

# BankNews

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## Small Business Lending Strategies

By: Katie Kuehner-Hebert

Community banks and small businesses need each other - perhaps now more than ever as the economy struggles back from the depths of the Great Recession. And banks are doing their part in a variety of ways, as reflected on these pages through interviews with bankers in California, Montana, Tennessee, Georgia and North Carolina.

These bankers are finding innovative ways to serve small businesses, including outsourcing Small Business Administration loan processing in a couple of cases. Most important, with smart staffing and technology deployment they are doing for their small business clients just about everything bigger banks can do, including cash management, ACH, merchant card services, equipment and asset-based financing, and letters of credit.

And, of course, these bankers have their own unique tools. They deliver their services in personal, high-touch ways, and they are deeply involved in their communities and in the interests and organizations of their small business clients.

### Flush With Capital for Lending

Freshly invigorated with new capital after merging with a well-backed de novo, Professional Business Bank in Pasadena, Calif. is finally coming out of its "defensive posture" and is ready to grab more business.

On Dec. 31, Professional closed its sale to \$64 million-asset California General Bank, another Pasadena bank that opened in March 2009. Professional Business Bank assumed the de novo's state charter, but kept its better known name since it has been in the market since 2001, according to Mary Lynn D. Lenz, president and CEO of the now \$317 million-asset bank.

The merger enabled Professional Business Bank to infuse additional capital from Carpenter Community BancFunds, the majority shareholder of California General's parent, CGB Holdings Inc. In July 2010, Professional Business Bank received \$12.6 million in capital from a private-equity group, enabling regulators to lift a cease and desist order due to huge losses in commercial real estate loans when the financial crisis hit.

The earlier capital had raised Professional Business Bank's capital ratios to above the regulatory minimum, while the fresh capital enables the bank to finally be more proactive in seeking business, Lenz said.

"We're coming out of this transaction very well-capitalized, and so there's no better place right now as we emerge out of this economic environment," she said. "Now we have the gas to accelerate the pedal, to move forward and really go out and ask more businesses to be our customers."

Professional Business Bank's total risk-based capital is now 15.74 percent.

Lenz says the capital infusion will be used to attract additional business customers and make more loans to existing ones.

"Our loan loss reserves are very healthy, so this new capital allows us to go into the marketplace to grow with our customers," she said.

The bank specializes in serving small to mid-sized businesses, including doctors, light manufacturers and firms for professionals such as attorneys and accountants, in its six branches within Los Angeles and Orange Counties - Pasadena, Montebello, Glendale, Irvine and Huntington Beach.

"As we move forward over the next couple of months, we'll start the process of rebranding the company with advertising - we thought we should have a fresh look, new logo and new colors," Lenz said.

The merger added three relationship bankers to total a team of seven, and each will step up one-to-one contacts with potential customers and conduct more seminars to help small businesses, according to Lenz.

Professional Business Bank offers the same range of business services that bigger banks offer, including equipment financing, asset-based financing, SBA lending, letters of credit, corporate credit cards, cash management services, online banking, remote capture and merchant processing.

However, Lenz contends her banks offers far better high- touch service.

"Our customers tell us they just get lost in the big bank shuffle - they didn't have access to the powers-that be to discuss any hurdles they may have been facing," she said.

In fact, personalized service from the top is what differentiates Professional Business Bank from even community banks that brand themselves as "business banks," Lenz contended.

"It's been my experience that when a bank makes management accessible to customers, it makes everything change," she said. "Everybody likes to talk with a human being - especially one in an authority position who can get them answers."

While 97 percent of Professional Business Bank's loan portfolio consists of business loans, the bank also offers business owners personal banking services including checking, savings and money market accounts, certificates of deposit, online banking, home equity loans, personal loans, credit cards and mortgages for "customers with good, strong relationships."

The bank does not offer wealth management services, but has "solid relationships" with wealth service providers, Lenz said.

"Having a business relationship creates a degree of confidence with the personal relationship as well," she said.

There are signs that loan demand from businesses in Professional Business Bank's market will pick up in 2011.

"At the end of the year, I started to feel a renewed confidence from the customers," Lenz said. "They are starting to talk about growing their businesses, which I haven't heard in a long time, and they are also talking about how to best manage their cash flow in order to do that."

The recently enacted Small Business Lending Fund Act in Congress is a fine program for community banks, but Professional Business Bank will not need to avail itself of that in the near future due to its recent infusion of capital from Carpenter Community BancFunds, according to Lenz.

"We really have sufficient capital right now, so from an economical or financial standpoint, it probably wouldn't make sense to pay interest to garner more capital," she said.

Lenz and her team are excited about the prospects as the economy finally begins to recover.

"We're in a premier location and with the economy turning and the advantages small businesses have in California, our bank board and management are committed to getting out the message about our bank," she said.

### **Navigating the Profitable Waters of SBA Lending**

Today, banks are searching for new and expanded sources of non-interest fee income, ways to differentiate themselves through their offerings and opportunities to better meet the needs of their markets. Three Rivers Bank of Montana and Brighton Bank of Tennessee have found one answer in government-guaranteed Small Business Administration lending - it is proving to be a tremendous profit center for these community institutions.

An institution with \$100 million in assets based in Kalispell, Mont., Three Rivers Bank had dipped its toe into the SBA lending waters a few times over the years, but found the underwriting, loan documentation and nuances of working with the SBA to be burdensome.

However, Chairman and CEO John King clearly recognized the advantages of SBA lending. It enabled the bank to extend loans to creditworthy commercial borrowers on terms and conditions not otherwise available to them. He also knew that - if done properly - SBA lending could generate substantial profits for the institution. The bank just needed to optimize its SBA lending process - that is when it turned to Holtmeyer Sc Monson.

Three Rivers has been leveraging the provider's specialized proficiency and out-of-house SBA lending services for the past two years. Freed from grappling with the complexities and the inherent bureaucracy associated with SBA lending, the bank has been able to efficiently bring in a high volume of quality credits that are helping small businesses in its market improve cash flow and survive in these hard economic times.

"We're closing about 20 to 24 loans a year with Holtmeyer Sc Monson and we were recently named the third-largest lender of SBA loans in Montana," explained King. "Not too bad for an independent community bank with only two branches competing against Wells Fargo and other statewide institutions. The fact is that we probably wouldn't even be in the SBA loan business right now if it were not for this collaboration."

Three Rivers outsources all SBA loan underwriting to Holtmeyer Sc Monson and is increasingly relying on the company for loan servicing as well. According to King, "Their underwriters are outstanding and responsive - I talk to them about every three days, which I think is great. If we are missing something, they immediately let us know. When the loan packet is ready to go, they let us know. And, the loan documentation is extremely thorough. Outsourcing has alleviated the burdens associated with SBA lending and enabled us to turn it into a profitable source of income."

Since really diving into SBA lending, Three Rivers has closed more than \$5 million in SBA loans and has achieved recognition as the SBA 2009-2010 Emerging Lender for the state of Montana. And, with the

standard government guarantee level at 75 percent to 85 percent, the bank has been able to participate in this high yield activity while taking on less risk.

In another part of the country, Brighton Bank has also been making profitable strides with SBA lending. The Tennessee-based institution, with \$75 million in assets, jumped into the government-guaranteed lending waters in 2009 and began seeing returns immediately. However, as with so many other community banks, it was initially hesitant about SBA lending. Brighton Bank believed it either had to commit significant resources and operate a fully staffed SBA department or simply pass on the opportunity due to the complicated process. Then President Brad Hailey heard about an attractive option for running its SBA lending program that would require little or no upfront work for the bank - outsourcing the loan process and servicing to Holtmeyer Sc Monson. Hailey engaged with the company and it "was full speed ahead.

Even in a tougher economy, SBA lending has enabled Brighton Bank to continue making loans when many of its peers have not been able to. With government-guaranteed credits, banks can sell off 90 percent of the loan balances in the secondary market, and due to strong demand from investors, these instruments are trading at historically high levels.

Depending on loan term and rate, guarantees regularly demand a premium level in excess of 10 points and generate significant ongoing servicing fee income. Brighton Bank was able to bring in more than \$200,000 in non-interest fee income in 2009 and again in 2010. The institution was the third largest by dollar volume SBA lender in the state of Tennessee in 2009 and produced \$3.3 million in loans last year.

Accordingly to Hailey, "We had the honor of being recognized as Tennessee SBA Community Bank of the Year, Top Dollar for 2009 and attribute that success in part to our partnership with Holtmeyer & Monson. The company provides the comprehensive services we need to help our customers and participate in SBA lending - and we're clearly profiting. We added 33 percent of our normal earnings to our bottom line in 2009 alone. Plus, the whole process is painless because they really understand the small business customer and they do all of the hard work involved with each loan."

The numbers certainly speak for themselves when it comes to demonstrating the value SBA lending can provide community banks such as Three Rivers and Brighton Bank, but there are additional benefits to consider. Both banks are able to assist small businesses on Main Street that did not have any other options available to them. At the same time, they are differentiating themselves as SBA lenders and offering a product that attracts new customers.

When it comes to examinations, Three Rivers and Brighton Bank are also getting a nod from the regulators. They are happy to see the guarantees on the institutions' SBA loans because they know that they have been evaluated and are sound credits.

Equally important, relying on a lending services provider has allowed Three Rivers and Brighton Bank to capture these lucrative lending opportunities - without incurring net costs. Processing fees are rolled right into a borrower's overall loan so there is no cost to the institutions. The banks also have peace of mind knowing that Holtmeyer Sc Monson has many years of experience working with the SBA and collaborates closely with the organization on a daily basis. The company has a thorough understanding of SBA lending policies, what the SBA is specifically looking for and how to make the process as straightforward as possible.

There has never been a better time to enter the SBA lending waters. However, banks must be aware that this is a specialized credit-granting activity, and requires a process somewhat different from conventional CScI lending. A government guarantee is never an excuse to make a poor credit decision. Whether a bank is already offering SBA loans but is feeling hindered by new regulations and staffing requirements, is interested in expanding government guaranteed lending activity or would like to begin capitalizing on this opportunity for the first time, there is expert help available. Outsourcing the SBA lending process

could be a highly attractive option for an institution - it is paying off for Three Rivers Bank and Brighton Bank.

### **Business Banking With Panache**

When it comes to business banking, community banks know the value of customer service. Be it a business customer or consumer, quality customer care with quality professionals are ingredients in a recipe for success.

Charles B. Crawford Jr., chairman, president and CEO of Private Bank of Buckhead in Atlanta, knows this all too well and says that his bank's clients are privately held businesses and discerning individuals who are entrepreneurs and professionals.

"Our model is relationship-driven, and most of our relationship managers, as we call them, came to the bank with strong relationships in the community," said Crawford. "So, they foster those relationships and that provides a significant part of our client base. We do all this through the usual means, but also through active community involvement - not just attending community events, but by being involved in the leadership of business and civic organizations."

"Community" is also a key word for Crescent State Bank in North Carolina. "We promote our services primarily through our employee's involvement in their respective local communities, including bank and personal sponsorships of community events," said Darlene Goldbach, senior vice president- deposits and cash management services at Crescent State Bank in Cary, N. C. "We also advertise our product and rate offerings via local community publications and via our website and online banking portal."

But Goldbach says that they always strive to differentiate Crescent as a smaller, community bank, which is locally owned and provides local decision-making. Approximately 80 percent of its loan portfolio represents business loans.

Like Crescent, differentiation is a key tenet for the Private Bank of Buckhead. "We differentiate our bank with the people who serve our clients," said Crawford. "We believe the products, pricing and technology are a commodity in our business and the only point of differentiation is our people and our passion for service. We have attracted seasoned professional bankers that have a loyal client following in the business community. I would estimate half of the loans we make are for business purposes in financing the operations of a company or their fixed asset investments."

Staff selection and quality have been key for the business banking model, according to Crawford. His bank started in December 2006 in the middle of the economic downturn. But he says that has worked to its advantage.

"We have been able to hand-pick seasoned banking talent, which tends to come with the relationships I mentioned," he said. "It also has allowed us to hand-pick loans to some extent, as many competitors just weren't lending or were not lending in specific segments. We also promote and market, if you can call it that, through word-of-mouth efforts. That is, we provide high-touch service [and] clients like it, and refer others in. In an era when prospective clients are acclimated to expecting lukewarm service, we provide what you might call old fashioned service and it really creates strong loyalties."

Though the bank's approach to business clients may sound a bit academic, it puts the approach into practice - and it works.

He also notes that his bank has focused on marketing niches of interest to business banking customers. The bank recruited a seasoned SBA lending pro in 2008 who created a strong SBA lending department.

"That positioned us favorably to reach out to business clients and prospects," he added. "In fact, the program under her leadership has been so strong that it "was granted SBA preferred lender status after just one year; that status was recently renewed for two more years. It has been serendipitous that the SBA program, overall, was enhanced during our entry into that space. Those program modifications gave us a little something extra to tout."

Targeting the needs of business customers is a key part of the strategy of Northwest Georgia Bank in Chattanooga, which serves specific areas in Tennessee and Georgia.

"We have personalized service for small businesses, including loan officers with lending authority, a cash management department that provides business online banking, ACH, remote deposit and merchant credit card services," said Tom Mastin, senior vice president retail, Northwest Georgia Bank in Ringgold. "We also field a team of business development officers who focus on meeting new businesses, but also play a very important role in maintaining customer relationships by acting as a point of contact for both the customers and bank loan officers and support staff. Our loan officers meet with clients anywhere that is convenient for them. Our cash management department will go to a business to take an application, install products and train customers. We provide quick and local responses to loan applications and pricing of products."

Like Northwest Georgia Bank, Crescent's Goldbach says it is all about service and staying close to the needs of the business customer, while simultaneously staying close with those of consumer clients.

"Crescent State Bank is currently focused on enhancing our small and medium business products and services in order to grow our base of business customers," said Goldbach. "We do not have a target business percentage of the loan portfolio because we believe the business relationship goes beyond lending opportunities. We want to provide a suite of banking products and services that will allow our business customers to concentrate on their business strategies without having to worry about whether their bank can handle their needs."

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