	5,000
Time and Demand Loans	2,250	5,000	8,000
Real Estate Loans	3,000	4,600	5,600
Other Loans	250	500	1,000
	-----	-----	-----
Total Loans	6,200	13,100	19,600
Loan Loss Reserve	(65)	(140)	(200)
Fixed Assets	120	240	340
Other Assets	175	400	900
	-----	-----	-----
Total Assets	12,000	24,000	34,000
	=====	=====	=====

Some of the estimates are adjusted due to certain knowledge about the proposed bank and the compilation numbers. For instance, the loan loss reserve ratio in the compilation is skewed to the high side due to a couple of banks which were carrying abnormally high loan loss reserves. A safe and prudent level for this ratio is to carry approximately 1% of loans in the reserve. Fixed Assets are based on the organizers actual projections with respect to premises and equipment. In the above example, I assumed that the bank would not purchase its first location and would carry a relatively lower level of fixed assets. Federal Funds is used to balance out the projections (much in the same manner as Federal Funds are handled daily in the bank to employ the maximum amount of excess funds into earning assets.)

The projections for year-end balance sheets have now been completed. In both the asset and deposit projection sections, the applicant should add comments on how these figures were determined. The application should also discuss the organizer's general philosophies concerning lending practices, asset/liability management, investment in fixed assets and other pertinent issues.

5. NET INTEREST INCOME The schedule of net interest income is relatively easy process once the balance sheet has been projected. The first step is to calculate average balance

sheets for the first three years of operations:

Projected Balance Sheet
Year 1 through 3 (000's)

	Beginning Year 1	End Year 1	End Year 2	End Year 3
ASSETS:				
Vault Cash	0	70	80	100
Due Froms	10	860	1,620	2,150
Total Cash Assets	10	930	1,700	2,250
Investments	2,852	2,000	5,600	8,300
Fed Funds	0	2,640	3,100	2,810
Installment Loan	0	700	3,000	5,000
Time and Demand	0	2,250	5,000	8,000
Real Estate Loan	0	3,000	4,600	5,600
Other Loans	0	250	500	1,000
Total Loans	0	6,200	13,100	19,600
Loan Loss Reserve	0	(65)	(140)	(200)
Fixed Assets	100	120	240	340
Other Assets	0	175	400	900
Total Assets	2,962	12,000	24,000	34,000

Projected Balance Sheet
 Year 1 through 3 (000's)

	Beginning Year 1	End Year 1	End Year 2	End Year 3
LIABILITIES & CAPITAL				
Personal DDA	0	550	900	1,500
Commercial DDA	0	1,550	2,900	4,000
Total Demand	0	2,100	3,800	5,500
NOW Accounts	0	1,000	2,000	3,500
Money Market Act	0	1,600	3,500	5,050
Other Savings	0	100	200	450
Total Savings	0	2,700	5,700	9,000
Short Term CD's	0	2,000	4,500	6,500
Long Term CD's	0	2,000	6,650	9,350
IRA's	0	200	350	650
Total Time Deposit	0	4,200	11,500	16,500
Total Deposits	0	9,000	21,000	31,000
Capital	2,962	3,000	3,000	3,000
Liabs. & Capital	2,962	12,000	24,000	34,000

By adding adjacent Columns and dividing by two, we generate average balance sheets for the first three years:

Projected Average Balance Sheet
Year 1 through 3 (000's)

ASSETS	Year 1	Year 2	Year 3
Vault Cash	35	75	90
Due Froms	435	1,240	1,885
Total Cash Assets	470	1,315	1,975
Investments	2,426	3,800	6,950
Fed Funds	1,320	2,870	2,955
Installment Loans	350	1,850	4,000
Time and Demand Loans	1,125	3,625	6,500
Real Estate Loans	1,500	3,800	5,100
Other Loans	125	375	750
Total Loans	3,100	9,650	16,350
Loan Loss Reserve	(33)	(103)	(170)
Fixed Assets	110	180	290
Other Assets	88	288	650
Total Assets	7,481	18,000	29,000

Projected Average Balance Sheet
 Year 1 through 3 (000's)

	Year 1	Year 2	Year 3
LIABILITIES AND CAPITAL			
Personal DDA	275	725	1,200
Commercial DDA	775	2,225	3,450
Total Demand	1,050	2,950	4,650
NOW Accounts	500	1,500	2,750
Money Market Act.	800	2,550	4,275
Other Savings	50	150	325
Total Savings	1,350	4,200	7,350
Short Term CD's	1,000	3,250	5,500
Long Term CD's	1,000	4,325	8,000
IRA's	100	275	500
Total Time Deposits	2,100	7,850	14,000
Total Deposits	4,500	15,000	26,000
Capital	2,981	3,000	3,000
Liabs. & Capital	7,481	18,000	29,000

The next Step is to make some rates and yield assumptions concerning the earning assets and interest bearing liabilities:

EARNING ASSETS	RATE FORECAST
Investments	9.00%
Fed Funds	7.50%
Installment Loans	13.00%
Time and Demand Loans	11.00%
Real Estate Loans	11.50%
Other Loans	14.00%

INTEREST BEARING LIABILITIES

NOW Accounts	6.00%
Money Market Act.	6.50%
Other Savings	5.25%
Short Term CD's	7.90%
Long Term CD's	8.50%
IRA's	9.00%

Multiplying the average earning assets and average interest bearing liabilities by the rate projections generates a Net Interest Income schedule.

INTEREST INCOME (000'S)	Year 1	Year 2	Year 3
Investments	218	342	626
Fed Funds	99	215	222
Installment Loans	46	241	520
Time and Demand Loans	124	399	715
Real Estate Loans	173	437	587
Other Loans	18	53	105
TOTAL	677	1,686	2,774

INTEREST EXPENSE (000'S)	Year 1	Year 2	Year 3
NOW Accounts	30	90	165
Money Market Act.	57	166	278
Other Savings	3	8	17
Short Term CD's	79	257	435
Long Term CD's	85	368	680
IRA's	9	25	45
TOTAL	258	913	1,619
NET INTEREST INCOME	419	773	1,154

6. OTHER INCOME. Other Income or non-interest income will be generated from a variety of sources including the following:

- Service Charges on Deposit Accounts
- Non-Customer Service Charges
- Return Check, Stop Payments and Overdraft Charges
- Credit Insurance
- Sale of Money Orders, Cashiers Checks and Certified Checks
- Safety Deposit Box Rental

The Annual Reports of the Bureau of Financial Institutions compiles operating ratios for state-chartered banks in Virginia broken down by asset size. The following ratios represent the average for the ratios reported by the BAI for 1983 through 1985:

Other Income % of Total Interest Income	Bank Asset Size (Millions)		
	< \$10	\$10-\$25	\$25-\$50
Service Charges on Deposits	2.25%	3.47%	3.24%
Other Non-Interest Income	3.23%	2.67%	2.50%

	Year 1	Year 2	Year 3
Projected Interest Income (000's)	616	1,549	2,560

INCOME PROJECTION

Service Charges on Deposits	13,860	53,750	82,944
Other Non-Interest Income	19,897	41,358	64,000
Total Other Income	33,757	95,109	146,944

7. OTHER EXPENSE. From the BFI Annual Report:

Other Expense % Interest Income	Bank Asset Size (Millions)		
	< \$10	\$10-\$25	\$25-\$50
Salaries & Benefits	20.34%	16.50%	15.44%
Net Occupancy Expense	6.53%	5.89%	4.73%
Other Non-Interest Expense	19.95%	11.97%	12.17%

	Year 1	Year 2	Year 3
Projected Interest Income (000's)	616	1,549	2,560
Salaries & Benefits	125,294	255,585	395,264
Net Occupancy Expense	40,225	91,236	121,088
Other Non-Interest Expense	122,892	185,415	311,552
Total Other Expenses	288,411	532,236	827,904

Analysis of other expenses using BAI numbers is helpful, but each new bank's situation will be unique in terms of occupancy expense, staffing and salaries, data processing systems, and other such expense categories. The organizers must project these major expenses by analyzing the operating plans made at the time of application and using their best estimates.

B. FINANCIAL SUMMARY: The numbers generated in the preceding sections of this chapter will give a good framework for completing the Public Interest Section C of the state application as well as other sections (Section VI - Future Earnings Prospects, and Section V-A - Estimated Deposits.). The numbers must be summarized and looked at as a whole to see if they make sense.

Summary of Financial Projections

	Year 1	Year 2	Year 3
Average Earning Assets	6,846	16,320	26,255
Average Total Assets	7,481	18,000	29,000
Average Deposits	4,500	15,000	26,000
Average Capital	2,981	3,000	3,000

Summary of Financial Projections (Cont.)

	Year 1	Year 2	Year 3
Interest Income	616	1,686	2,774
Interest Expense	258	913	1,615
Net Interest Income	358	773	1,154
Other Income	34	95	147
Other Expense	288	532	828
Loan Loss Provision	75	85	70
Organizational Expense	113	0	0
Net Operating Income	(152)	61	109
Return On Assets	-2.03%	0.34%	0.38%
Return On Equity	-5.09%	2.04%	3.64%
Yield on Earning Assets	9.00%	10.33%	10.56%
Cost of Funds	3.76%	5.59%	6.17%
Net Interest Margin	5.23%	4.74%	4.40%
Capital to Assets	38.26%	16.67%	10.34%
Earning Assets to Assets	91.51%	90.67%	90.53%

The preceding analyses illustrate the methodology for performing the projections of financial operating results of the proposed new bank. The analysis lacks the depth which must be implemented by formulating operating plans and projections for those income and expense areas which the organizers should, at this point, have a more exact idea of what the bank's actual experience will be. For example, staffing and salaries should be planned out for the three years. Occupancy Expense can also be projected with some degree of accuracy as can data processing, marketing expenses, professional fees, and several other categories. In this sense, the ratios compiled from the new banks are of

limited value; however, comparisons of the organizers' actual projections to these ratios should be made.

Notes :

1. Bank Administration Institute, U.S. Bank Performance Profile: An Index of Bank Performance. (Rolling Meadows Illinois: Bank Administration Institute, 1985)

2. Bureau of Financial Institutions of the State Corporation Commission Annual Reports 1981 - 1985

Public Interest Section D: This section requires a listing of all banks and Savings and Loan Offices operating in the trade area, their locations, their distance from the applicant's proposed first location, and their deposits for three prior years. To complete this section, the applicant will need: 1. The Yellow Pages; 2. A street map; 3. a ruler; and 4. The Tayloe Murphy Institute Reports of Deposits for the prior three years. Generally it is sufficient to list all banking offices in the city or county in which the bank will operate.

SUPPLEMENTAL INFORMATION

Maps . The applicant should include at least two maps:

Map 1 will show the general market area (SMSA) with the primary and secondary market outlined.

Map 2 will show the primary trade area. All of the banking and S&L offices operating in this area will be marked on the map along with the applicant's proposed location. A legend should be included to identify the depository offices.

Director's Certifications: There are three documents which must be submitted with both copies of the application:

- The Directors Certification (that the application information is true and correct.)

- The Directors Oath of Office.

- Directors Certification that they have read and understand the BFI booklet entitled "Bank Directors Responsibilities." The organizers must obtain these booklets from the Bureau and distribute them to the directors as they are recruited.

Directors Financial Statements. The personal financial statement of each proposed director must be included with the application with original signatures. Include these statements with only one of the copies of the application.

List of subscribers. The stockholders accounting system must be capable of generating a list of subscribers in alphabetical order, showing the following information:

1. Full name.
2. City and State of Residence.
3. Occupation.

4. Number of Shares Subscribed.

5. Cash paid in to date.

The shareholders list must be numbered consecutively. Total share subscribed and total cash paid in must be shown and agree with those numbers in the application.

Permanent Quarters Information. The applicant must include documentation to verify that the location which is proposed in the application is available to the bank under the terms and conditions outlined in previous sections. This could include copy of the lease, sales contract, building contract or letters of intent from both the bank and the seller/lessor.

Offering Circular. Include a copy of the offering circular as supplement to the application.

Resume of the CEO. The proposed CEO's resume should be included. The CEO should update his resume to emphasize banking experience, educational credentials, and civic leadership.

Community Reinvestment Statement and Community Reinvestment Act Notice. The Statement is a written copy of what the bank's Community Reinvestment policy will be. The Notice is a

copy of the Community Reinvestment Act notice which must be displayed in bank lobbies. These both should simply be plagiarized from a friendly fellow community banker.

CHAPTER NINE

PREPARATION OF THE APPLICATION FOR MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

The application to the Federal Reserve should be submitted to the Fed in Richmond shortly after the application for the state charter is filed with the BFI. While, technically, the Fed does not process the application until after the state approves the bank for a state charter, if they have the application prior to the state acts, they can do preliminary review of the document and expedite the approval process. Normally, the Fed will approve the application thirty days after the state issues their certificate of authority.

The Fed application is prepared according to an instruction sheet. The application is a cover sheet which requires the general information about the bank, and the remainder of the application is prepared according to the instructions. See Appendix B for a copy of the Federal Reserve membership application and instructions.)

The application should be submitted in triplicate, one original and two copies. As with the state application, it

should be presented in a neat, professional package utilizing a three-ring binder with sectional dividers.

1. Publication. Prior to the filing of the application, the organizers should have a Notice of Application published in the local newspaper legal ads section. The exact format is shown on the first page of the instruction sheet. The Notice must be published on the same day of the week for two consecutive weeks. The application should be filed in between the two publication dates.

2. Confidentiality. A request for confidentiality should be included for the Directors' personal financial statements.

FINANCIAL AND MANAGERIAL INFORMATION

1. Proforma balance sheet as of opening day: This will be a projection of the bank's assets and liabilities on the first day of operations. The balance sheet should total to the last balance projected for the organizational period in Public Interest Section C of the state application (see page 64.) A few changes should be made to reflect that the bank is ready to commence banking operations:

Pro-Forma Balance Sheet
 First Day of Operations

ASSETS:

Vault Cash	75,000
. Due Froms	100,000

Total Cash Assets	175,000
U.S. Govt. Obligations	1,000,000
Insured CD's	682,000

Total Investments	1,857,000
Federal Funds Sold	1,000,000
Fixed Assets	105,000
TOTAL ASSETS	3,137,000
	=====

CAPITAL:

Common Stock :	1,500,000
(par Value \$5.00, 1,000,000 shares authorized)	
Surplus	1,000,000
Reserve for Operations	500,000
Interest Income	75,000
Organizational Expenses	(113,000)
TOTAL CAPITAL	2,962,000
	=====

In Cash Assets, the bank projects that they will have vault cash in order to open their doors, and due froms --which are balances carried with other banks -- in order to cover clearing balances with the Fed and to pay for correspondent services from regional correspondent banks. It is also assumed that a portion of the bank's investment portfolio will be transferred to Federal Funds (overnight investment) in order to provide needed liquidity to start making loans. The Fixed Assets represent the projected required investment in furniture fixtures and equipment.

2. Give a summarization of the capitalization and include a copy of the offering circular and the subscription agreement. The summary information should be presented as follows:

Total Proposed Capitalization:	3,000,000
Number of Shares Authorized::	1,000,000
Number of Shares Subscribed:	300,000
Number of Subscribers:	625
Par Value per Share	\$5.00
Subscription Price	\$10.00

Capital Accounts:

Common Stock	1,500,000
Surplus	1,000,000
Reserve for Operations	500,000

TOTAL CAPITAL	3,000,000

3 - A: Estimate of organizational Expenses. Present the same schedule submitted in Section IV and Public Interest Section C of the state application.

B. through D. This section requires a thorough discussion of the financial projections for the proposed new bank. This section has been developed in detail in Public Interest Section C of the state application. Simply rewrite this section using sectional headings B for assets and liabilities; C for income and expense projections and D for the profit summary.

5. This section requires information concerning the directors and management of the bank. A convenient way to present the information is to make a table of the Board and CEO information which answers sections 5-A through D:

Board of Directors - New Bank & Trust

Name, City and State of Residence	Number of Shares	% Total	Occupation
Joe B. Adams Fortsmouth, Va.	5,000	1.67%	President, Jones Construction Co.
Robert E. Brown Fortsmouth, Virginia	8,000	2.67%	President, New Bank and Trust
Mary D. Jones Chesapeake, Va.	4,000	1.33%	Attorney at Law, Jones, Jones & Smith

Sections 5-E should be answered by a brief statement indicating that none of the principals own ten percent or more of another depository institution.

Brief, one paragraph biographies should be prepared for each board member to complete section 5-G. The biographies should highlight business background, education and civic involvement.

The financial statements of each director should be included in a separate section following the biographies.

Section 6 is completed by describing any transaction between or among the principals and the bank such as legal services, bank premise sale or lease transactions, etc.

Section 7 is answered by a statement asserting that none of the directors or management of the proposed bank hold official position with any other depository institutions.

Section 8 will presumably disclose that there are no affiliations between the proposed bank and any other bank or holding company.

In Section Nine, a copy of the articles of incorporation of the bank in organization should be included with a statement that the application for certificate of Authority to commence business as a bank has been filed with the Bureau of Financial Institutions of the Virginia State Corporation Commission and is pending approval.

COMPETITION, CONVENIENCE AND NEEDS

Section 1 requires a discussion of the economic and demographic characteristics of the proposed trade area and general market. Include a description of the specific location of the proposed first office. This section has been previously developed and written in Chapter Three and Public Interest Section A of the State application.

To complete Section 2, redraft the Public Interest Section D

of the State application, which is a listing of the name, location, and deposit size of comparing depository organizations.

Section 3 requires a discussion of the applicant's basis for establishing a bank insofar as it relates to the financial needs and convenience of customers in the trade area. Public Interest Section B of the state application answers this question in detail.

If the bank plans to open with a Trust Department, a complete discussion of the operating and marketing plans for Trust operations must be presented in Section 4. This should include managerial expertise and marketing issues. The projected profitability of the Trust Department must be discussed as well.

In Section 5, state the date upon which the bank plans to open (as stated in the state application)

Section 6 - A and B require the Community Reinvestment Act Notice and policy statement as presented in the State application.

CHAPTER TEN

TRAINING THE BOARD OF DIRECTORS

This manual has been written on the general premise that the organizers and directors of the proposed new bank have limited background in the banking industry. An important step in the development of the bank will be to train and educate the board in banking policies, procedures, finance and current topics. This Chapter outlines some of the topics which should be addressed in a training program for the Board. The training program should be implemented into the regular meetings of the Board of Directors. A ten or fifteen minute education session should be a regular agenda item through the organizational period and on into the beginning months of operations.

TRAINING SESSION TOPICS:

Overview of the Market and Trade Area. This session should be presented upon completion of the demographic and economic study as researched in Chapter Three. The information garnered in this study should be presented in written form for the Directors' use.

Overview of the Organizational and Approval Process. When the Board recruiting is completed, a session outlining the tasks that lay ahead should be presented including the time frames projected for the various phases of the project and the projections of organizational expenses.

Sales Techniques. Methods and techniques of personal selling would be a valuable training session for Board members. They are faced with the task of raising capital in a new venture, an undertaking which is likely to be a bit intimidating to some directors. A professional seller may be recruited to give this seminar.

Roles and Responsibilities of Bank Directors. An overview of the job description for a bank director including legal liabilities and responsibilities should be delivered relatively early in the organizational process. This topic can be supplemented by a number of publications and articles as well as the required reading of the BFI's book entitled "Responsibilities and Liabilities of Bank Directors."

Third Party Examiners. The role of the State and Federal bank examiners should be explained as well as the duties performed by the independent auditors.

The regulatory environment. The history of bank regulation

and deregulation should be discussed, particularly with respect to the issues of competition from non-bank financial institutions. Current banking related legislation should be reviewed as well.

Bank Finance: The Balance Sheet. The major asset and liability categories should be explained to the Board and the relationships between deposits, capital, earning assets and other assets should be reviewed.

Bank Finance: Net Interest Income. The earning assets and interest bearing-liabilities of the bank should be reviewed in detail. The mechanics of net interest income should be explained through the use of an example. Interest rate levels and asset/liability management should also be addressed in this session.

Bank Finance: Other Income and Expense. The major Other Income and Other Expense categories should be explained with emphasis on the importance of generating non-fund using sources of income and controlling overhead expenses.

Bank Finance: Loan Losses and Other Charge Offs. The sources of risk and exposure to the bank in the form of bad loans and cash items should be explained to the Board. The mechanics of recognizing these losses through loan loss

reserves and charge off procedures should also be reviewed.
The Board should become familiar with the various phases of collection procedures of loans.

Bank Finance: Key Measures of Bank Performance The key operating ratios of banks such as return on assets, return on equity, net interest margin and loan to deposit ratio should be explained to the Board. Comparisons of other community banks in the areas as examples of high and low performing banks should be presented.

Product Training. Once the board has learned some of the basic environmental and financial issues of running a bank, a program of product training should be implemented. These sessions should involve a thorough explanation of one particular product (IRA's, Commercial Checking, Installment Loans) at each meeting. This training will be crucial to having a board which can sell the bank effectively.

Other Topics. Other banking related areas which should be reviewed with the board in this training program include the following: Bank Security, Fraud, Conflict of Interest, Lending Policies and Procedures, Investment policies, personnel policies and Bank operations.

CHAPTER ELEVEN

GETTING THE DOORS OPEN

When the capital has been raised and the applications for approval have been filed, the organizers will have a waiting period of four to five months while the regulators ponder their proposal. During this period, the planning and preparation for opening the first banking office must begin in earnest. This Chapter will highlight some of the major decisions which will have to be made concerning the operational side of the bank.

Data Processing. The major issue with respect to DP is whether to buy an in-house system or to use a service bureau. The organizers of the bank will be approached by vendors of both types of systems. These salesman are generally pretty skilled and the choice often becomes difficult for the inexperienced organizers. Let's settle the issue right here and now: Use a service bureau.

Reasons for using a service bureau:

1. Personnel. Although vendors of in-house systems will deny it to their last breath, an in-house system requires

experienced and expensive data processing personnel. If the new bank tries to go with an in-house system and less expertise than is required, it will experience periodic problems and breakdowns which could have been avoided by having a DF professional on the staff. Another problem is that the bank will take a long time to get the full potential out of the system in terms of special reporting and account capabilities while the underqualified operators are figuring the system out. On the other hand, the service bureau support personnel provide the expertise for installation and ongoing support. Special Reports and new product modules can be requested in layman's terms and generally produced in a reasonable amount of time.

2. Capital. The service bureau charges on a volume basis (Number of accounts.) Therefore, in the first years of operations, the bank's DF charges are relatively low. In-House systems require either a heavy capital outlay for the hardware and software or a capital lease. Generally, the leasing alternative is preferable from a cash-flow/opportunity cost standpoint, but the implied interest rate of these leases, particularly to new concerns, is usually fairly high. The break-even between the primarily variable cost service bureau alternative and the primarily fixed cost in-house alternative should

be calculated. It usually works out to be two or three years. It should be pointed out that there is nothing to keep the bank from going to an in-house system in a few years once the bank becomes more financially and operationally stable.

3. Technology. The rate of obsolescence for hardware and software is quite high. Once the bank goes in-house, they have committed to a particular level of technology for at least five years. The service bureaus generally need to upgrade and install new releases on a regular basis in order to stay competitive with in-house systems and other service bureaus.

4. Emphasis. New banks cannot afford to be high-tech and operationally oriented. They need to concentrate on banking and getting customers in the door. The service bureaus can provide perfectly adequate customer service systems, on-line capabilities and EFT support without all the expense of purchasing and installing it completely at the bank's own expense. The new bank should be in the financial services business, not the data-processing business.

Location. The first permanent location should provide the

following:

1. Adequate space to house both the bank lobby and the operations departments. Decentralized facilities are inefficient in the initial years of banking operations. A good estimate would be a minimum of 4,000 square feet.
2. Adequate customer parking and Drive-Up facilities. The new bank must be able to compete with convenience.
3. A full-sized, walk-in vault. The vault is needed not only for currency and coin but for storage of records and micro-fiche. The new bank should also strongly consider the installation of customer safety-deposit boxes, which are a good source of other income.
4. Complete security systems: Cameras, alarms etc.
5. Good traffic flow for ingress and egress as well as the drive-up window. Curb cuts and traffic patterns on adjacent streets must be considered carefully.
6. Attractive, image-enhancing design and a functional floor plan.

Forms and Supplies There are a number of vendors which can supply literally every banking form required for banking operations from new accounts to loans (e.g. Bankers System, Inc.) These forms are pre-printed and can have the bank logo printed on them for a little extra cost. This approach is much preferable to designing and printing the bank's own forms not only from a cost and time point of view but from a compliance standpoint as well. The reputable companies in this business have to be in compliance or they can't sell their forms for very long.

Correspondent Services. There are a number of regional correspondent banks which will vie for the new bank's business (UVB, Sovran, NCNB and Wachovia to name the primary correspondents competing in Virginia) In addition, the Fed offers every correspondent service with the exception of Fed Funds investments. Security Safekeeping, Fed Funds, Investment Accounting and Reporting, Check Clearing, Electronic Funds transfers, and loan participations will all require the services of good correspondent. Most banks have more than one and take advantage of the relative expertises of the different correspondents. Correspondent services, with some exceptions, are paid for by maintaining offsetting balances with the correspondent. The recommendation here is to price-shop correspondent services and establish more than one relationship.

Teller Operations. It is highly recommended that the new bank hire only well-experienced tellers in the initial years of operations. They may be more expensive, but the new bank does not have the facilities nor depth of staff to train tellers. It is also advisable to hire on one or two tellers six to eight weeks prior to opening in order to get the teller line procedures and supplies set up and ready to go upon opening. The tellers can also be helpful in a variety of pre-opening jobs and duties.

The Bank Trailer. If the permanent location will not be ready to occupy on the opening date, temporary banking facilities will have to be arranged. There are several advantages to renting a temporary bank trailer for this purpose. The bank trailer comes equipped with security equipment, safes, teller line and drive-up window. If the bank utilizes some other temporary facility, the cost of upfitting it for banking operations could be prohibitive. Ideally, it can be placed right on the site where the permanent location is being constructed or prepared. Plan on outlays for site work for the trailer, which will include utilities, curbs, parking and possibly a lane for the drive-up.

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APPLICATION OF A NEW BANK
OR A NEW SAVINGS INSTITUTION
FOR A CERTIFICATE OF AUTHORITY TO BEGIN
BUSINESS IN VIRGINIA

INFORMATION AND INSTRUCTIONS

This form is designed to elicit the minimum information required by the Bureau of Financial Institutions for the purpose of analyzing and evaluating applications for a new bank or for a new savings institution. Additional information may be required in some cases, and the right to request such information is hereby reserved. This form is not intended to limit the presentation of the proposal, and the applicant may submit any additional information it considers pertinent. When space allowed is insufficient, a separate page should be used. Additional information and documents must be submitted on 8 $\frac{1}{2}$ " X 11" paper.

A check for \$3,500, payable to the Treasurer of Virginia, must accompany the application. Copies of the following documents, as well as the application, must be filed in duplicate.

1. A personal financial statement (on forms provided by the Bureau of Financial Institutions) of each director and officer. Only one statement, with an original signature, should be submitted. Personal financial statements are considered confidential.
2. The oath of office of each bank director (form CCB-140). Directors of savings institutions are not required to take the oath of office.
3. A statement of the directors that they have read the booklet prepared by the Bureau of Financial Institutions concerning their responsibilities.
4. A list of subscribers, indicating the place of residence, place of employment and/or business, relationship with other subscribers, the number of shares subscribed, the total subscriptions and the amount paid in cash. The list of subscribers should be in alphabetical order and numbered.
5. An executed lease or letter of intent from owner(s) of property to be leased, or executed purchase agreement.
6. A copy of the offering circular, if available.
7. A scaled map showing the proposed trade area and the location of all financial institutions having trade areas which overlap the applicant's proposed trade area.
8. A resume of the proposed Chief Executive Officer, if selected.
9. A statement of the facts which demonstrates that authorization of the proposed institution will be in the public interest.

All documents filed, with the exception of personal financial statements, will become part of the public record unless the applicant makes a written request for confidential treatment of some particular document or information. Final determination as to the confidentiality of such information will rest with the Commissioner of Financial Institutions.

Once the application and accompanying documents are received by the Bureau, they will be reviewed for completeness. Only when it is determined that they have been completed satisfactorily, will the Bureau conduct its investigation of the application. Therefore, full and complete answers should be given at the outset.

It is important that the organizers of new financial institutions discuss their proposals with officials of the Bureau of Financial Institutions at the very early stages of their organizing effort. Such a discussion will prove beneficial to both parties.

Inquiries concerning the organization of new financial institutions and the preparation and filing of this application should be directed to the Division of Research and Structure, Bureau of Financial Institutions, Post Office Box 2AE, Richmond, Virginia 23205. [Telephone: (804) 786-3657]

**APPLICATION OF A NEW BANK OR SAVINGS INSTITUTION
FOR A CERTIFICATE OF AUTHORITY TO BEGIN BUSINESS IN VIRGINIA**

Bureau of Financial Institutions
State Corporation Commission
Post Office Box 2AE
Richmond, Virginia 23205

FILE IN DUPLICATE

I. GENERAL INFORMATION

CORPORATE NAME OF APPLICANT	DATE OF INCORPORATION
-----------------------------	-----------------------

LOCATION (Street, city, or town and county or other identification)

THE APPLICANT SEEKS AUTHORITY TO BEGIN BUSINESS AS A

Bank

Savings Institution

DOES THE APPLICANT SEEK AUTHORITY TO EXERCISE TRUST POWERS?

Yes

No

SHARES AUTHORIZED BY ARTICLES OF INCORPORATION

Number of Shares: _____ Par Value: \$ _____

SUBSCRIPTIONS TO DATE	NUMBER OF SHARES SUBSCRIBED	SUBSCRIPTION PRICE \$
NUMBER OF SUBSCRIBERS TO DATE	SUBSCRIPTIONS PAID IN CASH	EXPECTED SUBSCRIPTIONS ON OPENING DATE \$

NUMBER OF SHARES OFFERED FOR SALE	<p style="text-align: center;">THE APPLICANT INTENDS TO APPLY FOR MEMBERSHIP TO THE (Check appropriate line)</p> <p style="text-align: center;"><input type="checkbox"/> FRB <input type="checkbox"/> FDIC <input type="checkbox"/> FHLBB</p>
-----------------------------------	---

WHEN DOES THE APPLICANT EXPECT TO OPEN FOR BUSINESS?
(Give approximate month and year)

PERSON RESPONSIBLE FOR FILING APPLICATION (name, address, telephone number)

II. QUARTERS

PROVIDE INFORMATION WITH RESPECT TO THE QUARTERS IN WHICH THE APPLICANT WILL COMMENCE BUSINESS. INDICATE WHETHER THE LAND AND/OR BUILDING WILL BE LEASED OR PURCHASED. SHOW THE SIZE AND COST OF LAND AND BUILDING AND THE COST OF IMPROVEMENTS. SPECIFY ALL TRANSACTIONS AND ASSOCIATED COSTS. INDICATE ANY PLANS TO OPEN IN TEMPORARY QUARTERS, DESCRIBE SUCH QUARTERS AND GIVE ASSOCIATED COSTS.

NAME AND ADDRESS OF SELLER OR LESSOR	EXPIRATION DATE OF LEASE
--------------------------------------	--------------------------

IS SELLER OR LESSOR RELATED OR CONNECTED IN ANY WAY WITH THE APPLICANT?

Yes (if yes, explain)

No

III. INVESTMENT IN FURNITURE, FIXTURES AND EQUIPMENT
(show estimates by an asterisk)

ITEM	NO. OF UNITS	TOTAL COST	ANNUAL RENTAL
Vault door(s)			
Safe(s)			
Safe deposit boxes			
Counter and cage fixtures			
Drive-in teller's windows			
Night depository			
Security equipment			
Automated Teller Machine			
Furniture			
Other:			
TOTAL			

IV. ESTIMATED ORGANIZATIONAL EXPENSES

NATURE OF EXPENSE	AMOUNT
1. Attorney Fees	\$
2. Consultant Fees	
3. Salaries (preopening)	
4. Advertising (preopening)	
5. Other (Detail those in excess of \$1,000)	
a.	
b.	
c.	
d.	
6. Miscellaneous	
TOTAL	\$

HOW WILL THE ABOVE EXPENSES BE PAID?

V. ADEQUACY OF CAPITAL STRUCTURE

A. ESTIMATED DEPOSITS FOR THE PROPOSED BANK

TYPE OF DEPOSIT	ESTIMATED DEPOSITS END OF THE YEAR		
	FIRST YEAR	SECOND YEAR	THIRD YEAR
Non-interest Bearing Deposits			
Time Deposits			
Savings Deposits			
TOTAL DEPOSITS			

B. PROPOSED CAPITAL STRUCTURE

EXPECTED SUBSCRIPTIONS ON OPENING DATE	CREDIT TO CAPITAL STOCK	CREDIT TO SURPLUS	CREDIT TO RESERVE FOR OPERATIONS
\$	\$	\$	\$

WHAT IS THE ATTITUDE OF THE PROPONENTS TOWARD SUPPLYING ADDITIONAL CAPITAL?

C. LIST ALL DIRECTORS AND OFFICERS. IN ADDITION, NON-DIRECTOR SUBSCRIBERS \$25,000 AND OVER.

NAME	POSITION IN THE INSTITUTION	SHARES SUBSCRIBED	TOTAL COST	CASH PAID IN	AMOUNT BORROWED
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
11.					
12.					
13.					
14.					
15.					
16.					
17.					
18.					
19.					
20.					
21.					
22.					
23.					
24.					
25.					
26.					
27.					
28.					
29.					
30.					
31.					
32.					

VI. FUTURE EARNINGS PROSPECTS

A. ESTIMATED DEPOSITS

DESCRIPTION	FIRST YEAR	SECOND YEAR	THIRD YEAR
Year-end Demand (non-interest bearing)			
Year-end Interest Bearing Deposits			
Year-end Total Deposits			
Average Demand (non-interest bearing)			
Average Interest Bearing Deposits			
Total Average Deposits			

B. ESTIMATED INCOME AND EXPENSES

DESCRIPTION	ESTIMATED AMOUNT		
	FIRST YEAR	SECOND YEAR	THIRD YEAR
GROSS INCOME (@ % of estimated average deposits)			
EXPENSES:			
1. Interest on deposits			
2. Salaries and benefits			
3. Net occupancy expense (details below)			
4. Furniture & equipment (depreciation, rental, etc.)			
5. Advertising			
6. Telephone			
7. Legal			
8. Postage			
9. Computer services			
10. Miscellaneous			
11. Net organizational expenses (First year only)			
TOTAL ESTIMATED EXPENSES			
ESTIMATED NET PROFIT (OR LOSS)			
OCCUPANCY:			
Rent			
Depreciation			
Maintenance (include building staff salaries)			
Insurance			
Taxes on real estate			
Utilities (heat, light, power, etc.)			
Other occupancy expenses			
Total occupancy expense			
Less: Rental Income			
Net Occupancy expense (should agree with line 3)			

VII. PUBLIC INTEREST

A. DEFINE THE GENERAL TRADE AREA AND DESCRIBE ITS ECONOMIC BASE AND DEVELOPMENT, ITS ECONOMIC AND DEMOGRAPHIC GROWTH AND POTENTIAL, AND THE LEVEL OF FINANCIAL COMPETITION.

VII. PUBLIC INTEREST (CONTINUED)

B. DISCUSS THE CHARACTERISTICS OF FINANCIAL SERVICES OFFERED IN THE GENERAL TRADE AREA AND SPECIFY HOW THE PROPOSED INSTITUTION WILL DIFFER OR COMPARE IN THE QUANTITY AND QUALITY OF SERVICES TO BE OFFERED.

VII. PUBLIC INTEREST (CONTINUED)

C. SHOW HOW THE PROPOSED INSTITUTION WILL BECOME VIABLE IN A REASONABLE PERIOD OF TIME. IN ANSWERING THIS QUESTION, YOU MAY WISH TO RELATE YOUR DEPOSIT AND EARNINGS PROJECTIONS (SECTION VI) TO THE MARKET CHARACTERISTICS DESCRIBED IN THIS SECTION AND OTHER PERTINENT FACTORS.

VII. PUBLIC INTEREST (CONTINUED)

D. LIST ALL THE FINANCIAL INSTITUTIONS WHOSE TRADE AREA OVERLAPS WITH THE PROPOSED PRIMARY TRADE AREA (THE MINIMUM AREA WHERE MORE THAN 75.0 PERCENT OF DEPOSITS WILL ORIGINATE). INCLUDE ALL OFFICES OF BANKS AND SAVINGS INSTITUTIONS AND SHOW THE DEPOSITS OF EACH OFFICE IN THE LAST THREE YEARS, SPECIFYING THE DATE.

NAME AND LOCATION	DISTANCE	IN THOUSANDS OF DOLLARS DEPOSITS IN EACH OFFICE		
		___/___/19	___/___/19	___/___/19
1. Banking Offices				
		___/___/19	___/___/19	___/___/19
2. Savings Institution Offices				

APPLICATION FOR MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

At a meeting of the _____,
(Governing Board) _____, (Corporate title of applying bank)

_____, duly
(City or town) _____ (State)
called and held on the _____ day of _____, 19 _____, the following resolution
was adopted:

"WHEREAS, it is the sense of this meeting that application should be made on behalf of this bank for membership in the Federal Reserve System in accordance with the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto; and

"WHEREAS, under the provisions of the Federal Reserve Act, such a bank applying for membership in the Federal Reserve System is required to subscribe for stock in a Federal Reserve bank in a sum equal to six per cent of the paid-up capital stock and surplus of such applying bank;

"Now, THEREFORE, BE IT RESOLVED, That the President or Vice President and the Cashier or Secretary of this bank be and they are hereby authorized, empowered, and directed to make application for and to subscribe to the appropriate number of shares, of a par value of \$100 each, of the capital stock of the

Federal Reserve Bank of _____; as determined on the basis of the capital stock and surplus of this bank as of the date upon which its membership in the Federal Reserve System becomes effective; to pay for such stock in accordance with the provisions of the Federal Reserve Act; to agree for and in behalf of this bank that, upon its admission to membership in the Federal Reserve System, it will comply with all the requirements of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System made pursuant to law which are applicable to State banks and trust companies which become members of the Federal Reserve System; and to agree for and in behalf of this bank that reports and information regarding this bank may be interchanged between the Federal

Reserve Bank of _____ and all State or Federal supervisory authorities having jurisdiction of this bank."

I hereby certify that the foregoing is a true and complete copy of a resolution duly adopted by the _____ of this bank at a meeting thereof held on the date specified, at which a quorum (Governing Board) was present, and that such resolution has not been amended or repealed and is still in full force and effect.

Secretary or Cashier

(Corporate title of applying bank)

(City or town)

(State)

Pursuant to the foregoing resolution, _____
(Corporate title of applying bank)

_____, hereby makes application for the appropriate number
(City or town) (State)

of shares of the capital stock of the Federal Reserve Bank of _____, of a par value of \$100 each, as determined on the basis of the capital stock and surplus of this bank as of the date upon which the membership of this bank in the Federal Reserve System becomes effective; agrees to pay for the same in accordance with the provisions of the Federal Reserve Act; agrees that, upon its admission to membership in the Federal Reserve System, it will comply with all the requirements of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System made pursuant to law which are applicable to State banks and trust companies which become members of the Federal Reserve System; and agrees that reports and information regarding this bank may be inter-

changed between the Federal Reserve Bank of _____ and all State or Federal supervisory authorities having jurisdiction of this bank.

The required information, as indicated in the General Information and Instructions, is attached to and made a part of this application.

(Corporate title of applying bank) (City or town) (State)

By _____
President or Vice President

[SEAL]

ATTEST:

Secretary or Cashier

NOTE: If six per cent of the capital and surplus amounts to a sum not divisible by 100, the bank should apply for one additional share of stock for any excess or fractional part of \$100.

When determining the appropriate amount of the subscription for stock in the Federal Reserve bank, the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation should be included with the capital stock and surplus of the institution, but the amount of capital notes and debentures sold to others should not be included.

In the case of a bank which has set up a reserve for dividends payable in common stock, whether in connection with the retirement of preferred stock, capital notes, or debentures, or otherwise, such reserve shall be regarded as surplus for the purpose of determining the amount of Federal Reserve bank stock which the bank is required to hold, provided such reserve has been established pursuant to a resolution of the board of directors of the bank involved, will become a part of the permanent capital of the bank and will not be used for any other purpose than the issuance of dividends, payable in common stock.

CERTIFICATE OF ORGANIZERS OR OF DIRECTORS *

We, the undersigned directors (or organization committee) of the _____,
(Corporate title of applying bank)

_____, _____, certify, to the best of our knowledge and belief,
(City or town) (State)

that the required information submitted herewith contains a true and complete statement of the actual (or anticipated in the case of a new bank) condition of this bank on the date(s) specified; that such statement includes all of the assets and liabilities of the bank; that the capital stock is unimpaired (this clause does not apply to mutual savings banks); and that the supplemental information submitted with and made a part of the application of this bank for membership in the Federal Reserve System is true to the best of our knowledge and belief.

* Should be signed by at least three directors. Type name under each signature. If a new bank is involved and officers and directors have not yet been elected, this form should be signed by the members of the organization committee. If the signers have any reservation as to any of the clauses in the certificate, an explanation similarly signed should be attached to this sheet.

CERTIFICATE OF COUNSEL FOR FEDERAL RESERVE BANK

I, the undersigned, counsel for the Federal Reserve Bank of,
do hereby certify that, in my opinion, the
(Corporate title of applying bank)
....., is legally qualified, under its charter and the laws of
(City or town) (State)
the State of, wherein it was incorporated, to purchase and hold stock in the
Federal Reserve Bank of, or to make the required deposit in the
Federal Reserve Bank of, in place of purchase of stock therein, and to comply
with the requirements of the Federal Reserve Act and the regulations of the Board of Governors of the
Federal Reserve System made in pursuance thereof, and that its attached application for membership
in the Federal Reserve System is in due and proper form. Having made the necessary examination of such
application and the accompanying papers which have a bearing on any legal matters involved and the
State laws covering the organization and operation of this bank, I am satisfied as to the legal matters
involved, except as otherwise noted.

.....
Counsel

REMARKS:

NOTE: Inappropriate parts of the counsel's certificate should be marked out when it has been deter-
mined whether the bank is authorized to purchase stock in the Federal Reserve Bank or, in the case of
a mutual savings bank or similar institution, to make the required deposit in lieu of a purchase of stock.

GENERAL INFORMATION AND INSTRUCTIONS

Preparation of Application

Inquiries concerning the preparation of this application should be directed to the head office of the Federal Reserve Bank of the District in which the main office of Applicant is located.

The original and two complete copies of the application, properly signed and certified, should be forwarded to the appropriate Reserve Bank.

If the Applicant is a de novo bank, only Section I need be completed. If Applicant is a currently operating bank, only Section II need be completed. If Applicant is a newly formed, non-operating bank formed solely to facilitate acquisition of an existing bank, complete only Section III. All numbered items on the appropriate Section should be answered; if not applicable or if the answer is none, so state. Every applicant must complete the appropriate application form for its type of institution (Form 2083A, 2083B, 2083C, or 2083D) and the Certificate of Organizers or of the Directors (Form 2083E).

The purpose of this form is to obtain the information necessary for analysis and evaluation of the application, and the requests for information have been limited to those deemed essential for this purpose. Additional information may be required in some cases, and the right to request such information from the Applicant is hereby reserved. The form is not intended to limit the presentation of information by the Applicant, who may submit any additional information considered pertinent by him.

Answers to questions should be numbered in accordance with the format of this application. The application should be bound and page-numbered consecutively with number appearing at the bottom of each page.

Public Notification

Pursuant to Section 262.3(b)(1) of the Board's "Rules of Procedure", if approval of this application would confer Federal deposit bank insurance on the bank public notification is required. Applicant should publish on the same day of each of two consecutive weeks a notice in a newspaper of general circulation in the community in which the bank's head office is to be located. The notice should contain the name and address of Applicant, the subject matter of the application, and an invitation to the public to give written comments upon the application to the appropriate Reserve Bank no later than thirty calendar days after the date of publication of the first notice. The application should be filed between the first and second publications.

Following is a form of sample notice prescribed by the Board, which would fulfill such requirement:

Notice of Application (Membership in the Federal Reserve System)

(Name and location of head office)

Intends to apply to the Federal Reserve Board for permission to become a member of the Federal Reserve System. The Federal Reserve considers a number of factors in deciding whether to approve the application including the record of performance of banks in helping to meet local credit needs.

You are invited to submit comments in writing on this application to the Federal Reserve Bank of *(name and mailing address of appropriate Reserve Bank)*. The comment period will not end before *(date—must be no less than 30 days from date of first notice)* and may be somewhat longer. The Board's procedures for processing applications may be found at 12 C.F.R. Part 262. Procedures for processing protested applications may be found at 12 C.F.R. §262.25. To obtain a copy of the Board's procedures or if you need more information about how to submit your comments on the application contact *(name of CAO and telephone number)*. The Federal Reserve will consider your comments and any request for a public meeting or formal hearing on the application if they are received by the Reserve Bank on or before the last day of the comment period.

Confidentiality

Under the provisions of the Freedom of Information Act (5 U.S.C. §552), the application, including supporting material, is a public document and available to the public upon request. If Applicant is of the opinion that disclosure of part of the commercial or financial information would likely result in substantial harm to its competitive position or that disclosure of information of a personal nature would result in a clearly unwarranted invasion of personal privacy, confidential treatment of such information may be requested. This request for confidential treatment must be submitted in writing concurrently with the submission of the application, and must discuss in detail the specific items for which confidentiality is requested and the justification for such treatment. Such justification must be provided for each item in the response for which confidentiality treatment is requested. Applicant's reasons for requesting confidentiality should demonstrate the harm that would result from public release of the information. A statement simply indicating that the information would result in competitive harm or that it is personal in nature is not sufficient. (A claim that disclosure would violate the law or policy of a foreign country is not, in and of itself, sufficient to exempt information from disclosure. It must be demonstrated that disclosure would meet either the "substantial competitive harm" or "unwarranted invasion of personal privacy" test established under the Freedom of Information Act.)

Information for which confidential treatment is requested should be (1) separately bound and labeled "Confidential" and (2) specifically identified in the public portion of the application (by reference to the confidential section).

The Board will determine whether information submitted as confidential will be so regarded, and will advise Applicant of any decision to make available to the public information labeled "Confidential." However, it shall be understood that, without prior notice to Applicant, the Board may disclose or comment on any of the contents of the application in any Order or Statement issued by the Board in connection with its decision on the application.

Application should also follow this procedure concerning confidentiality with regard to filing of any supplemental information to the application.

Additional Information

The Federal Reserve System reserves the right to require the filing of additional statements and information.

If any information initially furnished in the application changes significantly during processing of the application, such changes should be communicated promptly to the Reserve Bank where the application was filed.

Related Application

If consummation of the proposal is dependent upon separate approval by the Board of Governors of other applications, such as a merger or bank holding company acquisition of bank shares, such application should be filed concurrently with this application.

Compliance

The Board expects Applicant to comply with all representations and commitments made in the application.

SECTION I

De Novo Bank

FINANCIAL AND MANAGERIAL INFORMATION

Provide the following:

1. A pro forma balance sheet as of the date of opening for business.
2. Information (including copies of any offering circulars of subscription agreements) concerning the proposed initial capitalization of the new bank, specifying the number of shares of capital stock to be sold, the securities exchange to be listed and traded on (if applicable), the number of subscribers for the stock, the amounts to be shown on the bank's books as capital stock, surplus, and any other proposed capital accounts.
3.
 - a. An estimate of organization expenses itemized by major categories, including legal fees;
 - b. Estimates of major categories of assets, deposits, and capital accounts that are projected for the end of each of the first three years of operation. Explain methods and assumptions used;
 - c. Estimates of major categories of income and expense and net earnings or losses for each of the first three years of operation. Explain methods and assumptions used; and
 - d. If the projections do not indicate profitable operations by the end of the third year, comment as to the reasons therefor, and provide an estimate as to the period of time that will be required before operations become profitable.
4. Information with respect to the premises in which the bank will commence business. Indicate any plans to open in temporary banking quarters. Specify, both as to the temporary quarters and the permanent quarters in which the bank will conduct operations, whether owned or leased, the terms, and the financial obligations involved in the transaction(s). If banking quarters are to be leased, indicate if arrangement constitutes an operating or capital lease.
5. A list of the principals' (include any proposed changes or additions to this list after Applicant opens for business) and

provide information with respect to each principal as follows:

- a. Name and address (City and State/Country). If the principal's country of citizenship is different than the principal's country of residence, then state the country of citizenship;
- b. Titles or positions with Applicant;
- c. Number and percentage of each class of shares of Applicant owned (or subscribed), controlled, or held with power to vote by this individual, and furnish details of purchases including dates and costs:

NOTE: In responding to c. or e., include shares owned (or subscribed), controlled or held with power to vote by principal's spouse or dependents, ~~or record ownership and, to the extent information is available, beneficial ownership~~ of shares held by trustees, nominees, or in street name.

- d. Principal occupation if other than with Applicant;
 - e. If 10 percent or more of outstanding voting shares in other depository organization² are held by a principal, give name and location of other depository organization;
 - f. A brief biographic sketch of each principal focusing on banking background and experience, and
 - g. A financial statement for the principal. If the principal has borrowed or proposes to borrow from depository organizations to finance stock subscriptions, show the name and location of the organization(s) and the terms of the loans(s).
6. A description and terms of any transactions between or among the principals and the bank, including but not limited to any agreements involving bank premises.
 7. A list of management officials³ who are also management

2. "Depository organization" means a commercial bank (including a private bank), a savings bank, a trust company, a savings and loan association, a homestead association, a cooperative bank, an industrial bank, a credit union, or a depository holding company.

3. "Management official" means an employee or officer with management functions (including a branch manager), a director (including an advisory director or honorary director), a trustee of a business organization under the control of trustees (e.g., a mutual savings bank) or any person who has a representative or nominee serving in any such capacity. (See the Board's Regulation L, 12 CFR 212.21 and (k)).

1. The term principal as used herein means any individual who (1) owns 10 percent or more of the outstanding voting shares; (2) is a director, trustee, partner, or executive officer; or (3) with or without ownership interest, participates or has the authority to participate in major policy-making functions, whether or not the individual has an official title or is serving without compensation. If Applicant believes that any such individual should not be regarded as a principal, Applicant should so indicate and give reasons.

officials of any other depository organization² located in the same Metropolitan Statistical Area (MSA) as Applicant, ~~or—If Applicant is not located within an MSA—in cities, towns, or villages whose borders are within ten road miles at their closest point to the border of the city, town, or village where Applicant is located.~~ Give name and location of other depository organization and position held in such organization.

8. If the bank plans to be affiliated with another bank or holding company, identify the affiliate, giving full details regarding the proposed affiliation.
9. A copy of the charter (certificate of authority to commence business) and articles of incorporation of the bank, duly certified by the appropriate State official. In those states where such documents are not customarily submitted prior to the opening of the bank, the Applicant should provide at least an indication of preliminary approval by the State, and should submit certified copies of the documents as soon as they are available.

COMPETITION, AND CONVENIENCE AND NEEDS

1. Indicate the specific location of the bank. Include a description of the general market area (i.e., Metropolitan Statistical Area, County, City or other such overall trade area) in which it is to be located. The discussion should include the size(s) in terms of population, the principal elements of the local economy, and the future economic outlook.
2. Provide a list of depository organizations² which are considered by Applicant to be competitors of the new bank,

giving total deposits held by each depository organization and, if applicable, information as to branches of such institutions that are situated so as to be competitive.

3. Indicate the Applicant's basis for establishing a new bank insofar as it relates to the financial needs and convenience of those in the area in which the bank is to be located.
4. Indicate whether the bank intends to exercise fiduciary powers or other functions not necessarily incidental to commercial banking; and, if required, whether necessary special corporate powers or permissions have been obtained from the State. If fiduciary powers or any such other functions are to be exercised, provide full information regarding necessary managerial and staff expertise, availability of legal counsel, planned special facilities or systems, and the competitive situation reflecting the need for such services. Also discuss the projected impact upon earnings and capital requirements.
5. Estimate the date on which the new bank expects to open for business.
6. a. Furnish a copy of Applicant's proposed Community Reinvestment Act Statement³; and
b. Pursuant to the provisions of the Community Reinvestment Act of 1977³, indicate what policies and specific activities will be implemented to help meet the existing or anticipated credit needs of the bank's entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank.

² "Depository organization" means a commercial bank (including a private bank), a savings bank, a trust company, a savings and loan association, a homestead association, a cooperative bank, an industrial bank, a credit union, or a depository holding company.

³ 12 U.S.C. 2901 et seq.; also see the Board's Regulation BB (12 Part CFR 228); 43 Fed. Reg. 47148 (1978).

New Banks in Virginia

CASH ASSETS:	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	444	---	---	---
Princess Anne Com., Va. Beach	Aug-85	311	---	---	---
Fairfax B&T, Fairfax	Jul-85	868	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	1,682	---	---	---
Highlands Union, Abdingdon	Apr-85	512	---	---	---
Hallmark B&T, Springfield	Feb-85	798	---	---	---
Sailors & Merchant, Fairfax	Aug-84	368	795	---	---
Community Bk. & Tr, Sterling	Oct-83	685	1,107	1,921	---
First Commonwealth, Wise	Sep-83	766	1,589	1,172	---
Arlington Bank, Arlington	Jul-82	337	659	746	1,925
Bank of Alexandria	Jul-82	156	1,050	1,670	1,388
Miners Exchange Bk., Wise	Jul-82	2,369	2,140	1,296	1,205
Dickenson-Buchanan, Haysi	Apr-81	944	634	765	681
Citizens Bk. of Tazewell	Feb-81	1,058	1,547	1,083	1,259

Average: 807 1,190 1,236 1,292

TOTAL INVESTMENTS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	1,109	---	---	---
Princess Anne Com., Va. Beach	Aug-85	1,549	---	---	---
Fairfax B&T, Fairfax	Jul-85	645	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	1,597	---	---	---
Highlands Union, Abdingdon	Apr-85	3,147	---	---	---
Hallmark B&T, Springfield	Feb-85	4,037	---	---	---
Sailors & Merchant - Fairfax	Aug-84	1,456	3,040	---	---
Community Bk. & Tr. - Sterling	Oct-83	651	1,051	3,934	---
First Commonwealth - Wise	Sep-83	2,804	8,974	11,838	---
Arlington Bank - Arlington	Jul-82	764	797	347	47
Bank of Alexandria	Jul-82	1,045	323	1,568	2,245
Miners Exchange Bk. - Wise	Jul-82	3,148	12,068	4,761	4,811
Dickenson-Buchanan - Haysi	Apr-81	878	2,445	4,562	5,502
Citizens Bk. of Tazewell	Feb-81	1,955	2,747	5,037	6,880

Average: 1,770 3,931 4,578 3,897

New Banks in Virginia

FED FUNDS SOLD	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	0	---	---	---
Princess Anne Com., Va. Beach	Aug-85	3,130	---	---	---
Fairfax B&T, Fairfax	Jul-85	5,600	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	860	---	---	---
Highlands Union, Abdingdon	Apr-85	1,230	---	---	---
Hallmark B&T, Springfield	Feb-85	1,660	---	---	---
Sailors & Merchant - Fairfax	Aug-84	800	850	---	---
Community Bk. & Tr. - Sterling	Oct-83	970	0	1,000	---
First Commonwealth - Wise	Sep-83	2,710	3,240	340	---
Arlington Bank - Arlington	Jul-82	1,225	410	200	1,000
Bank of Alexandria	Jul-82	2,910	2,840	2,110	4,965
Miners Exchange Bk. - Wise	Jul-82	1,815	0	1,105	845
Dickenson-Buchanan - Haysi	Apr-81	2,041	2,746	597	430
Citizens Bk. of Tazewell	Feb-81	1,550	2,800	1,460	695

Average: 1,893 1,611 973 1,587

TOTAL LOANS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	4,893	---	---	---
Princess Anne Com., Va. Beach	Aug-85	6,690	---	---	---
Fairfax B&T, Fairfax	Jul-85	4,297	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	15,631	---	---	---
Highlands Union, Abdingdon	Apr-85	3,710	---	---	---
Hallmark B&T, Springfield	Feb-85	13,600	---	---	---
Sailors & Merchant - Fairfax	Aug-84	3,550	10,030	---	---
Community Bk. & Tr. - Sterling	Oct-83	1,363	5,803	10,004	---
First Commonwealth - Wise	Sep-83	4,599	10,065	9,926	---
Arlington Bank - Arlington	Jul-82	2,220	7,970	13,936	23,018
Bank of Alexandria	Jul-82	5,431	18,000	17,915	17,925
Miners Exchange Bk. - Wise	Jul-82	4,914	13,902	11,657	9,876
Dickenson-Buchanan - Haysi	Apr-81	2,120	2,571	4,187	5,181
Citizens Bk. of Tazewell	Feb-81	2,915	5,352	7,833	9,025

Average: 5,424 9,212 10,780 13,005

New Banks in Virginia

LOAN LOSS RESERVE	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	(12)	---	---	---
Princess Anne Com., Va. Beach	Aug-85	(52)	---	---	---
Fairfax B&T, Fairfax	Jul-85	(28)	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	(156)	---	---	---
Highlands Union, Abdingdon	Apr-85	(65)	---	---	---
Hallmark B&T, Springfield	Feb-85	(25)	---	---	---
Sailors & Merchant - Fairfax	Aug-84	(10)	(50)	---	---
Community Bk. & Tr. - Sterling	Oct-83	(12)	(58)	(108)	---
First Commonwealth - Wise	Sep-83	(4)	(70)	(149)	---
Arlington Bank - Arlington	Jul-82	(6)	(41)	(83)	(141)
Bank of Alexandria	Jul-82	(13)	(76)	(772)	(647)
Miners Exchange Bk. - Wise	Jul-82	(45)	(122)	(129)	(97)
Dickenson-Buchanan - Haysi	Apr-81	(12)	(20)	(39)	(49)
Citizens Bk. of Tazewell	Feb-81	(17)	(32)	(73)	(100)

Average: (33) (59) (193) (207)

FIXED ASSETS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	537	---	---	---
Princess Anne Com., Va. Beach	Aug-85	378	---	---	---
Fairfax B&T, Fairfax	Jul-85	164	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	455	---	---	---
Highlands Union, Abdingdon	Apr-85	624	---	---	---
Hallmark B&T, Springfield	Feb-85	194	---	---	---
Sailors & Merchant - Fairfax	Aug-84	565	596	---	---
Community Bk. & Tr. - Sterling	Oct-83	363	1,216	1,217	---
First Commonwealth - Wise	Sep-83	586	937	897	---
Arlington Bank - Arlington	Jul-82	259	286	519	459
Bank of Alexandria	Jul-82	286	704	1,165	1,167
Miners Exchange Bk. - Wise	Jul-82	554	855	944	878
Dickenson-Buchanan - Haysi	Apr-81	182	254	233	236
Citizens Bk. of Tazewell	Feb-81	776	800	769	747

Average: 423 706 821 697

New Banks in Virginia

OTHER ASSETS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	103	---	---	---
Princess Anne Com., Va. Beach	Aug-85	143	---	---	---
Fairfax B&T, Fairfax	Jul-85	99	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	356	---	---	---
Highlands Union, Abdingdon	Apr-85	94	---	---	---
Hallmark B&T, Springfield	Feb-85	299	---	---	---
Sailors & Merchant - Fairfax	Aug-84	102	226	---	---
Community Bk. & Tr. - Sterling	Oct-83	30	211	334	---
First Commonwealth - Wise	Sep-83	95	369	255	---
Arlington Bank - Arlington	Jul-82	182	189	625	402
Bank of Alexandria	Jul-82	160	545	1,431	319
Miners Exchange Bk. - Wise	Jul-82	312	655	302	273
Dickenson-Buchanan - Haysi	Apr-81	65	102	221	218
Citizens Bk. of Tazewell	Feb-81	86	148	219	253

Average: 152 306 484 293

TOTAL ASSETS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	7,074	---	---	---
Princess Anne Com., Va. Beach	Aug-85	12,149	---	---	---
Fairfax B&T, Fairfax	Jul-85	11,645	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	20,425	---	---	---
Highlands Union, Abdingdon	Apr-85	9,252	---	---	---
Hallmark B&T, Springfield	Feb-85	20,563	---	---	---
Sailors & Merchant - Fairfax	Aug-84	6,831	15,487	---	---
Community Bk. & Tr. - Sterling	Oct-83	4,050	9,330	18,302	---
First Commonwealth - Wise	Sep-83	11,556	25,104	24,279	---
Arlington Bank - Arlington	Jul-82	4,981	10,270	16,290	26,710
Bank of Alexandria	Jul-82	9,975	23,386	25,087	27,362
Miners Exchange Bk. - Wise	Jul-82	13,067	29,498	19,936	17,791
Dickenson-Buchanan - Haysi	Apr-81	6,218	8,732	10,526	12,199
Citizens Bk. of Tazewell	Feb-81	8,323	13,362	16,328	18,759

Average: 10,436 16,896 18,678 20,564

New Banks in Virginia

DEMAND DEPOSITS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	680	---	---	---
Princess Anne Com., Va. Beach	Aug-85	1,840	---	---	---
Fairfax B&T, Fairfax	Jul-85	3,744	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	3,818	---	---	---
Highlands Union, Abdingdon	Apr-85	1,427	---	---	---
Hallmark B&T, Springfield	Feb-85	2,489	---	---	---
Sailors & Merchant - Fairfax	Aug-84	2,830	2,467	---	---
Community Bk. & Tr. - Sterling	Oct-83	988	2,987	4,685	---
First Commonwealth - Wise	Sep-83	1,159	3,057	4,040	---
Arlington Bank - Arlington	Jul-82	1,354	2,255	3,826	6,206
Bank of Alexandria	Jul-82	4,915	3,265	3,374	4,016
Miners Exchange Bk. - Wise	Jul-82	1,226	2,681	3,247	2,983
Dickenson-Buchanan - Haysi	Apr-81	987	734	754	1,222
Citizens Bk. of Tazewell	Feb-81	2,232	2,165	1,979	2,577

Average: 2,121 2,451 3,129 3,401

TIME & SAVING DEPOSITS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	4,935	---	---	---
Princess Anne Com., Va. Beach	Aug-85	6,390	---	---	---
Fairfax B&T, Fairfax	Jul-85	4,365	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	12,847	---	---	---
Highlands Union, Abdingdon	Apr-85	5,646	---	---	---
Hallmark B&T, Springfield	Feb-85	14,325	---	---	---
Sailors & Merchant - Fairfax	Aug-84	1,694	10,960	---	---
Community Bk. & Tr. - Sterling	Oct-83	1,055	4,383	11,695	---
First Commonwealth - Wise	Sep-83	5,701	18,729	16,692	---
Arlington Bank - Arlington	Jul-82	1,488	5,877	10,099	18,128
Bank of Alexandria	Jul-82	2,012	17,187	20,069	21,108
Miners Exchange Bk. - Wise	Jul-82	6,694	11,740	14,409	12,679
Dickenson-Buchanan - Haysi	Apr-81	2,717	4,491	5,618	9,070
Citizens Bk. of Tazewell	Feb-81	4,268	9,215	12,196	14,141

Average: 5,296 10,323 12,968 15,025

New Banks in Virginia

OTHER DEPOSITS*	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	0	---	---	---
Princess Anne Com., Va. Beach	Aug-85	0	---	---	---
Fairfax B&T, Fairfax	Jul-85	0	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	0	---	---	---
Highlands Union, Abdingdon	Apr-85	0	---	---	---
Hallmark B&T, Springfield	Feb-85	0	---	---	---
Sailors & Merchant - Fairfax	Aug-84	0	0	---	---
Community Bk. & Tr. - Sterling	Oct-83	124	0	0	---
First Commonwealth - Wise	Sep-83	1,811	0	0	---
Arlington Bank - Arlington	Jul-82	39	90	0	0
Bank of Alexandria	Jul-82	391	170	0	0
Miners Exchange Bk. - Wise	Jul-82	2,300	8,616	0	0
Dickenson-Buchanan - Haysi	Apr-81	842	1,740	2,370	0
Citizens Bk. of Tazewell	Feb-81	224	239	211	0

Average: 409 1,357 389 0

* - In 1984, the Call report format changed to eliminate Other Deposits which included government deposits and official checks.

TOTAL DEPOSITS	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	5,615	---	---	---
Princess Anne Com., Va. Beach	Aug-85	8,230	---	---	---
Fairfax B&T, Fairfax	Jul-85	8,109	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	16,665	---	---	---
Highlands Union, Abdingdon	Apr-85	7,073	---	---	---
Hallmark B&T, Springfield	Feb-85	16,814	---	---	---
Sailors & Merchant - Fairfax	Aug-84	4,524	13,427	---	---
Community Bk. & Tr. - Sterling	Oct-83	2,167	7,370	16,380	---
First Commonwealth - Wise	Sep-83	8,671	21,786	20,732	---
Arlington Bank - Arlington	Jul-82	2,881	8,222	13,925	24,334
Bank of Alexandria	Jul-82	7,318	20,622	23,443	25,124
Miners Exchange Bk. - Wise	Jul-82	10,220	23,037	17,656	15,662
Dickenson-Buchanan - Haysi	Apr-81	4,546	6,965	8,742	10,292
Citizens Bk. of Tazewell	Feb-81	6,724	11,619	14,386	16,718

Average: 7,826 14,131 16,466 18,426

New Banks in Virginia

OTHER LIABILITIES	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	24	---	---	---
Princess Anne Com., Va. Beach	Aug-85	33	---	---	---
Fairfax B&T, Fairfax	Jul-85	29	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	127	---	---	---
Highlands Union, Abdingdon	Apr-85	95	---	---	---
Hallmark B&T, Springfield	Feb-85	76	---	---	---
Sailors & Merchant - Fairfax	Aug-84	30	71	---	---
Community Bk. & Tr. - Sterling	Oct-83	20	42	63	---
First Commonwealth - Wise	Sep-83	31	225	171	---
Arlington Bank - Arlington	Jul-82	122	56	440	266
Bank of Alexandria	Jul-82	154	148	323	321
Miners Exchange Bk. - Wise	Jul-82	483	263	214	162
Dickenson-Buchanan - Haysi	Apr-81	86	134	114	145
Citizens Bk. of Tazewell	Feb-81	56	110	209	216

Average: 98 131 219 222

DEBT & CAPITAL LEASE OBLIG.	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	50	---	---	---
Princess Anne Com., Va. Beach	Aug-85	1,958	---	---	---
Fairfax B&T, Fairfax	Jul-85	548	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	0	---	---	---
Highlands Union, Abdingdon	Apr-85	0	---	---	---
Hallmark B&T, Springfield	Feb-85	656	---	---	---
Sailors & Merchant - Fairfax	Aug-84	0	0	---	---
Community Bk. & Tr. - Sterling	Oct-83	0	118	0	---
First Commonwealth - Wise	Sep-83	0	0	0	---
Arlington Bank - Arlington	Jul-82	0	0	0	0
Bank of Alexandria	Jul-82	0	0	925	441
Miners Exchange Bk. - Wise	Jul-82	0	3,611	0	0
Dickenson-Buchanan - Haysi	Apr-81	39	0	0	0
Citizens Bk. of Tazewell	Feb-81	0	0	0	0

Average: 232 466 132 88

New Banks in Virginia

TOTAL CAPITAL	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	1,385	---	---	---
Princess Anne Com., Va. Beach	Aug-85	1,928	---	---	---
Fairfax B&T, Fairfax	Jul-85	2,959	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	3,633	---	---	---
Highlands Union, Abdingdon	Apr-85	2,084	---	---	---
Hallmark B&T, Springfield	Feb-85	3,017	---	---	---
Sailors & Merchant - Fairfax	Aug-84	2,277	1,989	---	---
Community Bk. & Tr. - Sterling	Oct-83	1,863	1,800	1,859	---
First Commonwealth - Wise	Sep-83	2,854	3,093	3,376	---
Arlington Bank - Arlington	Jul-82	1,978	1,992	1,925	2,110
Bank of Alexandria	Jul-82	2,503	2,616	396	1,476
Miners Exchange Bk. - Wise	Jul-82	2,364	2,587	2,066	1,967
Dickenson-Buchanan - Haysi	Apr-81	1,547	1,635	1,670	1,762
Citizens Bk. of Tazewell	Feb-81	1,543	1,633	1,733	1,825

Average: 2,281 2,168 1,861 1,828

TOTAL CAPITAL & LIABS.	Opened	Year 1	Year 2	Year 3	Year 4
South Boston Bk. Halifax Cty.	Oct-85	7,074	---	---	---
Princess Anne Com., Va. Beach	Aug-85	12,149	---	---	---
Fairfax B&T, Fairfax	Jul-85	11,645	---	---	---
Bk. of Tidewater, Va. Beach	Jul-85	20,425	---	---	---
Highlands Union, Abdingdon	Apr-85	9,252	---	---	---
Hallmark B&T, Springfield	Feb-85	20,563	---	---	---
Sailors & Merchant - Fairfax	Aug-84	6,831	15,487	---	---
Community Bk. & Tr. - Sterling	Oct-83	4,050	9,330	18,302	---
First Commonwealth - Wise	Sep-83	11,556	25,104	24,279	---
Arlington Bank - Arlington	Jul-82	4,981	10,270	16,290	26,710
Bank of Alexandria	Jul-82	9,975	23,386	25,087	27,362
Miners Exchange Bk. - Wise	Jul-82	13,067	29,498	19,936	17,791
Dickenson-Buchanan - Haysi	Apr-81	6,218	8,734	10,526	12,199
Citizens Bk. of Tazewell	Feb-81	8,323	13,362	16,328	18,759

Average: 10,436 16,896 18,678 20,564

Average Balance Sheet of 14 New banks
 Opened in Virginia 1981-1985

	Year 1	Year 2	Year 3
CASH ASSETS	807	1,190	1,236
INVESTMENTS	1,770	3,931	4,578
FEDERAL FUNDS SOLD	1,893	1,611	973
TOTAL LOANS	5,424	9,212	10,780
LOAN LOSS RESERVE	(33)	(59)	(193)
FIXED ASSETS	423	706	821
OTHER ASSETS	152	306	484
TOTAL ASSETS	10,436	16,896	18,678
DEMAND DEPOSITS	2,121	2,451	3,129
TIME AND SAVINGS DEPOSITS	5,296	10,323	12,968
OTHER DEPOSITS	409	1,357	369
TOTAL DEPOSITS	7,826	14,131	16,466
OTHER LIABILITIES	98	131	219
DEBT & CAPITAL LEASES	232	466	132
TOTAL CAPITAL	2,281	2,168	1,861
TOTAL LIABILITIES AND CAPITAL	10,436	16,896	18,678

Major Balance Sheet Categories as percentage
 of Total Assets - Composite of 14 New Banks
 opened in Virginia 1981-1985

	Year 1	Year 2	Year 3
CASH ASSETS	7.73%	7.04%	6.62%
INVESTMENTS	16.96%	23.26%	24.51%
FEDERAL FUNDS SOLD	18.14%	9.53%	5.21%
TOTAL LOANS	51.97%	54.52%	57.71%
LOAN LOSS RESERVE	-0.31%	-0.35%	-1.03%
FIXED ASSETS	4.05%	4.18%	4.39%
OTHER ASSETS	1.46%	1.81%	2.59%
TOTAL ASSETS	100.00%	100.00%	100.00%
DEMAND DEPOSITS	20.32%	14.51%	16.75%
TIME AND SAVINGS DEPOSITS	50.74%	61.09%	69.43%
OTHER DEPOSITS	3.92%	8.03%	1.97%
TOTAL DEPOSITS	74.98%	83.63%	88.16%
OTHER LIABILITIES	0.93%	0.78%	1.17%
DEBT & CAPITAL LEASES	2.23%	2.76%	0.71%
TOTAL CAPITAL	21.86%	12.83%	9.96%
TOTAL LIABILITIES AND CAPITAL	100.00%	100.00%	100.00%

Other Income and Expense Categories
as a percentage of Total Interest Income
Banks in Virginia - Average 1983-1985

	Bank Assets Size (in millions)		
	Under \$10	\$10 to \$25	\$25 to \$50
Other Income			
-----	-----	-----	-----
Service Charges on Deposit Accounts	2.25%	3.47%	3.24%
Other Non-Interest Income	3.23%	2.67%	2.50%
Other Expense			
-----	-----	-----	-----
Salaries and Benefits	20.34%	16.50%	15.44%
Occupancy Expense	6.53%	5.89%	4.73%
Other Non-Interest Expense	19.95%	11.97%	12.17%
Provision for Loan Losses	4.89%	3.27%	3.26%