

# Western Banking

The Community Banking Magazine for the Western States



## INTERVIEWPOINT: INDUSTRY TRENDS



**NAME:** Scott Kavanaugh

**OCCUPATION:** CEO and chairman of the board of directors of First Foundation Bank

**LOCATION:** Irvine, Calif.

**BACKGROUND:** Scott Kavanaugh was formerly an executive vice president and director of secondary marketing for Provident Funding, a privately held national single-family lender. His responsibilities included re-establishing internal auditing and marketing departments and re-aligning secondary marketing functions to improve pricing while reducing interest rate risk on \$3.2 billion in monthly originations.

Photograph courtesy of FIRST FOUNDATION BANK

**Western Banking:** How has the banking industry changed due to the economic crisis?

**Scott Kavanaugh:** The economic crisis created tremendous damage in the financial sector at a torrid pace. Larger banks shut down lending and indiscriminately laid off large amounts of their work forces. Unfortunately, client service and relationships have been forsaken as many banks continue to deal with problem loans and de-lever. Many clients have become disenchanted with larger banks and are seeking community banks as an alternative. Those in a position to grow have a tremendous opportunity to capitalize by building personal and business relationships.

On the lending side, it has become more conservative. As the economic climate has worsened, many banks have reduced the ability for a borrower to obtain the financing that was achievable a few years ago. Loan-to-value ratios have decreased and debt-service coverage ratios have increased. Borrower debt ratios are scrutinized more closely and incomes are being verified.

**WB:** What are the latest trends in the banking industry?

**SK:** As clients struggle to have an identity with many larger banks, private banking and wealth management have evolved into important aspects for community banks. In order for community banks to compete with larger institutions, offering a greater platform with more services, such as investment management, trust and insurance services, has become essential.

Also, technology continues to play a greater role for community banks that can offer remote capture and cash vault services.

Finally, as the economic environment stabilizes and competition increases, banks will price more aggressively and drift from more conservative underwriting to practices that existed prior to the recession.

**WB:** Which trends will last/won't last and why?

**SK:** Technology is a trend that will continue and will even the playing field between large banks and community banks. Through increased technology, banks can offer better services from the client's office than through a large branch network. Although branching is necessary, banks will need fewer offices in order to meet client demands.

**WB:** How long will we be in a recession?

**SK:** Although the economic recession will most likely diminish by the fourth quarter 2009 or the first quarter 2010 (GDP will turn positive), the economy will remain fragile for several years to come. Leverage is positive when used properly. Too much leverage can be costly to banks and their clients. Until market forces have equalized the exposure to leverage and the absorption of overbuilding that exists in housing, getting consumer confidence and spending back to pre-recession levels will be difficult. **WB**