



Company Profile

1st Enterprise Bank is a full service commercial banking institution, whose highly experienced bankers personally serve Southern California's entrepreneurial businesses. Headquartered in the Los Angeles financial district and founded in 2006, 1st Enterprise Bank offers a full range of credit and depository services, with special emphasis on superior customer service, sophisticated cash management services and direct access to bank decision makers. Customers work directly with their 1st Enterprise Relationship Banker, who understands the unique challenges of their industry and serves as a sounding board and an active participant in their success.



Interview of John C. Black, Chief Executive Officer

John has over 25 years of commercial banking experience. Prior to forming 1st Enterprise Bank he was Division President of a \$3 billion bank based in Los Angeles.

Interview conducted by: Lynn Fosse, Senior Editor,
CEOCFOinterviews.com, Published – July 31, 2009

CEOCFO: Mr. Black, what is the philosophy at 1ST Enterprise that has held you in such good stead in these troubled times?

Mr. Black: "Our philosophy is very disciplined and focused. We stay in our niche, which is providing banking services to small to mid-sized businesses, professional firms and various organizations throughout southern California. It is based upon full relationship banking, not on a transaction-only basis. We take our time in getting to know these businesses, both financially, personally, and managerially. We do a very thorough financial analysis and evaluation of management prior to making a banking proposal or prior to pursuing their business. As such we tend to bank well-established, financially sound companies that can weather economic cycles like the one we are currently experiencing."

CEOCFO: What might you look at about a company that other banks might not pay attention to, which signals that this company is a good fit for 1st Enterprise?

Mr. Black: "Probably the owners of these businesses or the lead partners in these firms. We really listen carefully to how they answer questions that relate to their business, their personal financial positions, as well as their strategies and goals. We look back over the course of three to five years in our due diligence process, and we delve deeply into what went on and why. We are bankers, so we are obviously focused on results, on performance, and on numbers. However, we are very interested in what is behind those numbers as it

relates to the changes that have gone on in these companies and the approach that the owners have taken in managing their companies. We also look for individuals who have their own fallback strategies and cushions in their own mind, as to what they will do and how they will do it if things do not go as planned, so that we are not in a position of having to react before the business owner himself reacts if there is a problem. Further, we also look at whom these people are associated with; when I say that, I mean professionally with regards to their CPA, their attorney, their insurance broker, their key suppliers, their key customers. We really try to look at the total picture to assess whether or not this is the type of relationship that we want to have in our bank."

CEO CFO: You have no non-performing loans, so you are obviously getting it right!

Mr. Black: "Thank you! We are very proud of our performance in this area over the past three years, but still remain highly vigilant. Success is fragile"

CEO CFO: How has banking changed for you over the past few months? What, if anything, are you doing differently? How do you reassure your customers who are understandably very uneasy?

Mr. Black: "For the first part of your question I can say that we really aren't doing anything materially differently as it relates to the marketing side of the business and the growing of the bank. We have really been experiencing tremendous growth over the last six to twelve months. I will say that we may be looking even more carefully at the new relationships that we are bringing in. We are also staying very close to our existing customers, as they are not all weathering this period unscathed. We have customers that are experiencing declines in revenue and profits, and we are staying very close with them and making sure that we understand what they are doing and where they are going so that we can hopefully retain all of the relationships and customers that we have currently. The second part of your question is obviously a key element of what we do. First, we let them know that our bank is very safe, very secure, and highly liquid. We take them through the basic metrics of how that is measured, how that is demonstrated in our numbers. The bigger picture, people have come to understand is that there is not necessarily more safety in size and that in these very large, complex financial institutions, it is exceedingly difficult to look at them unless you are a professional banking analyst and understand what is really going on inside of them financially, culturally, and managerially. We can in five to ten minutes take our bank apart in front of a customer or a prospect and show them exactly what is inside and demonstrate to them why we are a safe bank and that their deposits are safe with us. Also having stability of management within our bank, stability of the board level, having no regulatory issues whatsoever; all of these things go into putting the picture together that we are a safe and sound financial institution."

CEO CFO: What opportunities have you seen or been able to capitalize on given the problems that so many other banks have had?

Mr. Black: "We have seen tremendous opportunities especially as it relates to the credit, both with commercial and real estate lending. And when I say real estate, I am specifically talking about commercial industrial real estate. The major banks have very much tightened their credit underwriting standards and because they are centrally managed and the credit administration is generally located in a far off city, far removed from the customers and from the line officers of the bank, you end up with the proverbial process of the (good) babies getting thrown out with the bathwater. There are a tremendous number of quality companies and businesses here in southern California that may be impacted by the downturn, but they are still very healthy, sound and very good potential banking clients,

and these businesses are being impacted by the credit tightening that has gone on at these other banks. That is creating a tremendous opportunity for us to come in and review banking requirements of companies that we might otherwise have never gotten the opportunity to see in the past. On the staff recruiting side, in terms of identifying and attracting new talent, there is also quite a bit of opportunity right now. We have been talking to many well-qualified bankers that because of what is going on in their institutions, whether it is layoffs, cutbacks, mergers, acquisitions, regulatory orders, or even outright failures, are out now looking for a new home. In general, the bankers that we look for are looking to come to an institution like ours where it is clear what we do. We have a clear mission; we are a flat organization, so they have access to decision-makers and they can go out there and serve their customers the way that they want to without being impacted by what is going on within their bank."

CEOCFO: Do you see new branches or facilities, or the need for new geographical expansion?

Mr. Black: "Actually our new office opening next month in Ontario is a full-service banking office. It is located on an upper-floor location, which is our model and we have a staff of three experienced bankers already in place that we will be moving out there shortly. We are also looking to add another experienced banker for that office as well. Because of distance and somewhat uniqueness of that business market out there, it makes perfect sense for us to have what we are calling our Inland Empire regional office, which will serve San Bernardino and Riverside counties, and parts of San Diego county. Beyond that, we are exploring the possibility of opening another full-service regional banking office somewhere in the San Fernando Valley. This will be over the course of the next nine to eighteen months and that office will serve businesses in the valley and as far north as Ventura County."

CEOCFO: You mentioned \ the uniqueness of the Ontario market; what is different about that area?

Mr. Black: "It is mostly to do with the business owners themselves who live in some of the far off reaches of that market and have located their businesses in the industrial centers out there. There are highly concentrated industrial regions out there. They tend to look to do business with professional service providers, whether it is banks or others, who have a local presence and know the market, geographically and the local business climate. When we form relationships with businesses, we get to know the owners very well and our relationship managers often form personal relationships with those owners from a professional standpoint. The fact that our staff live out in those regions is important is important to many business owners."

CEOCFO: Any new products or services on the horizon?

Mr. Black: "Right now we are pretty well established. Our electronic banking platform is very robust. We have been very successful at deploying remote business capture, which employs scanning devices that businesses use to make their deposits electronically. We are actually processing approximately half of our incoming deposits now electronically and that service has been very successful. Customers really enjoy the flexibility and the convenience and the data capture capability of this service. Aside from that, we are in the process of redesigning our website and providing some additional services and resources through that. We have recently established a strategic relationship with a local private wealth management firm, which we can introduce our customers to who desire professional asset management. We also have the ability to offer long term fixed rate real estate loans in

conjunction with an interest rate swap contract for customers looking for this type of financing. We really do have the ability to compete on nearly every level with any of the major nationwide banks.”

CEOCFO: Are you finding that your customers are doing more of their personal banking with you these days?

Mr. Black: “Yes, absolutely! And that is something that we have focused on providing from day one. Our personal banking services are very well established. We offer a full array of personal banking services. We essentially can do anything for our business owners that any major retail bank can do, but we do it in a much more personal fashion. We also do it without nickel and diming them; we do not separate the personal banking relationship from the business banking relationship. Our owners who bank with us personally enjoy the same service and the same professional staff that they do in their businesses.”

CEOCFO: What is ahead for 1st Enterprise?

Mr. Black: “Continued growth. We just announced our 2nd Quarter results at \$310 million and our third-year anniversary on July 3rd. We hope to continue growing at the same pace into the future. I mentioned the possibility of another geographic expansion. We are actively seeking to recruit more talented bankers as they become available. Just basically staying in our niche and keep doing what we do best.”

CEOCFO: What do you look for in a business customer, besides good quality?

Mr. Black: “There are some general size benchmarks from a revenue standpoint, but I hesitate to mention that because there are always exceptions to the rule. There has to be a sufficient level of deposits or loans outstanding to provide the revenue levels that we need. We are not a low-cost provider in our niche; our model is high-touch, high-service, and with that comes experienced bankers that are generally well paid. When we look at a potential new banking relationship, we look at the whole relationship not just the loans, the deposits, or just the fees but all of it, and make the determination as to whether or not we can effectively provide our level of service and still generate an adequate return for our shareholders.”

CEOCFO: So many bankers and even experienced seasoned bankers have not fared well these days. What do you draw on and what is it that you learned over the years that has fostered your continuing success?

Mr. Black: “That is a good question and I keep coming back to this concept of discipline and focus and sticking to what you know and do best, avoiding the temptation to go into niches or areas that seem attractive, but you may not have the experience or you may not have the knowledge to do it properly. The other thing would be that we avoid concentrations in our bank; when I say that I mean at the customer level and at the product level. There are many banks that grew to a certain size by more or less pursuing business that was perhaps the most available at the time or by relaxing credit standards in order to grow their businesses faster. They generally became heavily weighted in real estate and in particular on what we term as investor real estate, and also in acquisition and development lending. Those are such highly cyclical industries regardless of economic downturns, and that has never been our forte. Our forte as I said has always been to stick with the small to mid-sized businesses that we can get to know and understand, and stay very close to them through the ups and downs.”

CEO CFO: In closing, why should potential investors pay attention to 1st Enterprise Bank?

Mr. Black: "Potential investors should pay attention to us first and foremost because of our very high asset quality. We have absolutely no past-due loans, no non-performing loans, no real estate owned, no problem real estate; we have no problems in our investment portfolio, and we have no derivatives or esoteric investments on our books. From an operating standpoint, we are beginning to demonstrate economies of scale, and our efficiency ratios are continuing to improve. The need to add operating staff and additional overhead to keep pace with our growth has declined over the past year, and should continue to do so going forward. Our earnings for the 2nd Quarter were more than triple that of the 1st Quarter. We anticipate going forward we will be generating very sustainable and healthy returns on equity and assets, especially in light of this banking environment. I would emphasize the consistency aspect of our performance as so many banks have been demonstrating poor results one quarter, mediocre results the next. Quarter-to-quarter it has been very difficult to anticipate what earnings will be because of the uncertainties over their asset quality. That is not something that we have experienced at 1st Enterprise, and we will work very hard and be very diligent to prevent it going forward. Another reason for investors to follow us is that we have a very disciplined approach to our capital strategy. Many banks have been out raising additional capital through common stock offerings, mostly to bolster their balance sheets because of asset quality problems, but what occurs is that the existing shareholders become more and more diluted. So going forward, those banks are going to have a difficult time generating reasonable returns on their capital base and earnings per share. At this point in time, we are still operating with our original common equity that we raised of \$27.5 million. We sold 2.75 million shares prior to the opening of the bank, and we have not sold another share of common stock in the three years since. Going forward we will be continue to be very disciplined in our approach to common equity and to our overall capital structure."

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