

Inside Tucson Business

Sale to make Bank of Tucson, Southern Arizona Community Bank more 'local'

Jim Click is investor

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By Roger Yohem, Inside Tucson Business

Although Bank of Tucson and Southern Arizona Community Bank are both among the top performing banks in Arizona, according to Federal Deposit Insurance Corp. (FDIC), their futures—especially as local community banks—could have been threatened had they remained part of Capitol Bancorp.

The two banks are emerging from under a cloud of doubt with the Aug. 18 announcement that they are being sold for \$40 million to a combination of Grandpoint Capital Inc., a Los Angeles-based bank holding company, and a group of Tucson-based investors headed by auto dealer Jim Click. The holding company will own 80 percent of the Tucson operation with the local investors owning 20 percent.

The \$40 million acquisition price represents about 1.25 times book value, according to Mike Hannley, president and CEO of Bank of Tucson, who will keep that title under the new ownership.



Pending regulatory approval, the deal should close by the end of the year. Once that happens, the two banks will combine and operate under the Bank of Tucson name. Officials said no employees will be cut

and even suggested that the new entity is better positioned to expand and hire more employees.

"This is an acquisition of two local community banks. Both were owned but run independently by Capitol Bancorp," Hannley said. "I've been working on this deal since March."

Capitol Bancorp, headquartered in Lansing, Mich., has fought a heavy portfolio of foreclosed properties and other real estate assets. The day before the announcement about the Tucson banks, the company reported a second quarter loss of \$41 million. A year earlier it reported a net loss of \$16.3 million.

To get back on its feet, Capitol Bancorp has been aggressively seeking to sell off some of its affiliated banks.

Contrary to the parent company's issues, the Tucson banks are performing well. In April, the FDIC released data ranking Bank of Tucson No. 1 and Southern Arizona Community Bank No. 3 among the best performing community banks in Arizona.

The sale includes Southern Arizona Community Bank, 6400 N. Oracle Road, from which Capitol Bancorp would realize cash proceeds in excess of \$11 million, and the Bank of Tucson's operations at

4400 E. Broadway. Not included is Bank of Tucson's building and branch in Nogales, which had a tangible asset value of \$20.1 million as of the end of the second quarter. For now, it will remain with Capitol Bancorp although it is likely to be sold.

When combined under Grandpoint Capital, the new Bank of Tucson will have a consolidated \$270 million in assets.

John P. Lewis, president and CEO at Southern Arizona Community Bank, will become the vice chair of the consolidated banks.

Lewis said his new primary responsibility will be branch development. Already, he said he has identified six to eight locations.

"Soon, we will have the capital resources to expand without becoming a big bank. I'm hearing from regulators that they are on track with this deal, so we hope it will be fast-tracked to close sooner than the end of the year," he said.

Click's involvement reconnects him with partners and executives he had when he had a controlling interest and was chairman of the board of Arizona Bank, the state's largest independent bank until it was sold in 1998 and became part of Compass Bank, now BBVA Compass.

Don M. Griffith, chairman and CEO of Grandpoint Capital, served on the board of Arizona Bank for 10 years. And Robert Tuttle, Click's partner in Arizona Bank and his automobile dealerships in Arizona and southern California, is also a stockholder in Grandpoint Capital.

Click will be chairman of the board of the new Bank of Tucson.

Also reconnecting in the deal is David T.C. Wright, who was president and CEO of Arizona Bank and is among the local investors. He will chair the new bank's executive committee. Both Hannley and Lewis have worked for Wright during their careers.

Hannley said deals such as this are becoming inevitable in the banking industry. Being a small bank used to be an advantage in the marketplace, "but now, being bigger is better because we have to sustain the regulatory pressures coming down from the federal government," he said.

"Remember, the small banks didn't create all these financial problems, the big banks did. But the government included us when it started taking more control," Hannley said. "It's a new world in this new economy, a small bank can't digest 5,000 pages of new regulatory reform. If there were no merger, both banks probably would have to hire more people just to make sure we comply with the new regulations."

He said Capitol Bancorp's divestiture was "good timing and a sign of the times" that small banks may have to become bigger to compete.

Although both Bank of Tucson and Southern Arizona Community Bank have both marketed themselves as community banks they'll become more authentically local under the new ownership.

"For the value, Jim Click saw this as an incredible financial opportunity. He was the first to raise his hand and help orchestrate this with Grandpoint. From that standpoint, we are going to be more local than ever," said Hannley. "Either that, or we probably would have been absorbed by a national bank."

Under the combination, he said, the two banks boards of directors will be combined and all decision-making will happen in Tucson.

Biz Facts Founded: 1996

- Bank of Tucson

Capitol Bancorp's first bank outside of its home state of Michigan

Assets (as of March 31): \$213 million

Equity: \$19.6 million

Leveraged capital ratio (regulatory minimum is 4): 9.2

Nonperforming assets: 2.6%

2009 income: \$1.9 million

• **Southern Arizona Community Bank** Founded: 1998

President/CEO John P. Lewis was appointed last year to serve on FDIC's

14-member Advisory Committee on Community Banking.

Assets (as of March 31): \$95.2 million

Equity: \$8.9 million

Leveraged capital ratio (regulatory minimum is 4): 9.3

Nonperforming assets: 0.8%

2009 income: \$433,000

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