



NorthWestern Financial Review, September 2017 Edition

## Brightening Days

By Tom Bengtson Fri, Sep 01, 2017

*Opening a few years before the financial crisis, a Minnesota bank is finally enjoying strong growth.*

*Lakeville bank weathers crisis, growing with service-focused business model*

There's nothing quite like a financial crash and a recession to clarify your business plan. Tom Mork, 61, pulled together a group of investors to start Lakeview Bank in Lakeville, Minn., in 2004. Focusing almost exclusively on commercial real estate, the de novo got off to a fast start, hitting its earnings markers as planned. But then the markets crashed, wholesale funding dried up, and before you know it, the regulators tightened the screws. Mork and Lakeview got through the crisis by raising capital and broadening its lending, which it funded nearly entirely with core deposits.

Today, the \$70 million bank is returning 10.46 percent on equity, 1.04 percent on assets. Things are looking so promising that they are constructing a 2,100-square-foot addition to the 6,600-square-foot building they put up 13 years ago. Mork said, "There is nothing remaining on our books from the great recession years haunting us. This is why we can invest in new bricks and mortar."

The bank has added commercial and industrial loans, and one-to-four family residential mortgages to its loan mix. Commercial real estate used to equal 450 percent of its capital; today that ratio is more like 230 percent.

“We came out of the recession knowing we had to improve our profitability,” Mork said. In 2016, the bank earned \$716,000, compared to \$511,000 the year before. In the dark years, like 2010, the bank lost \$705,000. The bank’s loan to deposits ratio is 95 percent, which gives it the opportunity to be highly selective about its loan customers. The bank has no past-due loans on its books, almost no non-accrual loans, and very little OREO. For now, the bank is foregoing wholesale funding, which means it is able to fund those loans with deposits that only cost 34 basis points, on average. Mork knows the cost is going to rise, and he said if conditions demand he would consider using wholesale money again, but not to the 40 percent level the bank did in the early years. All of the bank’s deposits are coming from local sources.

There is a lot of construction going on in this bedroom community of 55,000 people located 25 miles south of Minneapolis. While there are a dozen bank offices in the community, including branches of the largest banks in the country, other community banks, and even a branch from a bank based 80 miles away in New Ulm, Minn., Lakeview Bank is the only one chartered locally. Provincial Bank, which was founded in Lakeville in 1997, recently was purchase by the Arden Hills-based Frandsen Financial. Admitting that his bank is not “all things to all people,” Mork said: “There is value in going above and beyond in service and getting paid for providing it.” At Lakeview Bank, service starts at the top. That’s why Mork’s office is located off the main lobby, just a few steps from the bank’s front door.

Mork is an adamant advocate for the community banking model, which he said in the Twin Cities is becoming ever more rare as consolidation works its way through the industry. He said the strength of the Lakeview Bank value proposition is the financial counseling the bank can offer customers, even helping business customers manage their balance sheets. Mork recalled one business customer who first came to the bank six to eight years ago; recently, the bank closed a multi-million dollar SBA 504 loan to facilitate that business’s growth.

Mork is proud of his 80-member shareholder group and his staff of about a dozen for weathering the five-year storm brought on by the housing bust, but he's also willing to credit regulators.

"The regulatory prescription to regaining health was actually pretty smart," Mork reflected recently. "No one likes to operate under a consent order; no one likes to be told what to do," but Mork said regulators urged lending diversification funded by core deposits and that's the formula that brought the bank out of the doldrums and is taking it to the next level.

With the bank now producing reliable earnings, Mork said he can confidently begin to consider long-term growth. He said the bank will be adding a commercial lender to its staff. He even noted that in addition to the one-story addition currently under construction, the bank could accommodate a two-story addition on the opposite corner of the building. But with most of its customer base made up of businesses, Mork noted most of the bank's transactions happen electronically and the need for additional brick and mortar is actually pretty minimal. The prospect of a branch at this time is years away, he said.

"We are quite bullish on the community banking model," Mork summarized. "We can easily double our size in this location. We are going to become more efficient."