

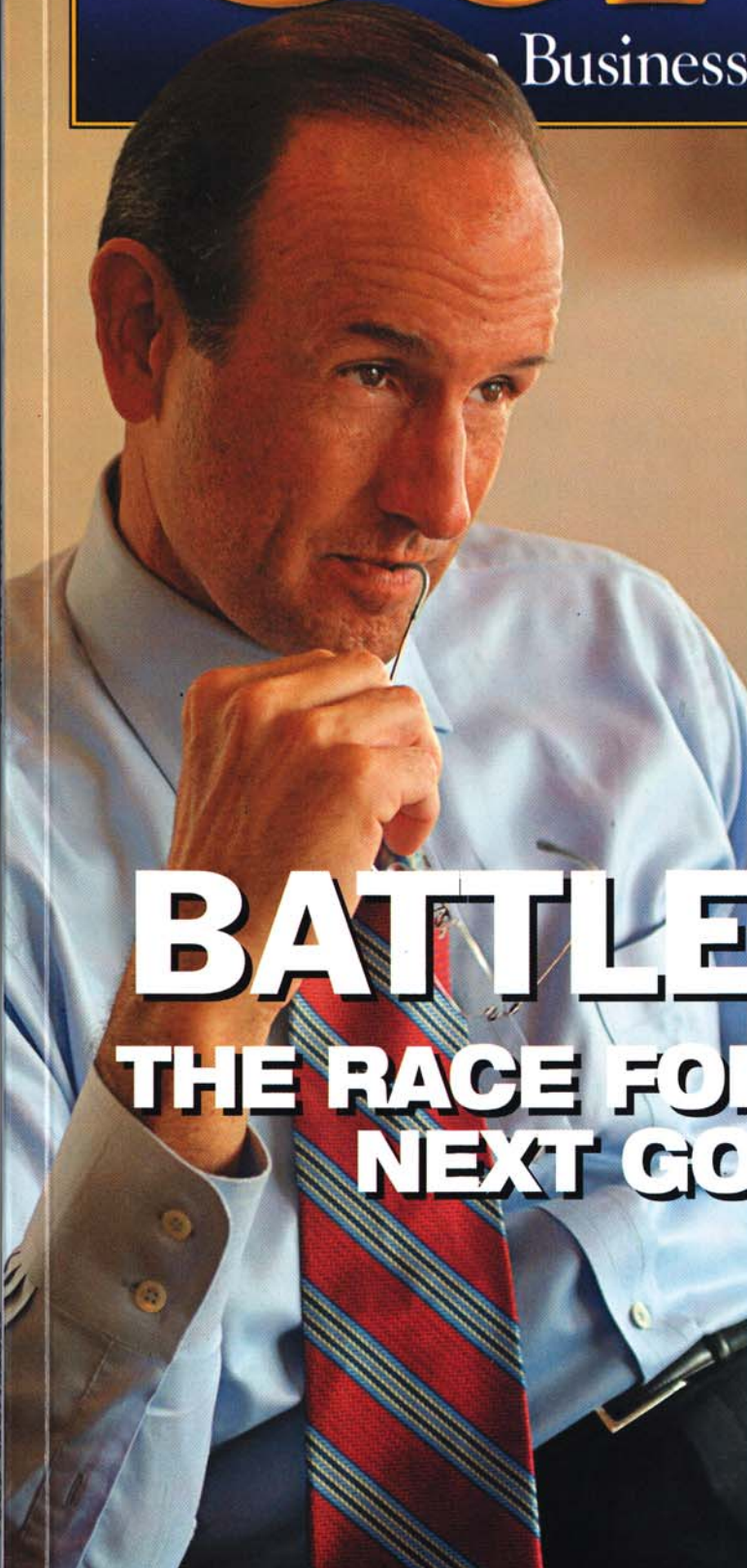
Corp!

Business

SEPTEMBER 2006 \$4.99

Michigan
Edition

www.corpmagazine.com



BATTLE LINES: THE RACE FOR MICHIGAN'S NEXT GOVERNOR

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Community Bankers Succeed by Knowing and Serving Their Customers Well

[BANKING]

Despite a stalled economy, entrepreneurs continue to carve out niches for successful new businesses, including community banking.

BY SHARI S. COHEN

Indeed, as recently as 2004-05, there were six new state-chartered commercial banks with several others expected to open by the second half of 2006.

Linda A. Watters, commissioner of Michigan's Office of Financial and Insurance Services, says other states are experiencing a similar increase. But while new bank charters are being approved in Michigan, the total number of banks has actually dropped since 2003 when there were 158 operating. By 2005 that number was 154, a drop of 2.5 percent, likely a reflection of consolidation among existing banks — and one of the main catalysts for the growth of community banking.

For their part, community bankers say customers tell them larger isn't better. Big bank service (or lack thereof) is often impersonal and bureaucratic, which provides an opportunity for smaller institutions, including new banks.

But the issue may not be size as much as ownership. In recent years, a number of Michigan banks of all sizes have been acquired by or merged with regional, national and foreign banks.

Comerica, for example, is now the only large commercial bank with headquarters in the state.

"Decision-making is more likely to be

local at a community bank than at very large institutions with widespread branching networks," says Watters. "Local knowledge can make the difference in credit decisions on applications that don't match a standard profile. Community banks of all sizes pride themselves on knowing their customers and providing high-touch, personalized service."

Watters acknowledges that some large banks provide that same level of service. She points to Macatawa Bank and Mercantile Bank, both based in western Michigan, and with assets exceeding \$1.8 billion, both operating on the community banking model.



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— LINDA A. WATTERS, COMMISSIONER OF MICHIGAN'S OFFICE OF FINANCIAL AND INSURANCE SERVICES

Service Is Key

Satish Jasti, president and CEO of the proposed Lotus Bancorp Inc., expected to open in Novi during the last quarter of 2006, believes that small to medium-sized businesses, professionals and other individuals “are not being served well by the money center banks and the super regional banks. Credit decisions are being made by computers and out of state lending officers. Although banks by law have to invest in the communities that they do business in, banks always invest much more heavily in the community where their headquarters are based.”

Timothy Sinclair, director of business development of Community Central Bank Corporation, says some businesses find a lack of familiarity with the local area as a source of dissatisfaction with larger banks.

That and the fact that customer service may be delegated to out-of-state staff accessible only by phone.

Sinclair contrasts that with Community Central’s focus

“Our bread and butter is small businesses and professionals and we will grow with them.”

TIMOTHY SINCLAIR, DIRECTOR OF BUSINESS DEVELOPMENT OF COMMUNITY CENTRAL BANK CORPORATION

on person-to-person relationships.

“Our bread and butter is small businesses and professionals and we will grow with them,” he says.

Community Central Bank, founded in 1996, has offices in Rochester, Mount Clemens and Grosse Pointe Farms, as well as loan production offices, focusing on mortgages, in several other states.

While a public company, Sinclair says the principal shareholders are local people.

A Focus on Relationships

Jeffrey Koppelman, president and chief executive officer of Nstar Community Bank in Bingham Farms, also emphasizes local ownership and operation, pointing out that he lives eight blocks from its headquarters.

The bank opened last year to serve “people who want to know who they’re talking to, who are looking for someplace where they can have a relationship with their banker. We can do everything the big boys can do but better and quicker,” he says.

Robert E. Farr, president and CEO of the new Bank of Birmingham, also stresses that his staff is relationship-oriented, offer-



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ROBERT E. FARR, PRESIDENT AND CEO OF THE BANK OF BIRMINGHAM

ing “one-stop shopping” rather than the compartmentalized approach of large banks. “We have more of a consultative approach rather than the transaction orientation of large banks.”

A single customer information system helps the bank’s relationship managers serve a customer’s needs, whether for personal or business services. Larger banks, Farr says, use individual computer systems for specific services, such as commercial lending, making it more difficult to view a customer’s total banking relationship.

Community bankers promise superior personal service with some offering such conveniences as couriers. Fees and rates vary but typically are competitive and may be better than larger institutions. Farr points out that technology enables smaller banks to offer many products and services comparable to those at large banks without extensive overhead.

Seeking Differentiation

While smaller size has a downside — typically a more limited branch network, a lower legal maximum amount



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SATISH JASTI, PRESIDENT AND CEO OF THE PROPOSED LOTUS BANCORP INC., NOVI

for loans and fewer specialized products such as trust and insurance services — community banks seek to provide other advantages.

Bank of Birmingham, for example, recently installed a lounge area and plasma TV in the bank’s newly renovated main office, making it more inviting.

At Independent Bank East Michigan, CEO Ron Long says size means being able to make change.

“Given our size, we have more flexibility to tweak products for our customers,” he says. “Our bankers are entrepreneurs so they can identify with customers.”

Independent, with assets of \$3.4 billion at the end of 2005, is a publicly held institution founded in 1864. With 110 offices through four subsidiaries in the lower peninsula, the bank has locally-based boards of directors. “I know all of the branch managers, assistant managers and lenders. They know and have access to me for quick decision-making.”

While community banks typically focus on locally based small to mid-size businesses and individuals as customers, some identify more specialized niches.

Lotus Bancorp Inc., for example, plans to focus on professional service companies and the Asian market, where the bank’s investors have personal ties, says Satish Jasti.

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RON LONG, PRESIDENT AND CEO OF INDEPENDENT BANK, EAST MICHIGAN



Another community bank, Troy-based Crestmark Bank, has a very specific and more geographically dispersed target market — fast-growing companies that are under-capitalized, businesses experiencing problems and start-ups.

CEO David Tull says most traditional banks are not interested in financing such companies. His staff works



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closely with clients, helping them become more efficient, reducing costs and improving receivables and collection management. The bank typically provides factoring, which are loans against accounts receivable.

Typically riskier in nature, factoring loan rates may be higher than at a traditional bank “but not astronomical,” says Tull. And once a customer’s financial situation has stabilized, it typically returns to its regular bank, often a source of referral for Crestmark.

A combination of specialized business lending funded by deposits acquired through the Internet has been a very successful model for state-chartered, privately owned Crestmark, which has grown in size and revenues for the past five years, reflected in its recent move to a larger headquarters.

The company now operates offices in several other states, as well as a sales office in Grand Rapids.

Regardless of their size and customer niche, most community-based banks market their services in similar ways. Rather than expensive and broad-coverage mass media advertising, community banks rely on referral business, especially from accountants and lawyers.

They pride themselves on knowing and being very involved in their community.

And while it might not seem like the best time to establish a new institution, the tactics of Michigan’s community banks — knowing the community, personal service, building referral bases and targeting niches — have provided success. In fact, Commissioner Watters notes that despite current economic conditions, the state’s community banks are performing very well. ■