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NICHE FOCUS

Boosts Profits

Three banks prosper in specialized markets.

By Susan Thomas Springer

Three high-performing banks that serve quite different markets have earned success through the same strategy: carving out a niche and staying true to their unique sets of customers. These bankers find success by focusing on who they serve best. Whether the customer is a rancher or an international business owner, these banks know current technology and a highly skilled team are crucial to their future prosperity.

In this annual *BankNews* feature we speak with three community bank CEOs about how they remained profitable through the recent downturn and their strategies for flourishing in the improved economy.

Prosper in Your Niche

These three banks navigated profitably through the downturn, thanks to creating their own market space and operating skillfully in it.

Cross River Bank opened its doors in Teaneck, N.J., in 2008 at the height of the recession, offering traditional services to the tri-state area. Soon, the bank added a specialty — third-party originated loans. Cross River Bank was one of the first banks to work with GreenSky Trade Credit to offer home improvement financing for Home Depot customers. That lending program started the bank on the path to becoming a leader in the marketplace-lending arena.

“Today we actually originate on behalf of 19 platforms close to \$300 million

a month of consumer lending loans,” says Gilles Gade, president and CEO of Cross River Bank.

Gade says his bank in northeastern New Jersey, now with \$427 million in assets, benefited by opening during the financial crisis because it started with a clean balance sheet and then deployed capital into high-quality assets with strict underwriting guidelines.

“We haven’t experienced a default in our history in seven years,” adds Gade.

While Cross River Bank and First National Bank in Las Animas, Colo., are both ranked on SNL Financial’s top 100 best-performing banks under \$500 million, they serve very different demographics. In business for 114 years, First National Bank has long served the ranching and farming community. Five of its six branches are in sparsely populated rural areas with the majority of business in agricultural operating lines of credit. That emphasis enabled the southeastern Colorado bank, with \$322 million in assets, to remain profitable during the downturn.

“In general, during the financial crisis, agricultural banks were in better shape by far than banks that were relying on any kind of real estate development and construction,” says Dale Leighty, CEO and chairman of the board at First National.

Leighty says his bank also enjoys a “very strong efficiency ratio” due to its frugal attitude and tight management of expenses.

Live Oak Bank in Wilmington, N.C., is ranked by SNL Financial as a



Gilles Gade, president and CEO of Cross River Bank.



Dale Leighty, CEO and chairman of the board at First National Bank.



James “Chip” Mahan, founder, chairman of the board and CEO at Live Oak Bank.

top-performing bank in the \$500 million to \$5 billion category. One thing it does well has made it the nation's second-largest SBA lender in the United States behind Wells Fargo Bank. While the SBA 7(a) Loan Program allows banks to lend in 1,100 industries, Live Oak Bank has picked 11 so far. They "reverse engineered" the process by hiring domain experts in each sector who then teach the chief credit officer what the credit box should be. For example, in the poultry sector, the expert is a former CEO of Pilgrim's Pride Corp.

"We had a grand time in '08, and '09 and '10 when banks shut down because we were there for veterinarians. We were there for independent pharmacists and funeral directors," says James "Chip" Mahan, founder, chairman of the board and CEO.

Live Oak Bank analyzes its customers' quarterly financial statements and if something looks wrong, Mahan says they "get on a plane and go see them" to solve issues before a loan goes south.

Maintaining Profitability

Looking ahead, the three CEOs agree that staying ahead of technology and maintaining a highly skilled team are keys to remaining a high-performing bank.

"Finding quality staffing for compliance and internal audit is quite difficult," says Gade.

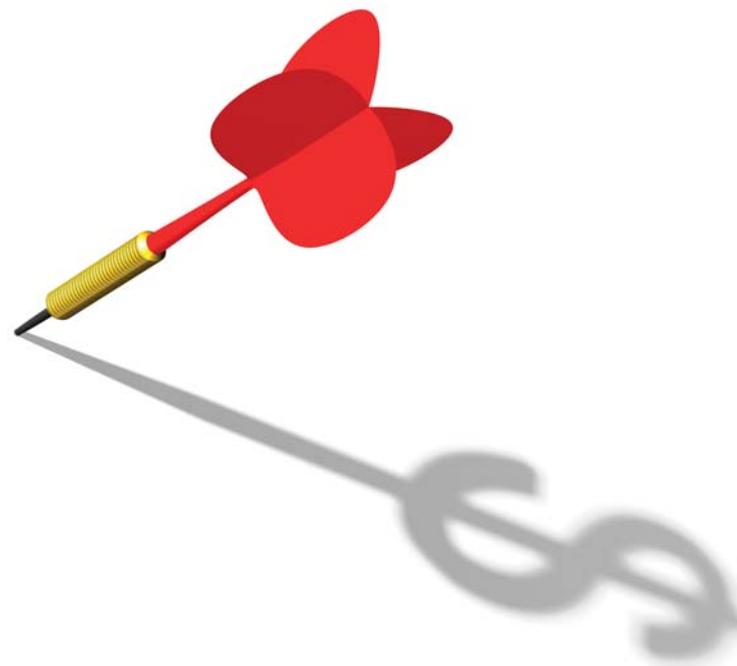
To compete with larger banks, especially for key staff needed to manage complex regulatory issues, Gade says they're creating "a killer environment, a little bit like Silicon Valley," complete with perks like yoga classes, breakfast parties, event tickets and robust health coverage. Cross River Bank offers free dental and vision coverage as well as life insurance to its 90 employees.

Live Oak Bank is also creating an enticing environment for its 50 employees with pay at the top of the range, paid healthcare and a modern headquarters offering food service and a gym with personal trainers. Mahan wants to grow by finding more employees who understand how to lend SBA money, including those who grasp its detailed operating procedures.

First National Bank's 70-employee team doesn't experience much turnover since the bank tends to be a competitive employer in the small towns where it operates. Leighty says the bank offers the management team stock options as "motivation and incentive for keeping an eye on every decision we make."

Also, the Colorado bank is putting more resources into cyber security. Leighty calls it "one of the biggest threats to our safety and soundness."

Cross River Bank is keeping clients' data secure by obtaining certifications such as the ISO (International



Organization for Standardization) 27001 which outlines processes for continuously improving information security management systems. Technology also plays a key role in the bank's ability to provide a real-time payment solution in all 50 states by being one of the nation's few banks signed up with every PIN debit network.

Future Opportunities

These bankers plan to grow in different ways and expect minimal impact from Federal Reserve rate hikes, if they are done slowly and steadily.

"Certainly if it is over a period of time and we're asset-sensitive, we'll make more money," says Mahan.

Looking ahead, Mahan expects Live Oak Bank in coastal North Carolina will grow by identifying more sectors to lend in beyond the current 11 and by becoming less dependent on the SBA.

Leighty says while First National Bank will stay its course, he keeps an eye out for acquisitions if they are the right geographic and cultural fit. Future rate hikes will benefit his bank, especially his customers who depend on interest income from their CDs.

"A rising rate environment, if it's not too much, too quick, is better for the majority of banks for their earnings," says Leighty.

Cross River Bank plans to grow by continuing to develop its marketplace lending platform and beefing up its compliance management system to "pay close attention to what the regulatory environment is expecting us to adhere to." Gade expects minimal impact from Fed rate increases.

"It depends what the Fed's strategy is going to be in the next few years, not the next few months," says Gade. **BN**

Susan Thomas Springer is a contributing writer based in Sisters, Ore.