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Southern California bank's challenge: Build statewide brand

BY HILARY BURNS

CVB Financial in Ontario, Calif., is one step closer to becoming a statewide bank.

The $11.5 billion-asset company bought Community Bank in Pasadena, Calif., in August for $903 million. The acquisition, which is CVB's biggest to date, was the eighth-largest bank M&A deal in the country this year and raised expectations about the buyer's future.

CVB has taken a sensible approach to acquisitions, starting with nearby markets before spreading out, said Christopher Myers, the company's president and CEO. The Community Bank deal helped CVB expand in Southern California while eliminating an active competitor.

Myers predicts CVB can generate 6% to 8% annual growth over the next five years as it aims for $20 billion in assets.

While the deal was viewed favorably by most analysts who follow CVB, there is a belief that Myers and his team have more work to do to make the most of the acquisition.

Aaron James Deer, a Sandler O'Neill analyst who described Myers as one of banking's more cautious executives, said some heavy lifting will be required to get Community Bank's deposit base on par with CVB, where 57% of the deposits are non-interest-bearing.

The challenge of doing so in a period of rising interest rates, along with the usual work of integrating Community Bank, makes Myers one of American Banker's five community bankers to watch in 2019.

In a recent interview, Myers discussed the Community Bank deal and CVB's growth objectives. Here is an edited transcript of the conversation.

How would you describe 2018?

Christopher Myers: Business is good. I think our customers seem to be doing well. I do customer luncheons, and we bring in customers from each of our markets and ... talk about what's going, how they're doing and what the economy looks like. I'd say 80% are very positive about the economy, though there has been a little more hesitation in the last couple of months.

I think the overall economy is doing well and our bank is doing very well, despite the fact that the yield curve is flattening and the cost of deposits is rising rapidly for a lot of banks. It's rising at our bank, too, but probably not as fast as others. We have a lot of business deposits that are non-interest-bearing ... which really helps us.

Could you tell me more about the Community Bank deal?

So far, so good. It's a lot to handle. When we did the acquisition they had approximately 425 employees located in one main administrative center and 16 regional offices. We've consolidated the backroom operations into ours and, in early 2019, we'll take eight or nine of their locations and consolidate them into ours. It really is a great strategic acquisition because Community Bank was a very good and very active competitor. We both went after the same type of client – small to midsize businesses, business owners and their families. We felt it was a home run to eliminate a competitor and have cost synergies.

How is integrating a new group of employees going?

It's interesting. We're both focused on the same type of businesses so I don't have to spend any time telling everyone what we like and what we don't like to do. We were on the same system basically – just different variations. We both work on the

Bulking up

CVB Financial has acquired these banks, raising its assets by nearly $5 billion

- Community Bank ($3.7 billion in assets)
- American Security Bank ($412 million in assets)
- Valley Commerce ($412 million in assets)
- County Commerce Bank ($255 million in assets)

Source: The company

premier version of Fiserv, so that really helped with the conversion. We haven't had as many missteps in terms of duplicate accounts and things like that, which can cause customer problems.

Still, no matter how many times you communicate with employees and so forth, people just get nervous and you have to do a lot of reassuring along the way. I think we've done very well in the retention of both business and associates.

How often do you expect CVB to pursue acquisitions?

It would be tough to do an acquisition of this size every year. If it was smaller, I think we could do one every year; it just depends on the size. The only year in the last five that we haven't done one was 2015. I think if we were to do an acquisition in 2019 it would certainly be in the latter half of the year. We should be fully integrated by the middle of May. That will free us up a little bit. I might give my staff a chance to breathe for a month or two, then figure out what's next.

When it comes to bank acquisitions, anything in California "is fair game," Myers says.

What kind of prep work went into crossing the $10 billion-asset mark?

We now have regulators who are permanent fixtures in our company, so we have allocated workspace for them, and we're in the midst of one audit after another after another. I think it goes on forever. So that's definitely an impact we're gearing up for. The Durbin Amendment [which caps interchange fees] will kick in during the third quarter, though it won't impact us tremendously because we're not really a retail bank. It will be about $1.5 million a year in lost fees.

What are your top priorities for 2019?

To finish the integration is first and foremost. The second thing is to keep people focused on what we do well, which is business banking. Third is driving core deposits, and fourth is providing employee training [and] education to help them continue to acclimate because this is a big merger for us.

Are there markets on your radar for future M&A?

Our objective is to take our business model and put it throughout the state of California, so anything within the state is fair game at this point. The one challenge is if you leap frog a market – we're just north of Fresno and if we were to do acquisition in San Francisco, it presents its own challenges because I don't have staff there to help with an integration. Then you become very dependent on the bank that you buy, and it becomes harder to change or merge cultures.

I'd much rather like to do it like an army – marching territory by territory. The other [issue with a far-flung market] is retention. If you try to impose change or different methodologies of working, they know the marketplace really well, and it's harder to play defense if you want to retain those clients.

What strategies do you use to recruit and retain talent?

Money, or stock, is an important part of it because that ties people to the organization. I think more than that is giving them an opportunity for growth in the company. We do a lot of training, so I think it's not just about money. You have to get in there and make them feel like they have an important role, you're relying on them to do well, and you're giving them the resources to succeed. Showing them a career path that is challenging, fun and engaging is just as important as money.

With this job market other banks are calling on our people left and right. That's concerning, but at the same time we will be fine if we do the right thing and execute.

What challenges does CVB face?

Deposit competition. We're trying to play defense and make sure we're driving deposit growth in the short run, but in the long run it's continuing to stay focused on what we do well. I'm a big believer that we're the best in our space in forming long-term relationships with the best small and midsize businesses, and their owners, but we're not a retail bank. We're not a bank to the Fortune 1000s – that's not what we do.

I think keeping people focused on playing to our strengths is what makes us a great organization. I think the days of a community bank truly being a consumer bank, unless you're in a remote area, is not a great strategy because I think technology is going to run away from you.