

SANTA BARBARA NEWS-PRESS



WALL STREET : Bank of Santa Barbara: Making a difference one customer at a time

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Back in July of 2009, when a group of investors headed by Eloy Ortega — and including the Orfalea and Hutton foundations and the Marquez Family Foundation — announced they were buying the Bank of Santa Barbara, some may have thought their timing couldn't be worse. We had just started to emerge from the worst banking crisis since the Great Depression, and regulators were (and still are) cracking down on banks, raising reserve requirements and increasing restrictions on lending. However, with the infusion of new capital and a new, but highly experienced team of managers and bankers, "The Bank," as their new ad campaign states, is in an enviable position to take full advantage of the economic recovery to come.

Although the price paid by these investors for the bank was not disclosed, we know they paid about 1.6 times tangible common equity, which was \$4.5 million as of the end of the third quarter of 2009, for a purchase price of about \$7.2 million. This cash injection, along with an additional \$2.9 million coming from the same investors, has raised the capital ratios of the bank to very attractive (and safe) levels, well above those required by the OCC (Office of the Comptroller of the Currency), the chief regulator of banks in the U.S.

As of the end of the third quarter of 2009, The bank's total risked-based capital ratio stood at 13.5 percent, compared with the required 10 percent, and its tier one risked-based capital ratio stood at 12.5 percent as compared with the required 6 percent. The well-capitalized nature of the bank offers some distinct benefits, not the least of which is having excess capital available to make new loans.

When these investors decided to buy, they didn't just make this purchase as investors looking for a profit. They have established a mandate that the bank focus on local businesses and individuals to help the community grow. Although the Bank of Santa Barbara is a full-service community bank, its focus is on small- and medium-sized businesses. This is exactly what we need, since many of the larger banks are either not making loans at all or are only supporting larger, well-established businesses.

In a recent interview I conducted with CEO Eloy Ortega on AM 1290, I asked him about the state of the banking industry and specifically about the availability of loans for startup and early-stage businesses. He explained that at present, most banks are not interested in making any loans, regardless of the quality of the business or the borrower.

Mr. Ortega spoke of a recent customer with a very attractive business opportunity and who had impeccable credit, assets and income — basically a lender's dream borrower — who came to him looking for a loan. As Mr. Ortega called around to potential partners to fund the loan, he was met again and again with the same response: which was they weren't even interested in hearing about the details of the opportunity. The other banks simply stated that they weren't making loans. Period. He called eight different banks, speaking to individuals at these institutions that he has known for many years, and with whom he has conducted business in the past — and on many occasions. Not one was interested.

This lack of interest from larger banks in making loans, especially to small businesses, highlights two issues. One is that it's extremely difficult for startups or early-stage businesses to secure funding, regardless of the prospects for their enterprises. Secondly, there is a significant opportunity for any lender with available capital to step into the void left by the larger banks and make loans to small businesses — generating good profits in the process.

As with any business, supply-and-demand factors influence the potential for profitability for banks. Since the supply of available capital for small business loans is low, those lenders with available capital are placed in a very strong position to "cherry pick" the most attractive opportunities, and thereby have a higher probability of making outsized profits in the process.

Loans are not the only product or service that the Bank of Santa Barbara offers. It is a full-service bank in fact and offers a comprehensive suite of products and services for individuals or businesses including checking and savings accounts; CDs; home equity lines; installment loans; and overdraft protection. They also offer ATM and check cards; international and domestic wire transfers; notary services; cashier's and traveler's checks; and direct deposit services.

Mr. Ortega said the bank has been focusing lately on improving its online systems, and is now offering many services through its Web site. Also, they plan to open a second location (the headquarters is at 12 E. Figueroa) in Montecito shortly.

The bank's assets have grown markedly just over the past few months, adding more than \$20 million to its assets. As deposits and assets grow, the bank's capitalization will improve still further, adding to its strength and also providing even more opportunities to make additional loans. From a safety of principal standpoint, the bank is an FDIC-insured institution, so the same protections afforded the largest banks through FDIC insurance also apply.

Mr. Ortega advises local businesses looking for a local, community-oriented relationship, to contact him or one of his bankers. He has an immediate call-back policy and stresses customer service above all else — something we rarely see at many banks these days.

As a business plan writer, I see firsthand how difficult it has become for entrepreneurs to secure financing to build or expand their businesses. There is nothing more frustrating for a business owner with great ideas, good credit, income and assets to be repeatedly turned down for a loan — simply because the current economic and banking industry environment

is weak. In this environment, it is nice to know that there are community-based and oriented banks that are willing and able to help.

We are certainly not out of the woods yet, and it will likely be several quarters before the banking system gets back on its feet. Small businesses are the lifeblood of the economy and account for about 70 percent of new job creation in the U.S. We absolutely must have banks making capital available to small businesses if we want to address our unemployment problems (9.7 percent for the nation as a whole; 10.6 percent in California; and 9.3 percent in Santa Barbara County).

The Bank of Santa Barbara is leading the way forward. It's nice to see a grassroots effort on the part of visionary investors committed to funding local entrepreneurs.

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