HIGH-ENERGY BANKER
In the heart of the Texas oil patch, KEN BURGESS keeps the ideas flowing at FirstCapital Bank

Community Banking:
• Changing job of the CEO
• Tech challenges and how to meet them

New interest in financial planning
Tale of MIDLAND: VISITING RIG #33—“THE BEAST”
FirstCapital Bank of Texas has oil in its veins, and Ken Burgess, chairman, knows his way around a rig, like Fasken Oil and Ranch’s “The Beast.” Read about this rig at http://tinyurl.com/oilbeast
Community bank leader Ken Burgess learned versatility meeting challenges in three diverse Texas markets. He’s using it to help meet banking’s challenges in Washington.

By Steve Cocheo, executive editor & digital content manager

Friends and fellow managers kid Ken Burgess that he is a triple Type-A executive. Burgess focuses intensively on his work, indeed, on anything he considers important. And perhaps it won’t surprise you that when it comes to one of his favorite hobbies—gardening—he doesn’t grow something pedestrian like radishes or peas. Burgess raises peppers—blistering hot peppers—and puts them up in Mason jars as preserves, hot sauces, and pepper jellies.

The flavors start out hot and preservation intensifies them. A jar of one of Burgess’ prize varieties looks like innocent string bean segments. Bite one, and you’ll think the pepper was all promise and no kick. Wait for it. Count to three—actually, two—and then extinguish your mouth. A serious fellow who knows how to be all business, Burgess smiles with a twinkle in his eye as a visitor samples roaring-hot cocktail sauce he’s made, and which Burgess denigrates as too weak. He tinkers a bit more. “Now?” he asks. “Wow!” says the taster, in enjoyment and surprise. The reaction pleases Burgess. His other hobby is golf. He loves the game and dreamed of going pro in his youth. Even as a busy chairman, he shoots in the mid ’70s.

This banker’s aim to do something well permeates his approach to political involvement, too. In many visits to Washington—now as 2012-2013 chairman of ABA’s Community Bankers Council—he’s found that a serious effort to influence issues can pay off.

The key is to keep at it, win or lose. “After you’ve done it enough times, it becomes comfortable,” says Burgess. But he adds that bankers must step out of their comfort zone. “You have to be willing to sit down with your opponents,” says Burgess, “not just with somebody who already believes in what you are saying.”

“I’ve heard some bankers say, ‘It won’t do any good to visit with X or Y, because they are on the other side,’” Burgess continues. “But they don’t realize that that’s one of the better opportunities you can have. You could possibly change that person’s thinking.”

Burgess has been trying to pass on this mindset to his managers and employees. His $650.1 million-assets FirstCapital Bank of Texas, N.A., does business in three congressional districts. One facet of his game plan: Invite a member of Congress into each market’s operations at least once a year, if not twice, to build understanding of the industry’s concerns at the grass roots.

Attacking sources of energy

Doing business in Midland, Texas, his bank’s headquarters, has taught Burgess an interesting parallel lesson: Sometimes in this country, we beat up on industries we need.

Midland sits in the Permian Basin—the geological structure that produces nearly a quarter of the domestic oil produced in this country. Most communities have forests of trees. Midland has forests of pump jacks (production wells), drill rigs (exploratory wells), and mesquite. When you are out in the oil fields, you see the wells and their supporting structures and facilities, such as tank farms, across the horizon, along with the occasional flame. The gas mixed in the oil in drill-rig bores has to be vented off and expended. Water trucks, “mud” trucks, and “fracking sand” trucks seem to clog some roads.

When experts speak of what, until recently, was unthinkable—U.S. energy independence—places like Midland are what they are talking about. Major oil companies left the area years ago, but more than 100 small
companies drilling using new technologies have created boom times, driving the simplest hotel rooms into hundreds of dollars a night—when you can find one. Yet Burgess and local oil men will shake their heads over criticism that the oil and gas industry draws over what might happen as a result of new techniques, in spite of precautions and compliance with government rules.

In a way, community banking suffers the same kind of attention, Burgess believes, also in spite of its importance to America. “I feel community banks’ image has been tarnished by the economic crisis,” he says. “We’ve been lumped in with investment banks and some of the larger banks.” He hopes, as council chair, to contribute to efforts to turn that image erosion around. “And that,” he adds, “may help turn the tide on dealing with some of the onerous legislation and regulation that we have been dealing with.” While large banks have the manpower to cope, albeit expensively, with the massive body of new rules, Burgess fears Dodd-Frank regulatory expansions will push community banks past what they can handle.

**Speak now, or forever pick up pieces**

When Burgess agreed to serve on the Community Bankers Council, he realized the job would have to be done proactively, and encouraging grassroots action would be part of that. “If the regulatory perspectives of bankers are not tapped in helping to set policy, then the policies we have to live by won’t be very favorable,” he says. The original Basel III capital proposals represent a critical example. Community bankers who didn’t understand the dramatic impact the regulators’ proposals would have on their institutions “either hadn’t read them or didn’t understand what they were reading,” he says.

Engagement is critical for bankers these days, Burgess believes, and he works to set an example. He’s brought his views on Basel III to bankers at a special panel discussion at ABA’s 2012 Annual Convention, and filed a pointed comment letter. And that’s just one issue that bankers face. Burgess hopes that new efforts, such as ABA’s Financial Education and Advocacy Initiative, a 501 (c)(4) organization, will help educate lawmakers and the public about banking’s importance.

Burgess may be zealous, but a long banking career taught him to be a realist. Sustained effort is key. “Changing the direction of policy is like changing the direction of a battleship,” he says. “It doesn’t happen instantly.”

**Building on history and experience**

Working hard at something is no new thing to the Burgess family. Ken Burgess, Sr., now of Abilene, had been a farmer elsewhere in Texas. He’d been doing some consulting for a community bank and wound up working for it full time. Within a few years, he was running the bank, and went on to start banks of his own. His three sons worked in his own institutions in high school, and Ken worked in one bank later on for five years.

“He worked us hard, on the farm and other jobs he had us do along the way,” says J. Greg Burgess, Ken’s brother. “But that’s what brought us into banking.” Greg Burgess’ own career includes a long stint as credit analyst at the original First National Bank of Amarillo, where he worked for Don Powell, Texas banker and FDIC chief during the George W. Bush administration. Brad D. Burgess spent a long career in other Texas institutions, including 20 years at American State Bank. Today, all three brothers work for FirstCapital. (“I’m harder on them than I am on other managers,” says Ken Burgess. “I’m trying not to play favorites.”)

“This is not a family bank; it just worked out looking that way,” says Burgess. Actually, the bank’s ownership comprises nearly 500 shareholders, which made the ABA victory over the old 500-shareholder registration threshold, won last year, critical for privately held FirstCapital.

The bank’s leadership responsibility and duties span a cadre of officers, who reside in all three of the bank’s markets—all reporting to Ken Burgess. The senior management team consists of Jay Isaacs, FirstCapital’s president; Ted Awerkamp, COO;
and Brad Burgess, CEO. Greg Burgess is Chief Lending Officer.

The bank’s three distinct Texas markets—Midland; Lubbock, over 100 miles away; and Amarillo, over 220 miles away—are so far apart that the bank uses techniques beyond the ordinary e-business methods that most bankers use today, to keep things running smoothly. For instance, the bank owns a King Air private plane for times when managers or other bankers need to shuttle from one market to another—it saves much time. Loan-committee meetings utilize TV cameras and large TV screens, so lenders in all markets can meet “together.” Technology is great, but the bank still has a bias towards the personal—making a major decision via email, for instance, is frowned upon.

Three faces of Texas
Burgess started FirstCapital in 1998, as First National Bank of Midland, after a favorite local institution that failed during the energy-lending crisis of the 1980s. Today, the bank's three markets include:

- **Midland**, now a booming oil and gas market, has had its ups and downs, being tied to energy. The local paper, the *Midland Reporter-Telegram*, features a pullout section called “Oil Report” every Sunday, and most local businesses are part of, service, or depend on the energy business. Burgess and other local leaders work hard to expand the community’s economic base even as good times have returned. Recently, XCOR Aerospace, the private space-transportation company, announced that with financial breaks from the city, it would locate its research and development headquarters in Midland.

- **Lubbock**. Cotton farming drives Lubbock’s economy—25% of domestic cotton comes from its environs. Education, especially Texas Tech University, provides strength and staying power. Here, north of Midland, the bank has concentrated on mortgage lending and commercial real estate lending, along with a heavier retail presence than in its other markets. A broader industrial and manufacturing base also adds more diversity to Lubbock than energy-based Midland. And Burgess plans to expand further into cotton-production lending. Overall, “our market share here is nowhere near what it could be,” says Brad Burgess, based here. “Our main challenge has been finding enough qualified people to staff the expansion.” With 28 banks vying for share, competition is fierce.

- **Amarillo**, further to the north, relies on cattle ranching. The bank’s operation here began in 2002 as a loan-production office built around Greg Burgess and four other bankers formerly with Don Powell’s First National, sold to Wells Fargo. Gradually, the operation has built up to 30 full-time employees. The Amarillo operation has been concentrated on real estate lending but has been working to broaden its efforts. As part of this, the bank is building its ability to offer cash-management products for all markets. The effort, under Ted Awerkamp’s direction, comes out of Amarillo. Operations staff is based in Amarillo as well.

In December, a new Amarillo headquarters will open to further cement FirstCapital into the community. Ken Burgess acknowledges that bank branches are evolving away from their traditional functions. Yet he remains convinced that in spite of technology, which he very much believes in, bank customers still put importance on a physical presence for a community bank.

“People still need a place to find a live banker, when they need one,” says Burgess. His brother Greg adds that, especially when a bank is a comparatively new player, “you still have to have a physical location, so people know you are doing business in that market and are available. The new building will be a statement for us, an advertisement for us.” In many ways, Amarillo remains a small town in spirit, and to be part of it, you have to occupy bricks and mortar.

Common to all three markets are extremely low unemployment rates—indeed, they are the strongest employment markets in Texas.
**Do right by your customers**

A common philosophy arching over these markets is conservative and prudent lending, bolstered by true relationship banking. Even with aggressive competition, FirstCapital management insists on understanding customers’ affairs and going after all their business, not just opportunistic one-offs where cutthroat pricing wins.

“We’ve chosen not to play that game,” says Jay Isaacs, president. “We don’t believe that pricing should be the driver of a customer’s credit choice.” For the lender, this means not grabbing all the potential fruit. “The last thing we want to do,” he says, “is to lend a borrower into trouble.”

This is part of how the bank builds confidence with customers and prospects, explains Brad Burgess, in charge of the Lubbock market. “Business clients have to be able to trust you and see their bank as their ‘silent partner,’” he explains.

In Amarillo and Lubbock, the bank moved in on its own, rather than acquiring, building up gradually. It’s an “acquire the banker, not the bank” strategy. Ken Burgess feels it produces a better cultural fit—no institutional attitudes to undo.

“We’ve got plenty of growth opportunities in our three markets,” says Burgess. “We don’t have to go looking for additional markets.” (That is, for now, he adds.)

What helps draw attention to FirstCapital in all three markets is employee willingness to play a role in local affairs. “That’s pretty much how this whole bank has been built,” says Burgess, “through the involvement of bankers and directors. We’ve done better with that than if we had done a lot of advertising.”

**Making community banking work**

Increasingly, ground-level coaching at FirstCapital must be left to other managers, and it’s been about five years since Burgess surrendered his last loan jacket. While he admits he likes to have a peek into deals now and then, he understands he must move on. “I’m not very good at letting go,” Burgess says, “but I’m getting better.” He says the bank has a strong, experienced senior team in place, overseeing an energetic, younger staff, and this permits him—obligates him—to concentrate on the big picture.

Burgess sees elements of both art and science to the community banker’s job. “To be successful, the best banks are going to have to have a great deal of creativity,” he says. “The art is using that creativity to differentiate your institution from competitors. The science comes in that you still have to have, or develop, an understanding of the principles of banking so you properly monitor asset quality and your balance sheet.”

A former bank CFO himself, Burgess, chairman, “is very hands on with our numbers,” says Tracy Bacon, executive vice-president and CFO. (All three brothers have degrees from Texas Tech: Ken in accounting, and Greg and Brad in finance.) While she says Burgess avoids micromanaging, “Ken knows every number in the bank, and he will be at my door when something changes, asking what happened.”

The efforts of Burgess and his team have paid off. “We have a good story to tell,” Bacon explains. “We’re growing the bank at a significant pace, while preserving our efficiency ratio, and maintaining a good, solid ROA of around 1%. Last fall, the company did a stock offering, which was sold by officers and directors, rather than by an investment bank. It was sold to individuals in the three markets the bank serves. Last March, SNL Financial named FirstCapital to its list of the 100 best-performing community banks for 2011. Burgess minds many numbers, from earnings to efficiency ratios, and it is said he’s never far from his iPad.

Burgess “gets” tech. But he resists suggestions that banking is going solely down a tech path. He believes community banking comes down to relationship banking—something he first learned from his father. Ultimately, “our mission here is not to sell product, but to serve people,” he says. “Community banks like ours can change lives. If we do that really well, then we’ll do well.”