

## **We're Gonna Need a Bigger Pie: Banks Expand Presence in S.D.**

By Michael Lipkin  
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San Diego — Regional commercial-focused banks from Oregon, the Bay Area and Orange County are expanding their presences in San Diego, presenting more options for businesses and a potential loss of clients for larger banks already established in the county.

Irvine-based Plaza Bank opened its first business branch here in October after nearly a decade of producing Small Business Administration loans out of a two-person office. The month before, San Jose's Bridge Bank set up a national life sciences practice, operating out of sister bank Torrey Pines Bank's headquarters. And last month, Portland-based Umpqua Bank said it will open a commercial banking center in San Diego, led by a pair of former California Bank & Trust executives. That announcement followed Umpqua's hiring of CB&T's head of San Diego and Northern California operations, Tory Nixon, to take charge of commercial lending.

San Diego bankers say the expansions into new territory will invariably take away customers from banks with more than \$1 billion in local assets. Regents Bank CEO Steve Sefton said the level of cannibalism is a math problem: will the midsized business market in San Diego grow fast enough to support increased demand for customers? If not, the entrants will have to make up the difference with customers already at another bank.

"If you add everyone's business production goals, is there enough growth to accommodate that?" Sefton said. "That's literally the million-dollar question."

### **Veteran Player**

Umpqua, with \$23.4 billion in assets, is the largest of the expanding banks and has the greatest mix of retail and commercial lending. In Nixon, it hired a well-respected banker with strong San Diego ties. Nixon, a former San Francisco 49ers cornerback, worked at CB&T since 2003 and oversaw a 16 percent increase in loan and deposit balances locally from 2007 to 2014 as he led the bank's San Diego division.

Umpqua followed up that hire with Mark Lee and Jonathan Dale in January, both CB&T vice presidents, to manage a new commercial banking center in San Diego. Umpqua already has branches in San Diego, La Jolla and La Mesa, but said the center would be at a new location that it declined to disclose. It also declined to detail what staffing increase would be required to run the center. Coinciding with Lee and Dale's move, Umpqua added merchant, treasury management, international banking and debt capital markets services in San Diego, which had not previously been available.

"San Diego is one of the fastest-growing cities in the U.S., making it an attractive market for Umpqua," Nixon said in a statement.

CB&T president Eric Ellingsen said Umpqua's expansion didn't come as a surprise, with San Diego the fifth-largest deposit market in California. And just as Umpqua was moving down the coast, CB&T parent Zions Bancorp was moving into Oregon and Washington.

Losing Lee and Dale's former customers to Umpqua is a possibility, Ellingsen admitted, though the support team behind those executives had strong client ties and was still at CB&T.

"There is room for a few more competitors," Ellingsen said. "We're going to maintain our credit standards, but we will certainly compete to retain our customers."

### **Building on Its Business**

Plaza Bank's regional business center is its first major location in San Diego, after two business development officers operated out of a small office working on SBA loans for seven years. CEO Gene Galloway said the officers generated several hundred million dollars' worth of loans, even without a branch location, making him confident there was an opportunity to expand into deposits and commercial lines of credit. The original duo came from Lehman Brothers and the nine additional branch employees came from major banks such as U.S. Bank and community banks such as Torrey Pines.

Galloway said Plaza, with \$554 million in assets, has already done tens of millions of dollars in loans in San Diego since establishing the business center and he believed Plaza could convert disenfranchised customers at major banks into Plaza clients. The strategy so far has been to target borrowers who already had an SBA loan with Plaza.

"We can retrofit clients we made loans to and move them into a full-service relationship," Galloway said. "Could it be 30 percent to 50 percent successful? It could and it is."

### **Life Sciences Target**

Bridge Bank is unique from Plaza and Umpqua, setting up a national base for its life sciences lending group, opposed to targeting a specific geographic area for loan and deposit growth. Bridge had \$1.88 billion in assets before it was acquired last year by Western Alliance Bancorp, which now has \$14.3 billion in assets.

Senior vice president and head of life science Robert Lake said the group could very well have been based in Northern California or Boston, but he had the closest ties to San Diego after running Oxford Finance's western U.S. lending.

"There was no rhyme or reason why San Diego was the choice," Lake said. "It just happens to be where I live."

Even though the practice is national and has employees on the East Coast as well, San Diego companies are a key source of business. One of the three deals Bridge has closed since setting up the group was \$6.5 million in debt financing to Carlsbad-based Colorescience, a sun-care-focused cosmetics company. The other two were in Orange County and the Midwest. Two more deals currently being underwritten are for San Diego-based companies, according to Lake.

### **Stealing Business**

Absent large increases in bankable clients in a region, growth for one bank means losses for another. Bankers said expansions almost always come as they identify teams of employees willing to change institutions and help bring some of their clients with them.

"There's nobody in business that doesn't have a banker," Seacoast Commerce Bank president Rick Sanborn said. "All throughout my career in banking, your job is to go out and steal business from someone else. Competition's always in the marketplace."

Sanborn was quick to add that the addition of a couple new banks was unlikely to seriously pressure San Diego's community banks, because banks with more than \$1 billion in assets generally present a riper target.

"We typically don't steal from each other," he said of community banks.

But whether banks are successful in drawing away clients is extremely team-specific. Tony DiVita, executive vice president and director of sales at Bank of Southern California, argued that customer following can be overvalued given the effort it can take to transfer business from one bank to another.

“Customers have gotten a little numb based on the volume of bank mergers and consolidation that have occurred over the years,” DiVita said. “That being said, when you have people who have been in the market for as long as Tory (Nixon) has, and with his reputation, there will be customers who follow him.”

Sefton, the president of Regents Bank, said Plaza and Umpqua were not seizing on opportunities that San Diego banks failed to realize or pursue. The entering banks, rather, were likely looking to grow geographically in order to increase their assets.

“It’s a function of banks needing to build the balance sheet,” Sefton said. “In a low-growth economy, the way they do it is to think in terms of geography.”