

Crash survivors share strategies

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Stephen G. Lear's banking philosophy is simple: "Slow and steady wins the race."

The moral of the famous children's fable, "The Tortoise and the Hare," has become increasingly meaningful to Lear, chairman, president and CEO of North Shore Trust and Savings in Lake County.

While many banks failed or received government bailouts during the 2008 financial crisis and subsequent recession, North Shore Trust remained profitable, and is one of a select group of suburban independent savings institutions to routinely earn high marks from bank rating agencies.

North Shore Trust has traditionally taken a conservative approach to banking, maintaining a strong capital reserve and avoiding risky loans, Lear said. It sounds easy, but so many banks ignored the strategy and got caught up in the subprime mortgage crisis. North Shore Trust avoided that mess.

"Slow and steady kept us in the race," said Lear, whose savings and loan has locations in Waukegan and Lindenhurst.

As a result, North Shore Trust and Savings is one of a small group of community banks and savings and loans to earn high marks from Echo Partners, a bank rating firm based in Cordova, Tenn.

Using financial data from the Federal Deposit Insurance Corp., Echo Partners rates some 7,500 community banks on a scale of 1-5 stars based on six criteria: asset quality; capital; interest rate risk; liquidity; operations; and profitability. A top-performing bank earns 5 stars, while Echo Partners considers banks below 3 stars to be weaker.

Using its national database, Echo Partners created a targeted report for the Daily Herald Business Ledger, ranking 44 suburban community banks and savings and loans in Cook, DuPage, Kane, Lake and McHenry counties.

Thirty six local institutions, or more than 80 percent, earned solid ratings of 3-5 stars, including four banks with the top 5- star ranking. Two 1-star rated banks were closed and merged into other institutions. Five suburban banks saw their ratings fall, while 17 banks received higher ratings.

"The good news is that the banks in your area are getting better, as is the case throughout the country," said Howard J. Lothrop, a chartered financial analyst and former banker, and managing director of Echo Partners.

"We've worked our way through most of the mess from the biggest negative banking environment since the Great Depression," Lothrop said. "Those banks on the list are the survivors."

The Business Ledger talked to the presidents of some of the top- rated suburban banks and savings and loans to learn the secrets of their success, especially given the turmoil in the banking industry over the past five years. All figures used in the Echo Partners rankings and in this article are based on FDIC reports as of Dec. 31, 2012.

A conservative style

Heritage Bank of Schaumburg has taken a conservative approach to banking since it was established in 1974, said bank president Ed Madden.

While many banks were granting risky loans with little money down, Heritage maintained traditional lending practices, Madden said.

"We stuck with the strategy that in order to get a mortgage, people had to put a certain percentage down and have income to pay for the loan. The rest of the world got away from that," Madden said.

Heritage, with \$131 million in assets, also stayed away from most development loans, especially speculative residential development, he said. Instead, the bank focused on mortgages and small business loans.

As a result, Heritage earned a 5 star rating from Echo Partners. Key measures are the bank's 1.10 percent Return on Assets (ROA), the level of income to assets, a 7.85 percent Return on Equity (ROE), the net income on equity capital, and 12.94 percent Tier 1 Capital Ratio, the measure of a bank's capital strength or "cushion," according to the FDIC. The FDIC requires a minimum 4 percent Tier 1 Capital Ratio.

Nationwide average bank ROA is 0.99 percent; ROE, 6.69 percent, according to the Federal Reserve of St. Louis, and Tier 1, 11.7 percent, according to the New York Fed.

And while Heritage has the latest mobile banking technology, it still prides itself on its single-site community banking atmosphere, Madden said.

"The focus is on strong customer service," he said. "The people in the lobby get to know us, and we know the names of our customers."

'Hands-on' approach

First Eagle Bank in Hanover Park has routinely earned top 5-star ratings from Echo Partners because of its high profits and low overhead.

First Eagle, with \$387 million in assets, has a 1.96 percent ROA, a 13.80 percent ROE and a Tier 1 Capital Ratio of 20.21 percent, according to the FDIC.

Andy Salk, First Eagle's president and CEO, credits the bank's success to its veteran management team. Salk said he learned the banking business from his father, Joel, who is the bank's chairman.

"My dad is 82 years old, and he's been through a lot of bank cycles. He was the voice of reason during the latest crisis," Andy Salk said.

Additionally, many of the key investors and bank managers have been with First Eagle since it was founded in 1991, Salk said.

"We're approving most of the loans we're doing. We're very hands-on owner-operators," Salk said.

First Eagle has also focused on key industries for business. Single-family home construction is a cornerstone. The bank also has developed a specialty in hotel financing, particularly Super 8 and Best Western franchises, Salk said.

"Our exposure is limited because 35 percent of the loan is covered by the SBA (U.S. Small Business Administration) and 15 percent down by the owner. We've been able to develop a nice relationship here because we understand who the players are," Salk said.

First Eagle also has developed a solid loan business in the equipment leasing industry and condominium associations that need money to make repairs.

The goal in each of these areas is to develop long-term relationships, he said.

"We want to do a lot of business with really good people for a really long time," Salk said.

Finding a sweet spot

It would seem that the last place a community bank would look for loan business would be in the luxury motorcycle industry. But Evergreen Bank in Oak Brook has done quite nicely.

Evergreen has a division called Freedom Road Financial, which is the financing arm for dealers selling Ducati, Triumph and Ural motorcycles.

This loan division has grown in recent years despite the recession.

"This business has done really well. It's a good sweet spot," said Darin Campbell, president and CEO of Evergreen Bank. "There is a high-end demographic for the people who buy these bikes. And the loan rates are typically higher than for automobiles, 5-6-7 percent, compared to 1 percent for a car. So the bank is getting a good rate and a good customer."

Thus, Evergreen Bank, with assets of \$460 million, has a ROA of 1.23 percent, a 12.22 percent ROE and a Tier 1 Capital Ratio of 11.30 percent, according to the FDIC.

This performance has earned Evergreen Bank a 5 star rating from Echo Partners.

Evergreen's thriving motorcycle financing business allowed it to have capital on hand during the recession to make local mortgage loans and other traditional loans when it made sense.

While Evergreen Bank has gained national exposure for its motorcycle financing, it also has a strong community focus, Campbell said.

"We're really, really active in the community," he said.

"We have membership and sponsorship in the chamber of commerce, the park district, the library and other local organizations. We give time and money to the community."