## Banking Outlook 2012 By Jennifer Whitelaw

## Opportunities and challenges abound for San Diego's community banks

Two local community bankers who have successfully steered their banks through turbulent times see opportunities and challenges for San Diego's community banks in 2012.

Alan Lane, president of Silvergate Bank, and Dan Yates, president of Regents Bank, operate several branch offices throughout San Diego County. Both banks are headquartered in La Jolla.

Yates and Lane believe that the demand for loans will remain tepid in 2012. Coupled with constantly evolving government compliance regulations, these market forces put downward pressure on profit margins for all banks.

San Diego has seen its fair share of community bank failures, mergers and acquisitions over the past few years. Last year, Sunrise Bank was sold to AmericanWest Bank and Embarcadero Bank and Coronado First Bank merged. In previous years, Commerce West Bank acquired Discovery Bank, San Diego National Bank failed and was acquired by US Bank and City National Bank acquired 1st Pacific Bank.

In the first quarter of this year, Regents Bank is finalizing its sale to Grandpoint Capital, but will continue to operate as Regents Bank and maintain its current, local leadership team. The similar operating styles and strong capital positions of the two banks led to their partnership.

Lane expects San Diego will see additional mergers and acquisition activity in 2012, but more so in 2013 as the gap between what buyers are willing to pay and the expectations of sellers narrows.

San Diego community banks may fare better than their California brethren, though, because San Diego has higher employment growth and a lower unemployment rate than the state averages. Additionally, San Diego maintains a very diverse economy and its fair share of thriving companies.

Still, much of the growth banks hope to see in 2012 must come from taking clients away from their competition.

"Banks with strong lending teams and effective marketing strategies will succeed while other competitors will struggle," said Yates.

Both bankers expect interest rates to stay flat, which further limits a bank's profitability. To counter these downward pressures, Lane and Yates agree that, in addition to recruiting more clients, some banks will have success growing their businesses by expanding into niches.

Silvergate Bank has already found success with its mortgage warehouse lending division, which provides short-term financing to mortgage banking companies. Since April 2009, Silvergate Bank has funded close to \$3 billion in new mortgage loans.

Lane notes that while lending activity is slow, it's a great time to

buy for those who can afford it. "Silvergate Bank is currently offering starting rates as low as 3.75 percent for owner-occupied commercial real estate, and businesses that have survived the downturn may see this as a great time to purchase their own building or to refinance an existing loan," he said.

Through its new affiliation with Grandpoint Capital, Regents Bank increases its lending capacity. Accordingly, the bank will



Alan Lane

leverage this advantage to accommodate the niche of businesses with a need for expanded lending facilities. Regents Bank plans to supplement its organic growth by maintain its successful mortgage warehouse lending business and through strategic mergers and acquisitions. . To that point, on Jan. 20, Grandpoint Capital announced its acquisition of California Community Bank, which will be merged into Regents Bank. Lane and Yates agree that community



Dan Yates

banks with good lending capacity can be a tremendous asset for local businesses, especially those applying for loans or lines of credit. By their very nature, community bankers understand local business and geographic dynamics. Their decisions get made locally by people who have relationships with their clients and community.

"We feel responsible to our clients, and we're truly going to help them make the best lending decision we can," said Yates. "We don't rely on an automated lending decision process like you find at some mega banks. We use people who have established relationships with our client to make decisions."

Lane agrees, noting that community banks are the answer to the problem posed by the Occupy Wall Street populist movement. "We offer the service and sensitivity to the community that these social activists see is missing from the large Wall Street financial institutions," he said.

Moving forward, another trend that merits watching is the use of technology to transform the business of banking. Lane says technology can be the "great equalizer" between big and small banks.

"Community banks can leverage technology to alleviate the need to have many branch offices," he said. "Online banking, mobile banking, remote deposit capture and lockbox services can allow community banks to compete quite effectively with larger