

Posted on Sun, Aug. 15, 2004

The little banks that could

BY GREGG FIELDS

gfields@herald.com

Key Largo is a great place to get conch fritters, snorkel a coral reef or get wasted away again in Margaritaville.

But at mile marker 99.5 people engage in an activity that isn't typically associated with the laid-back life of the Conch Republic.

They're bankers. And TIB Bank of the Keys remains steadfastly independent after 30 years, and dominates Monroe County by focusing on the everyday needs of island businesses and residents.

"The only sustainable advantage a bank can have is service," says Ed Lett, chairman of the institution originally known as The Islamorada Bank. "If you have a service advantage, people will flock to you."

There are, literally, a couple of hundred banks across Florida like TIB: Community banks that are prospering by filling a need. Though the Sunshine State continues to be dominated by the Tar Heel twins of Wachovia and Bank of America, community

banking is enjoying a renaissance, a trend that runs counter to the long-held conventional wisdom that in financial services, size is everything.

How do they do it?

In essence, say the people in community banking, you must know two things: Your community, and banking.

It sounds deceptively simple.

"At the end of the day, it really is nice to know who you're dealing with," says Hans Mueller, president of the 4-year-old Beach Bank in Miami Beach. He interrupts the interview to unlock the door -- the bank has closed for the day -- and let a woman in.

"Can I get some quarters?" she asks.

He ushers her toward the lobby.

Small gestures like that are perhaps one reason why his institution has grown to

\$135 million in assets and is solidly profitable, although its 8 percent return on equity is below most of its peers, he acknowledges.

GAINING MARKET SHARE

It's also why community banks are gaining market share and the number of new ones is rising, said Ken Thomas, the Miami banking analyst. Recently, for instance, Great Florida Bank, being formed by former BankUnited executive Mehdi Ghomeshi, raised over \$50 million in startup capital.

"It's probably among the best of times for community banks," Thomas said. "Big banks don't know how to make money in small communities, where customer service is the biggest thing."

Florida is particularly attractive for community banking, he said. First, there's a solid customer base with thousands of small entrepreneurial companies. Secondly, investors inevitably view the state as one of the most lucrative in

the country for banking. So raising capital to start is easier, and the potential rewards from a lucrative buyout bid later are greater.

Beach Bank's Mueller says part of the challenge is to be attuned to a neighborhood's unique demographics. The 41st Street branch, for instance, is in a heavily Orthodox Jewish neighborhood. So it closes early on Friday, but is open on Sundays.

Conversely, in South Dade his branch opens early -- at 7:30 a.m. -- to serve commuters, then stays open until 7:30 p.m. on Friday evenings.

Meanwhile, an office being built in South Beach will work toward ascertaining specific financial needs for a large gay community there.

The largest investor in Beach Bank is Michael Kosnitzky, the lawyer and political activist who is currently a candidate for the Miami-Dade school board.

"I've always said there were two reasons to start the bank," he said. One, he detected a civic void left by the demise of civic pillars like Southeast Bank and Eastern Airlines, and bemoaned the disappearance of local banks through mergers and consolidations through the years.

"You didn't have a Jefferson Bank executive on your yeshiva committee," he said, referring to the longtime Miami Beach institution that was sold to Colonial Bank in 1997. ``The new national organizations strategically spend time on big-picture issues."

He also detected a market opportunity in ``our understanding of the middle-market businesses. (Big banks) don't focus on that."

Nelson Hernann, co-owner of Ye Olde Falcon Pub in Davie, agrees. That's why his business, which has 20 employees and has tripled in size since opening in 1989, is a client of Regent Bank, just down the street.

"In a small bank, service is more personalized," he says. ``You're not a number on a piece of paper."

Sid Spiro, the president of Regent Bank, says small businesses like Hernann's pub are the mainstay of his institution, which got started in the mid-1980s.

"Really, when you get right down to it, community banking is like Vince Lombardi said of football -- it's not a complex game," Spiro said. 'We take care of businesses' day-to-day transactions. We phone if there's a problem. Every business has an occasional

burp, but we're pretty adept at telling a burp from a cold from pneumonia."

Certainly, small banks don't have the resources of their bigger brethren. But that's not always an insurmountable problem.

For instance, only about 15 percent of Regent's deposits are in certificates of deposit -- so not being able to pay the best rates in town is less of an issue.

SERVICE IS CRUCIAL

Furthermore, service is crucial to his customers. So the bank offers personal touches like free pickup for its clients.

And finally, most community banks are privately held, so they don't have to produce the sky-high profit margins that Wall Street expects from publicly traded institutions.

Uniformly, community bank say their biggest challenge is attracting and retaining talent. And longtimers say it has become particularly tough since the demise of Southeast Bank, which had a highly regarded internal training program that inevitably produced managers for other area institutions.

Spiro said one solution is to empower managers, so they get to make decisions that a

bigger institution might decide by loan committee.

And he'll go to great lengths to keep key employees. When senior vice president Pam Brownlee said she wanted to move to North Carolina so her children could be near grandparents, Spiro let her telecommute.

"I halfway expected it to be temporary, but it has worked out beautifully," said Brownlee, who's been telecommuting now for several years.

THE CHALLENGE

Perhaps the biggest challenge for independent banks is, in fact, remaining independent. Somewhat contrary to other businesses, it isn't failure that kills off community banks -- it's success. Particularly in Florida, success inevitably brings offers from bigger institutions, often at irresistible premiums.

Still, community banks acknowledge they can ultimately feel hemmed in by their communities.

TIB Bank of the Keys, for instance, is increasingly expanding onto the mainland, as growth limits and scarce land make Monroe County a slow-growth prospect.

It has branches in the Homestead area, where it also moved most of its back-office operations due to labor shortages in the Keys.

That's what happened to Ready State Bank, a West Miami-Dade institution that catered to Hispanic businesses and was sold to Union Planters in 1998.

Many of its officers and managers regrouped to form U.S. Century Bank. It has grown to \$300 million in assets, up from under \$30 million when it opened its doors in November 2002. Its second-quarter profits were

Now, it's aggressively moving into southwest Florida, where it has three branches and is opening two more. It also recently moved the headquarters of the bank's holding company, TIB Financial, which is publicly traded on Nasdaq, to Naples as well.

"It looks overbanked, but this market grows by 87,000 people every five years," Lett said of the Naples-Fort Myers corridor. ``That's a Monroe County."

78 percent above the same period last year.

But it isn't going to be gobbled up, vows Octavio Hernandez, president.

"Our dreams are to create the strongest and one of the largest banks in the region," he said. ``We have no intentions of selling anytime soon. In fact, we're looking at acquisitions."