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## COMMUNITY BANK LEASING... Emerging Growth Opportunities

By Dale Kluga

JUST AS LEASING HAS ADVANCED LIGHT YEARS BEYOND THE STIGMA OF "LENDER OF LAST RESORT," ESTABLISHED COMMUNITY BANKS AND DE NOVO BANK STARTUPS ARE SOME OF THE MOST PROACTIVE AND GROWTH ORIENTED ENTREPRENEURS IN THE BANKING BUSINESS TODAY.

### Snap out of it!

Cher *exclaims* to a stupefied Nicolas Cage during a humorous movie scene in MOONSTRUCK. Like that passionate, single handed baker, once in a while we could all use a friendly slap in the face to realize new opportunities.

### New Emerging Market

Just as leasing has advanced light years beyond the stigma of "lender of last resort," established community banks and de novo bank startups are some of the most proactive and growth oriented entrepreneurs in the banking business today. Both community bankers and leasing professionals are constantly fo-

cused on similar goals: momentum and growth.

According to Michael C. Braun, President of AmeriMark Financial Corporation, "Community banks or de novo's must be pro-active in creating loan demand. After fulfilling the needs of their "best customer list" they are still selling Fed Funds—maybe at a negative spread. Leasing is one avenue to increase net interest margin and absorb the excess Fed Funds."

One look at the \$83 billion represented by the 50 largest U.S. Bank Affiliated Leasing Companies as listed in the *Monitor Bank 50*, and we can see the emerging presence of big bank

leasing. Most big bank leasing started on a modest scale very similar to de novo community bank startups.

### Community Bank Growth

Growth in the bank community is being fueled by much of the same symptoms in the leasing industry: consolidation and opportunity. Crowe, Chizek and Company LLP, the nation's 9<sup>th</sup> largest CPA firm and a leader in servicing the community banking industry, has determined that over 1,525 new de novo banks have been established in the United States over the last 10 years.

According to Michael Law, a partner in Crowe Chizek's Finan-



cial Institutions Group, banks started in the last ten years in Illinois control approximately \$5.3 billion of the state's banking assets as of December 31, 1998. Law commented, "Since almost all of these banks started with less than \$10 million of capital and assets, the growth has been impressive."

Law explains, "The de novo bankers have generally been successful in attracting retail and small business customers who appreciate personal attention and quick responses on credit requests. The successful ones know their communities well and often benefit from a portable customer base that follows the president and senior lender to the new bank. Location, as always, is key. Successful de novo banks are usually found in communities where there are no other locally owned independent banks."

### **Fear and Ignorance**

As one of the most nimble and efficient financial service providers, the leasing biz is quick to focus on and service fast growth industries. Yet, the old fashioned stigmas still prevent us from pursuing joint venture relationships with community bankers. Fear and ignorance are frequently the obstacles to or causes of failed relationships. Fear that we will cut our own throats by educating bankers and helping them enter an already highly competitive biz. Perhaps. Fear that bankers will lose account control and credit quality. Maybe. Focusing on our similarities rather than our fears, creates a path to creative solutions. Taking a big picture view may also help.

### **Create Differentiated Value**

Reality is that any time you create differentiated value, someone will at least listen or possibly

even buy your product. Reality is also that both bankers and lessors have very common traits. Maybe it is our anal retentive nature or our incessant need to negotiate. Whatever the case may be, whenever you properly train people in a new biz, they are likely to become more independent.

Independence builds relationships which creates new opportunities. In the case of educating bankers, the payback may follow in other ways. The bank may provide you with a line of credit or refer potential investors to you. Vendor program referrals are very common assuming you educate your banker on how to uncover these opportunities. The bottom line is that if you don't take action, your competition will. There I go again with that fear based, anal attitude.

Media awareness has created a higher level of acceptance in funding and using emerging technology to grow our biz. Community bankers too are soaking it up. Community bankers are extremely agile and need to create product differentiation to survive, not just prosper. Technology levels the playing field with their larger big bank competitors. Properly applied technology can boost the effect of differentiated value.

### **Converging Cultures**

Community bank and leasing cultures are on a direct, converging path: both industries are consolidating and creating "niche vacuums" of under-served small business customers. The de novo bank expansion is being fed by this rapid growth in community based, small businesses.

Technology is leveling the playing field for these small businesses just as it has for the leasing and banking industries.

Bigger is no longer better. Our common experiences can leverage our ability to develop relationships with these de novo institutions.

Make no mistake, these de novo's are not reckless cowboy bankers. Frequently, the management teams consist of sophisticated, re-incarnated management teams and investors from a prior banking institution who have just waited out their non-competes and are re-deploying prior networks.

Community bankers and lessors primarily sell on service not price. Community bankers understand the non-bank competitive forces as their customers increasingly seek non-bank sources. A recent survey conducted by the American Banking Association identified convenience and good customer service as the major reasons for seeking non-bank institutions.

### **Emerging Small Business**

American Express and Merrill Lynch are recognized as significant non-banks aggressively seeking to expand their national reach to emerging growth small biz customers. Just as commercial paper displaced Fortune 500 lenders in the early 80's, community bankers are well aware of these non-banks which are establishing a foundation for a new form of national capital market access for small biz.

The writing is on the wall for small biz community banking. Even a study conducted by the Banking Administration Institute and McKinsey & Co., Inc. warns of "emerging non-bank competition" from various institutions and claims that commercial banks have less than half of the small-biz market today.

A leasing product is an ideal cross-selling and asset manage-



