

## It's A Wonderful Bank

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In one of the key scenes in Frank Capra's Christmas classic, "It's a Wonderful Life," George Bailey convinces the people of Bedford Falls to stay true to his family-owned community bank, arguing in so many words that his bank can be trusted to look out for the town's best interest because it's run by the people, for the people, with the community members lending to and borrowing from each other.

While the movie is now 62 years old, Bailey's community and the neighborhood-centered banking model is as relevant today as it ever was. In a year rife with bad banking, modern community banks and credit unions are seeing a renewed interest in the desire for more personalized banking among neighbors who share the same values.

"We are community based, this is our home," says Laurie Beard, CEO and president of Founders Bank & Trust, which is headquartered in Grand Rapids. "We focus on the one community where we conduct all of our business. That's where deposits and loans are made and it's our whole reason to exist. We're here to serve Grand Rapids."

Community banks are rooted within a single community, with one or just a handful of branch offices. Deposits are made by local residents, loans are extended to community members, and decisions are made locally. These financial institutions typically have less than \$1 billion in deposits and pride themselves on providing more personalized service than the big banks.

"We appeal to people who are eager for a real relationship with a bank, people who are sick of low customer service expectations and people who realize that they do have choice," says Beard. "We develop relationships with customers so they'll always know someone here."

### Your Friendly Neighborhood Banker

The health of community banks and credit unions (not-for-profit organizations that operate similar to community banks) depend heavily upon the economies of the neighborhoods they serve. If the community is struggling, smaller institutions tend to be more directly affected than a larger bank that can spread risk among hundreds of locations. "Our bank is a reflection of our customers. When they do well, we do well," says Beard. "Weakness in the local economy affects us, too. We're all connected."

"By keeping deposits and profits in the community we're doing business in, we can help provide for the needs of the community," says Leonard Iakiri, vice president of sales and marketing for Northpointe Bank, which has just over 5,000 customers and one banking location on the East Beltline.

Because of the link between a community bank and the neighborhoods it serves, these banks have a greater motivation to help their customers remain financially stable. "We have an obligation to contribute to the financial success of our

customers," says Beard. "Our roots are here and we have every reason to help our customers be stronger. It's what community banking is all about."

### Prospering in Hard Times

With uncertainty climbing and 401K values plummeting, community banks and credit unions haven't been left untouched by the economic crisis. Although it has been a rollercoaster, the changes in consumer spending and saving attitudes have generally led to growth in community banking.

Phil DeVries, senior vice president and Grand Rapids market manager for The Bank of Holland, says that although individuals have less money than they did a year ago, the bank's deposits and loans have increased as customers have moved over from big banks, growing to 400 Grand Rapids customers.

The perception of trust that comes along with banking at a



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place where everyone knows your name, combined with the feelings of uncertainty due to the failure of big-name banks, has led to a renewed interest in local banks. "Deposits increased as we started entering into the current economy," says Northpointe Bank's Iakiri.

Kim Wilson, CEO and president of Grand Rapids Family Credit Union, says that the credit union has experienced growth in deposits as members move money into safer insured savings, money market and certificate of deposit accounts.

### Thinking Local First

Another factor driving the popularity of community banks is the trend toward staying local, which doesn't only apply to shopping and eating habits. Founders and Northpointe are two of five financial institutions that belong to Local First, which they feel is a point of differentiation. "People have a sense that local banking has some appeal and it's a good thing," says Founders' Beard. "People are thinking about their buying habits and purchases more and are starting to look at the advantages of staying local."

In addition to keeping more money in the community, banks that are operated locally are able to reduce some of the red

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tape and provide customers with quicker and more flexible solutions. "Decisions are made at a corporate level rather than the local level at large financial institutions," says Wilson. "Community banks and credit unions understand the unique dynamics of the community and work closely with the consumer."

Just like George Bailey's fictional Bailey Building and Loan Association, community banks and credit unions really do know the people and the neighborhoods they serve. "Our employees live and work in the community, so we live and work with our customers," says DeVries. "Communities are very important to the success of our bank."

Because they know their customers, community banks are able to take individual circumstances into consideration when making lending decisions, and not just black and white results generated by a computer program. "All applications are looked at by a human being," says Iakiri. "In addition to all the standard lending requirements, we can dig into clients' unique needs or situations."

Not only is this model better for customers and their communities, it is also better economics. An understated driver of the Great Depression was the initial failure of a large number of neighborhood banks, driving unfamiliar customers to institutions in adjacent communities. Unable to accurately gauge the financial situations of these new members, subsequent waves of banks began to collapse under unexpected losses. The remaining financial institutions quickly lost trust in the markets and the nation's financial system seized up.

In a general sense, these same financial mechanics were at work over the past 18 months: Large lending institutions didn't know their customers, their loans defaulted, losses skyrocketed, and finally the financial system with it.