

HOUSTON BUSINESS JOURNAL

Strictly Houston. Strictly Business.

Vol. 36 No. 43 Week of March 3–9, 2006

houston.bizjournals.com

Community banks find success via 'banking on relationships'

Mega-mergers between banking giants make headlines. These giant redwoods of the banking industry appear to tower above the financial forest. On the surface, it may seem that business owners have fewer banking options.

However, at the same time that big institutions are growing ever larger, an increasing number of community banks are sprouting. The growth of community banks is nurtured by their unique ability to meet specific needs in financial market niches.

RETAIL OR RELATIONSHIP?

Banks are generally categorized as either retail or relationship. Retail banks are larger and are built on volume. Most relationship banks have less than \$1 billion in assets and focus on individual customers. While all banks strive to be relationship banks and tailor services to meet individual needs, in reality, once a bank reaches a certain size, achieving that goal is nearly impossible.

Due to their size, larger banks may be unable to craft timely and unique solutions for each customer. Often out of necessity, they are forced to fit customers into corporate-driven classifications. As their organizations grow, they can only maintain economies of scale by streamlining rigid internal reporting processes.

The recent spate of banking mergers created an opportunity for relationship banks to fill a gap. Relationship banks are usually locally owned and embedded in their communities. They often feature a hands-on management style and local decision-making authority. These traits help ensure individualized service to customers and businesses in need of personal attention.

Relationship banks also can afford to spend more time listening and understanding the needs and concerns of small business owners. Flexibility in structure and pricing is also an advantage smaller banks can offer.

THE RIGHT RELATIONSHIP

When looking for a banking relationship, business owners benefit from finding a bank that understands their industry. For instance, some banks may have more expertise in commercial real estate lending, or say with family-owned, closely held companies.

Locating a banker with experience serving

a specific industry improves the likelihood that he understands those customers' concerns. A banker who is experienced with similar businesses can serve as a sounding board and source of valuable advice and consulting expertise.

Business owners can start their search in a number of ways. Talking with colleagues at professional associations to learn who they bank with is one good avenue. Asking other professional service providers, such as attorneys and CPAs who work with many clients in the industry, is another.

While interviewing and researching a variety of banks may seem time-consuming and taxing, finding the right relationship is ultimately rewarding. A smaller community bank may have more flexibility to work with businesses that do not fit the strict requirements of a larger institution, and for many businesses with special needs, that flexibility is vital.

A GOOD START

The best advice for a business owner looking to secure a loan or financing is simple: be organized.

Make a specific request and have all of the information available the bank will need to analyze the request, including historical operations results. Be open with the banker regarding needs and/or problems. Don't assume the banker is predisposed to turn down every request. In fact, bankers actually want to say yes to prudent, well-documented requests.

On the other hand, bankers are risk averse and don't like surprises — make sure information is accurate and complete. Use a reputable accountant. An introduction from someone close to the banker also helps start the relationship on the right foot.

Why is it important to find the right match with a banking relationship? This story illustrates some of the difficulties that can arise from a mismatch.

A business owner with a growing company



COMMUNITY BANKS

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had negotiated a large contract with an out-of-state company. This transaction was projected to have a significant impact on revenues and create a referral base for future high-margin contracts.

The business owner had been working with a large bank for several months well in advance of the contract deadline to secure some vehicles and rolling stock that were critical to fulfilling his contract. In fact, according to the contract terms, the business owner would be in default if he were unable to execute bank financing for this equipment.

He felt confident in securing this credit facility, as he had done business with the bank before and had performed as agreed on his loan. The mega-bank had originally processed his request through their personal banking and wealth management department.

A month later, the business owner was notified that his application was being moved to the small business division because it was the more appropriate division to handle his request. A few weeks later — only one week before the company had to deliver the equipment to satisfy their contractual obligations — the business owner was told his application was being transferred to the equipment leasing and fixed asset-financing department. Furthermore, the bank could give no assurances his application would be processed by the deadline, much less receive an approval and funding in time. He was placed in a very difficult position and time was of the essence.

Fortunately, this business owner knew a director at a locally owned community bank, and described his situation. Moving quickly, the smaller bank was able to conduct its due diligence, process the application and fund on the loan within three working days to help the customer meet his obligations.

While it was the right fit for this particular business owner, a relationship bank cannot be all things to all customers. But, a community bank with experienced bankers who have local decision-making authority can be all things to a specific set of customer. ■

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