Small Business Bank in Fresno California focused on building relationships experiencing Record Growth

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CEO: Mr. Miller, you have been President and CEO since 2015. What attracted you to Fresno First Bank?
Mr. Miller: I had been overseas for the past nine years working in banking and focused on the small business space. I decided to come back to the states last summer. When I was looking for opportunities, Fresno First Bank was unique for a couple of reasons. It is a bank that is solely focused on the small business community and the wealth of those business owners. Fresno is actually the fifth largest city in California, which makes it a very large city in the US. It is just a really good market that is dominated by small businesses and not by large commercial and corporate customers. Therefore, it is a logical place to do this type of banking. And, the bank was actually founded on a couple of key principles; most importantly being open book management. The bank is structured with an ESOP, so myself and the rest of the staff here are all shareholders of the bank. We are a listed institution on the OTCQX exchange. However, that ownership culture amongst the staff coupled with a very diverse progressive board was something that was really attractive for me to take on for my first CEO role.
CEOCFO: Would you give us a little more perspective on Fresno? What is the economic environment today? What types of businesses are there primarily? What is the geographic range of your branches?

Mr. Miller: Fresno is in the central valley of California, which is the breadbasket for the US, and some would say for the world. We produce hundreds of different crops here including almonds, pistachios, raisins and grapes, etc. Therefore, much of the business does revolve around the supply chain of the agricultural business; it is the heart of the valley. We as a bank like to focus on that, whether it is actually working with the farmers themselves or supporting agriculture technology and the industrial side of agriculture, such as irrigation and equipment. That is a good part of our business. But as I said, there are just over 1.3 million people in our footprint. There is a lot of retail, property development in terms of commercial property and also investment properties for us to support. Probably the longer term play, which is quite interesting, is that we are just a few hours south of Silicon Valley. Fresno is trying to be an alternate for some of the technology work that goes on in this state. It is much cheaper to come work and live in Fresno. There is a big revitalization push going on in the downtown area and we are starting to see some of that technology work start to flourish here in Fresno, which is great! Therefore, it is a great opportunity for future business and then obviously all of the things that happen around that as new businesses start up.

CEOCFO: Agricultural banking can have some unique challenges. What surprised you or were you familiar with that side of banking?

Mr. Miller: Before living overseas, I was more on the consumer side of banking, so I had not had much exposure to commercial banking. However, when I was overseas I focused solely on the small business segment and the one common thread between all business owners is that typically the business owner is more conservative than their banker, which makes their banker feel really good. It is a pretty conservative group of people and then when you look at farmers in particular, farmers are very conservative, patient folks. Just the nature of the business requires them to take a longer term view. That is the same thing you see here in the valley. There are challenges. They could be really, really good operators, but obviously the weather can go against them and different policies exist in the state that they cannot control. However, the resilience of the farmer is what is nice. People who have been in that business for a long time do not panic. They know that there are going to be ups and downs and they prepare for those issues.

CEOCFO: Your site indicates Fresno First Bank believes service is more than a word. How does that play out in your day-to-day interactions with your customers?

Mr. Miller: As a community bank, I think the one advantage that community banks have over some of the larger banks is that the decision making is at a very local level. What I mean by that is that if I am doing a loan or if someone has an issue with an account or needs a decision made at a large bank, especially now with a lot of the centralization of the approvals, your typical branch manager does not really have any control or have any power. Therefore, many of those decisions get sent to their headquarters or at best their regional office. Therefore, what we like to do with service is run a very high touch business model. We want to put the right people with the owners of the business so that the decisions can be made very quickly and, service can be provided when it
CEOCFO: What is the competitive landscape? I would imagine that in a large, growing city there are many other banks to choose from.
Mr. Miller: Yes, you have the big four or five banks that exist. It is the typical David and Goliath story and we always remind people that David won that battle, so we can do pretty good against them by competing on service and speed. There are some good local community banks like us in town, but due to consolidation, two of those players have been acquired recently. The market is continuing to consolidate around us and we see that as an opportunity. We think that most mergers are typically destructive and distracting for all the people involved. Therefore, we look for low hanging fruit and for opportunities where customers might not be happy with a new strategy, and that is a prime opportunity for us to win their business. That is going to continue in this space. We do not see the consolidations slowing down.

CEOCFO: Do your clients typically have all their business with your or at least all of their “business” business with you?
Mr. Miller: I think it depends on the size of the company. We always say that we always want to be their main bank, meaning we want to have their checking account and their core operating accounts with our bank. However, the larger a company gets the more important it is for them to have multiple banks to spread out the risks for themselves and the banks involved. Therefore, we cannot be too selfish. Again, you want to be their main bank and be the main relationship, but sometimes in a big company there is enough to go around as they say.

CEOCFO: You mentioned earnings before and clearly you had a record quarter. Earnings grew thirty percent. How and why?
Mr. Miller: Our loan portfolio and our deposit base grew in the high teens in 2015 and that has been pretty consistent over the last few years. We are right around the $300 million asset mark. Interest income has been on a nice steady growth because of our core business of loans and deposit. Along with loans comes good fee income. Then we have a few

is needed for the customer. Behind the scenes the customer does not really need to understand how we do things. I always joke that it is like the Wizard of Oz. The joke is, do not look behind the green curtain, because there is a lot of activity going on. There is technology and things that we are trying to use to be more efficient. However, up front we want that customer to feel the closeness of that relationship. We do a lot of personal interaction with customers. We enjoy going out and visiting with customers, have lunch, go to their place of business and “kick the tires” to understand what they do. Where we are better is that when there is a decision to be made, we can give them a quick yes or more importantly, sometimes a very quick no, because we do not want to waste their time. I always say that the hard part about this business, and where the big banks struggle, is that small business owners think generation to generation, but banks are taught to think quarter to quarter. That is because we are under the pressure of reporting our earnings. Everyone is chasing numbers and pushing products and things like that. However, if you are going to do this business well, you have to take a step back and ask yourself: “Well, if my customer is thinking generation to generation how do I change my mindset to support them.” That is because over a twenty or thirty year span of a generation there is going to be two or three recessions. Therefore, if you are not prepared to ride out those recessions with your customer then you should not get into this banking segment.
smaller businesses that have been performing quite well. We are an acquiring bank for processing credit card payments. That business is growing quite well and provides a good steady fee income to the bottom line. We are also the number one SBA issuer in our district here on the West Coast. The SBA business is great. Typically, the margins here are higher in some of those loans and there is a big market to sell those loans to generate fee income. Therefore, we can sell off those loans and charge a servicing fee at different points throughout the year, based on how we want to manage our balance sheet and P&L. We are not a fancy bank and actually quite boring which is good. We want our earnings to be steady and boring as well, but obviously to continue to go up.

**CEOCFO:** Are there services that you would like to offer, that you are planning to offer, that are not available today?

**Mr. Miller:** Our bank sits in a holding company and our holding company is always looking for opportunities to either start or acquire businesses that would support the banking side of things. This could be investment or insurance products; maybe something related to the mortgage business or other financial related services. However, right now we think that we have an opportunity just with the core bank to really, as I said, take advantage of some of the changes here in the local market and to continue to grow. Our next major banking hurdle is that $500 million in assets mark. We think that is definitely achievable in the next couple of years.

**CEOCFO:** How do you stay ahead or at least keep up with technology and security issues, both of which loom large?

**Mr. Miller:** Security is a big one. It is something that we always talk about. You have a lot of issues going on with data protection. Therefore, I think you need to educate, not just the board, but also the senior management team and make sure that we are partnering first of all with the right people. In a community bank you outsource a lot of your back office work. Therefore, we need to make sure that our partners have the best security possible. It is a continual education process, not just for folks within the bank, but also with customers. Many of the security issues that happen in the market are not necessarily because customers or banks have bad systems. It is just that someone makes a mistake and gives out information that they should not have, so that human error piece really needs to be addressed through education. For the other side of technology; I think you just need to really keep an open mind and understand that there are many great things happening in technology. I am a firm believer that over the next five years, the technological advances that will occur will be really powerful for a small bank. It will allow us to leap frog generations of technology, so we can do things very similar to larger institutions for a fraction of the cost. That allows us to compete on a much more even playing field. We like what is about to happen in the fin tech space because it will insure that small banks can stay in the market and do quite well if they are smart.

**CEOCFO:** Why pay attention to Communities First Financial today?

**Mr. Miller:** The bank has been around for ten years now with a consistent track record. If you look at all of our metrics compared to the typical community bank, the peer average as they say, we are significantly higher than the peer average. We sit in the top twenty percent of all community banks, yet our share price is trading below book value. Therefore, we think there is already a compelling story. We have already proven that we can perform well over the longer term. As an
ESOP bank, there is a different mindset amongst the staff here verses other community banks. Many community banks are either family owned or set up with the idea that they are going to sell and try to make a return. We look at it in a different way. We are here for the long haul and we want to be an acquirer, not an acquiree. We aspire to achieve to the performance level of the top one percent of community banks, not the peer average, but in the top 60 to 75 banks in the country. That is really the standard that we hold ourselves to going forward. We think that if you are looking for a long term investment, CFST is a good one. We have the right management team to get it done, and we are excited about the journey we have started.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine