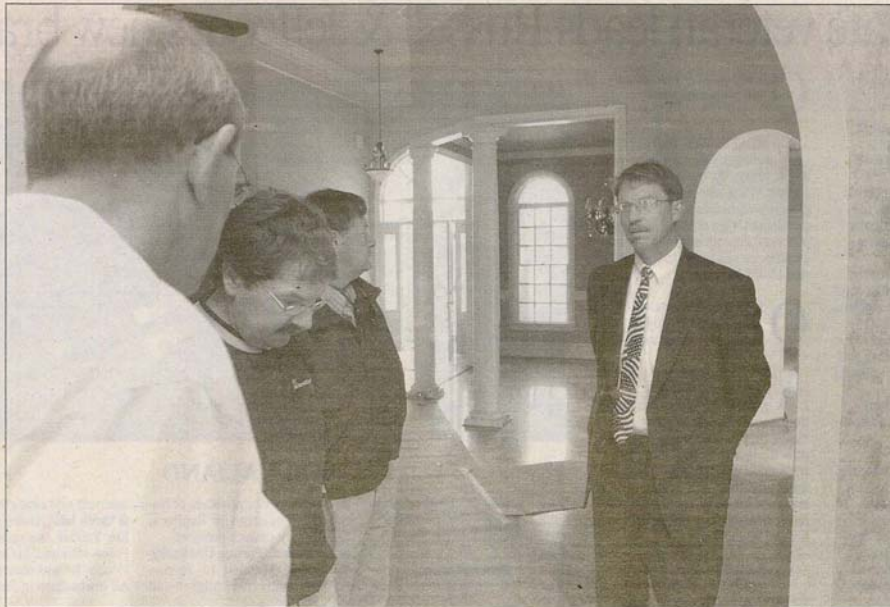


COVER STORY



RICH GLICKSTEIN/THE STATE

Richard McIntyre of First Reliance Bank, right, walks through a model home in the Pilgrim Point subdivision with Tom Lawhead, second from left, Mike Lawhead, second from right, and Russell & Jeffcoat's Jim Compton, left.

Making it personal

Community banks chipping away at the hold mega-banks have on S.C.

By **BEN WERNER**
Staff Writer

First Community Bank's directors always knew their annual meeting was complete when Corrine Dyer raised her hand.

The directors knew the name of the elderly shareholder and if they ever forgot it, she admonished, First Community would be just like every other bank.

Dyer passed away some time ago, but her point has not been lost. James C. Leventis, First Community's chairman, always closes annual meetings for the Lexington-based bank by invoking her memory and her statement.

Her statement, though, sums up the fears of shareholders and customers. Does the recent explosion in growth and number of community banks mean soon these lenders will stop focusing on the little people?

Bankers always will say no, yet First Community and the small banks like it around the state cannot afford to slow their growth. They're pitted in a battle against

each other to tap into what's described as a multibillion-dollar pool of deposits waiting to be poached from the region's mega banks.

Big banks offer ease and cheap services, but the community banks offer something that often only multimillion-dollar accounts can buy — personalized service.

This is why the Dyer story is a favorite around First Community, said Michael Crapps, the bank's president. It sums up what it means to be a community bank.

MARKET SHARE

But is remembering names enough? Community bankers say offering customers more personalized services, even at the cost of convenience of scores of branches and ATMs, is working.

Such claims are not just sales pitches. Market share data, collected June 30 every year by the Federal Deposit Insurance Corp., support the notion that South Carolina's 100 or so community banks are steadily chipping away at the hold a handful of large

banks have on the state.

In 1998, before Nations Bank became Bank of America and Wachovia joined First Union, these institutions, along with Branch Banking & Trust, held about \$16 billion in deposits statewide. Collectively, they controlled about 47 percent of the state's banking market.

By 2003, mergers, acquisitions and changes in strategies had taken hold. The current form of these banks held about \$18 billion in deposits, but their collective market share slipped to 41 percent.

During the same time, deposits statewide jumped. As of June 30, 2003, deposits were up more than \$10 billion to \$44.8 billion.

So what happened? Several things: The market saw the lowest interest rates in memory, banking executives were freed by mergers from large institutions, and there was a shift in policies.

Look at Wachovia and First Union's marriage. Based on 1998's numbers, the two, when joined, instantly should have created

about \$8 billion in deposits — a solid 23 percent of the state's banking market.

Yet by the time the two banks became one, their grip on South Carolina already was slipping. When added, their 2001 numbers equal about \$7.7 billion in deposits and a 19 percent market share.

In Orangeburg, for instance, First Union pulled out, and Orangeburg National, along with other banks, filled the void.

"Our Orangeburg bank has 18 percent of the (Orangeburg) market," said Bill Trayham, president of Orangeburg-based Community Bankshares, the holding company that is Orangeburg National's parent.

WHAT IS A COMMUNITY BANK?

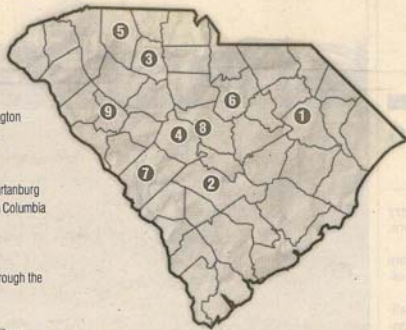
Ask bank officials at the largest multinational holding company or the smallest one-branch lender, and both will say theirs is a community-oriented bank.

But while any bank can profess to offering some sort of community feel, not every institution truly can call itself a community bank.

GROWING COMMUNITY BANKS

Some of the banks in South Carolina expanding across the state:

- 1 **First Reliance Bank**
Headquarters: 2170 W. Palmetto St., Florence
■ First Reliance is expanding to Lexington and Richland counties.
- 2 **Community Bankshares Inc.**
Headquarters: 791 Broughton St., Orangeburg
■ Through its Bank of Ridgeway subsidiary, Community Bankshares is entering the Columbia market.
- 3 **Arthur State Bank**
Headquarters: 100 E. Main St., Union
■ Arthur State has steadily extended its reach across the state.
- 4 **First Community Bank**
Headquarters: 5455 Sunset Blvd., Lexington
■ First Community now is extending into Richland County.
- 5 **First South Bank**
Headquarters: 1450 Reidville Road, Spartanburg
■ This Upstate bank has opened branches in Columbia and Bluffton.
- 6 **First Palmetto Savings Bank**
Headquarters: 407 Dekalb St., Camden
■ First Palmetto has extended its reach through the Midlands and to the coast.
- 7 **Security Federal Bank**
Headquarters: 1704 Whiskey Road S., Aiken
■ Security Federal recently opened a Lexington branch.
- 8 **Carolina National Bank & Trust**
Headquarters: 1350 Main St., Columbia
■ Recent start-up joined the banking scene in 2002.
- 9 **Capital Bank**
Headquarters: 109 Montague St., Greenwood
■ Capital Bank has expanded through the Upstate and into Lexington County.



SOURCES: FDIC, banks

ROB BARGE/THE STATE

There is no one set definition, but, generally speaking:

■ A community bank has less than \$1 billion in assets, according to the FDIC.

■ It operates in an area smaller than a region such as the Southeast, said Timothy W. Koch, a professor who holds the S.C. Bankers Association chair of banking at USC's Moore School of Business.

For its purposes, the bankers association considers its community bank members to be those lenders with less than \$750 million in assets.

Still, even with the lower threshold, the bankers association says 90 percent of its members are community banks.

Koch said the real difference between community and large lenders is philosophical.

Larger banks tend to be transaction-based, meaning they stress the number of times a customer uses the bank and is charged fees.

Smaller, community banks stress relationships between banker and customer.

Transaction banks move their people around so the same loan officers, branch managers, even market presidents rarely stay in one place for long. Relationship banking sees very little employee turnover.

Both strategies work, Koch said. It just depends on the goal of a bank.

STAYING ALIVE

Yet with all the gains made by community banks, the lending landscape still is fraught with pitfalls.

For years, community banks have looked to lend money to small companies ripe for expansion and families ready to buy houses.

This all started in 1986 when banking regulations changed, said Lloyd Hendricks, president and chief executive of the S.C. Bankers Association.

■ Small bank chains sold out to larger lenders, freeing money up for investment.

■ Bank executives were freed from their jobs and found this money to start community banks.

■ By the late 1990s, interest rates had dropped to a level that helped fuel a building boom. Community banks saw they could cater to small businesses that tend to be too small for the mega-banks.

These building loans are the bread and butter of community banks statewide. Last year, on average, commercial real estate loans accounted for a quarter of the assets held by South Carolina's community banks, according to a report by the FDIC.

But the same report warns a heightened level of commercial real estate loans — in some cases more

COMMUNITY BANKS

■ About 100 of the state's 112 banks are considered community banks. They have less than \$1 billion in assets and operate in a specific area.

■ Some of the banks are just a little too big, but exhibit many of the community bank attributes and, therefore, fall in that category.

LARGE BANKS

■ The large banks operating in South Carolina — those with more than \$1 billion in assets — include: Wachovia Bank, Bank of America, Branch Banking and Trust Co., Carolina First Bank, First-Citizens Bank & Trust Co., National Bank of South Carolina, First Federal Savings and Loan Association of Charleston, Na-

than a third of a bank's assets — also increases banks' balance sheet risk.

"It's tough, and it's going to be tough to remain a stand-alone," said Traynham, the Community Bankshares president.

Increasingly, staying alive means either growing or getting swallowed.

"We want to grow our business to \$1 billion," Traynham said. "We want to grow internally, but, to get there, we'll need some acquisition."

But opening a new branch is not just done on a whim, Hendricks said. He estimates a new branch's location and construction costs easily top \$1.5 million.

Traynham, though, knows if Community Bankshares is going to stay competitive it needs to tap into Richland and Lexington counties and what's described as a \$5 billion market.

This aggressive growth strategy sounds like the type of plan embraced by large banks, adhering to a transaction-based operation philosophy.

However, Traynham said the holding company is committed to retaining the individual feel of each of its banks.

LOOKING TO EXPAND

South Carolina banks, big and small, think about expanding when looking at the growing neighborhoods outside Columbia, in the Upstate and toward the coast.

One of the recent arrivals to the state's banking scene, Hendricks said, is Florence-based First Reliance Bank.

Since starting in 1999, First Reliance has grown rapidly, breaking even within six months and needing only 12 to recover its pre-opening expenses.

tional Bank of Commerce, Regions Bank, South Carolina Bank and Trust, SunTrust Bank, SouthTrust Bank, RBC Centura Bank, Liberty Savings Bank and First Bank.

OVERALL

■ Last year, South Carolina's banks collectively held more than \$44 billion in deposits at more than 1,200 branches statewide.

By the end of 2003, First Reliance had \$180 million in assets, \$138 million in deposits, 75 employees, two retail branches and

Bankers upbeat about 2004, survey says

Nationally, community bank executives generally have a rosy outlook for their industry in 2004, according to a survey conducted by Chicago-based accounting and advisory firm Grant Thornton.

The firm reports in its annual survey that 76 percent of community bank executives have a positive outlook in 2004. Only 60 percent, though, feel the same regarding this year's overall economic outlook.

Nearly all the banks, 93 percent, said retaining employees

one operation center in Florence.

Four years ago, the bank had about \$18 million in deposits.

The next step is growth outside Florence, and Hendricks said the bank has targeted Lexington County.

Such a move already is paying dividends for South Carolina Bank & Trust.

Since 1934, the bank has called Orangeburg home. However, a little more than a year ago, chief executive John Hipp moved the bank from Orangeburg to Gervais Street, just blocks from the State House.

With plans to become a statewide bank, a new branch in Greenville, and more than \$1 billion in assets, SCB&T is teetering, on paper at least, on the edge of community bank status.

Hipp said he wants to offer big bank convenience and expertise with community bank service.

First Reliance is keeping its base in Florence, but the bank sees Lexington as a way to enter the Columbia area, said Richard McIntyre, First Reliance's market president.

McIntyre said the bank's goal is to average one branch opening a year in the area, starting with Lexington, then Northeast Richland and Irmo.

The goal, he said, is: "Establish a good solid foothold to acquire 10

percent market share in Lexington County."

To do that requires getting \$170 million in deposits. Turning a profit will take between \$25 million and \$30 million in deposits. The bank plans to hit that benchmark in a year.

At First Community, president Michael Crapps said the bank already is firmly rooted in Lexington but agrees Northeast Richland is a fertile growth market.

"Our strategy is to locate and be a part of the communities around the Midlands."

Reach Werner at (803) 771-8509 or bwerner@thestate.com