

Learning from the Master

Flush with cash from Warren Buffett, Jim Clayton intent on expanding his bank venture with young CEO

By LOIS REAGAN THOMAS, news@knoxbusinessjournal.com
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After retiring as a "mobile-home magnate," Jim Clayton seems well on his way to acquiring the new moniker of bank baron.

With buckets of "Buffett cash" at his disposal, the founder of Clayton Homes over the past four years has bought four banks in Middle and West Tennessee and opened Clayton Bank & Trust in Knoxville.



Currently, Clayton Bancorp holding company had \$700 million in bank assets and he's looking to expand.

Sites have been identified for eight new offices in Knoxville, said Matt Daniels, chief executive officer of Clayton Bancorp and Clayton Bank & Trust.

Locations in Blount and Sevier counties, as well as LaFollette, will also be opened, said Clayton.

Clayton Bank & Trust reports serving 2,000 customers and \$93 million in deposits in the two Knoxville offices at the end of October.

"My goal is to invest and for Matt to deploy \$100 million (in banking)," said Clayton, who realized \$480 million before taxes from financier Warren Buffett's Berkshire Hathaway's acquisition of Clayton Homes in 2003. He has also put \$100 million in the Clayton Family Foundation, making it the largest foundation, when ranked by assets, in the Knoxville area.

While the thrill of doing deals and making money remains strong in the 72-year-old Clayton, he says his goal is not to increase his personal fortune, but rather the size of the foundation.

"Kay (his wife) and I won't spend a penny of money the bank earns," he said. "It will all go back to the community by way of the foundation. On my death, half of the bank goes to the foundation, and on Kay's death, the other half goes to the foundation. The only exception is management and staff participation."

Management is led by 27-year-old Daniels, who just eight years ago was operating a DitchWitch and installing irrigation pipe at Clayton's home. As one of the college interns from Clayton's fraternity, Sigma Phi Epsilon, whom Clayton has taken under his wing over the past few years, Daniels had the opportunity to learn at the feet of the master.

Daniels, a former fraternity president, joined Clayton Homes as a management intern after graduating from the University of Tennessee. Later, he headed a project that developed a process for identifying new retail sites for Clayton Homes.

When an old high school buddy contacted Clayton about a bank on the market in his home town of Henderson, "Mr. Clayton asked me to go to Henderson to be his eyes and to learn as much as possible," Daniels recalled.



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Matt Daniels, right, leads Clayton Bank & Trust into the Knoxville market. Jim Clayton, background and cutout, is the owner of Clayton Bank & Trust and Clayton Bancorp.



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Soon after Clayton purchased First State Bank of Henderson in 2002, Daniels was named chief operating officer. He was named CEO in 2004. When FSB became part of Clayton Bancorp and Clayton Bank & Trust was opened in Knoxville, Daniels was tapped as the CEO.

He is reported to be the youngest president of a bank of more than \$300 million in assets in the country.

During Clayton's earlier banking foray - as major shareholder of BankFirst, which was sold to BB&T Corp. in 2001 - he had left the operation of the bank in the hands of veteran banker Fred Lawson. But in this latest venture, it's obvious that Clayton's influence is paramount.

"Mr. Clayton and I talk every day," said Daniels, who acknowledges his gratitude to his mentor.

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"We've required Matt to mature quickly," said Clayton. He noted that the fraternity internship program "set him up in situations involving high expectations." He said Daniels was "one of the hardest working men I know."

That Daniels has been thoroughly imbued with the Clayton culture is evident in his discussion of bank management.

He cites the "90-10 rule," a Clayton maxim that a mature manager should be able to make 90 percent of the decisions, but should recognize the 10 percent that require input from others on the team.

"Management by exception" is the theory, but it's easier to express as 90-10, Clayton noted.

Daniels also talks of "getting our circles together," a Clayton description of collaborative effort, and of being "conservatively aggressive," a tactic Clayton credits with keeping Clayton Homes in good financial condition through cyclical markets.

He's applying that tactic in the banking business by evaluating transactions that "will give us a 10 percent return in two to five years."

Clayton, in his autobiography, "Jim Clayton, First a Dream" stated that his team will treat acquired banks "mainly, like Warren Buffett, we stay out of the way."

"Our intent is to eliminate change and to make the integration seamless to the staff, management and especially, to the customers. We say 'Don't shock the system.'"

He also sent the message to potential sellers that being acquired by Clayton will also benefit the communities the banks serve. "Supported by our Clayton Foundation, your bank will deliver substantially increased annual giving in the community without impacting performance," he wrote.

Clayton Bancorp includes First State Bank of Henderson and Friendship Bank, which operate under the Clayton Bank & Trust charter. Other holdings are American City Bank of Tullahoma and Bank of Camden, both of which operate under their own charters. Clayton also owns 30 percent of Merchants & Planters Bank of Toone.

Clayton expects the Clayton Bank & Trust charter to show the most growth. "That's where Matt spends much more of his time and focus - in operation and in looking for growth and expansion opportunities."

A logical bank focus is wealth management, with Clayton's fortune and the foundation's assets as major components. The bank recently named David Mulrooney, formerly of SunTrust and Wachovia banks, as senior vice president for the Wealth Management Division.

Another niche is serving the growing Hispanic community. Santiago Cuccarese, the bank's marketing director and a native of Argentina, said education is one tool the bank is using to help Hispanics integrate into the community. The bank recently awarded three scholarships to Hispanic Chamber of Commerce members to attend a program offered by the Knoxville Area Chamber Partnership in collaboration with the Tennessee Small Business Development Center. The bank also recently hosted a Latino art exhibit. Clayton speaks also of fostering entrepreneurship, perhaps of replicating the "triggering event" of his career - Valley Fidelity Bank & Trust Co.'s willingness to lend to his and his brother, Joe's fledgling businesses when other banks wouldn't take the risk.

"You can make the case that we wouldn't be here except for that relationship, of giving the Claytons a chance," he said.

Lois Reagan Thomas, a retired business editor of the News Sentinel, is a freelance writer in Seymour.

Assets: Nearly \$700 million
Employees: 300
Owner: Jim Clayton
CEO: Matt Daniels
Holdings:

- Clayton Bank & Trust of Knoxville (\$337 million assets)
- Offices in Knoxville and Cookeville
- First State Bank of Henderson, offices in Henderson and Jackson
- Friendship Bank, offices in Friendship, Lexington, Covington
- American City Bank, offices in Tullahoma, Manchester (\$158 million assets)
- Bank of Camden, offices in Camden, Big Sandy (\$152 million assets)
- 30 percent of Merchants & Planters Bank, Toone (\$90 million assets)

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