Arlington’s Leader Bank Set For Second Expansion Round

By Amy Wyeth

Arlington-based Leader Bank, a $200 million commercial bank that opened just four years ago, is expanding for the second time, its president, Sushil Tuli, said last week.

The bank – which was spun off from the then-16-year-old Leader Mortgage in 2002 – recently raised $3.2 million in equity financing from about 100 private shareholders, bringing its total capital to $16 million.

The bank has big plans for the money: early next year, pending regulatory approval, Tuli hopes to add a commercial and residential loan production office in the Shrewsbury or Andover area. By the fall, he plans to add a new branch at a location to be announced.

The proposed loan office location is miles from the Arlington-Cambridge neighborhood to which Leader has stuck so far, but Tuli said that’s part of a deliberate plan to expand the bank’s reach.

“We plan to … look for other opportunities for branch network growth,” Tuli said. And as Leader’s commercial loan pool nearly doubled in the last two years (from $18 million in 2005 to $30 million this year), compared to a relatively flat residential lending pool (of $120 million), he said, “We are changing our focus to include more commercial lending.”

Both kinds of expansion are smart, basic banking strategy, according to Massachusetts Bankers Association President Dan Forte, who said Leader’s specific approach is “very appropriate to expanding [its] footprint ‘both physically and in product mix.’

Commercial lending by Massachusetts savings banks is not new, Forte said. In fact, Massachusetts legislation in the mid-1980s was forward-looking in allowing “parity” among state-chartered commercial and savings, cooperative and savings and loan banks.

“Before, [savings banks] were very restricted in commercial lending,” he said. Today, it’s less so.

As a result, more Massachusetts savings banks have entered the commercial loan business, he said, as a way to diversify.

Leader Bank actually has a federal commercial bank charter, Forte noted, but its loan portfolio today makes it look “much more like a retail savings institution.”

Commercial lending can also earn banks higher profits, as commercial interest rates change more quickly in response to the environment, according to Forte.

“Because of that risk, there’s more reward if it’s done appropriately,” he said.

A brand-new type of commercial lending – not part of Leader Bank’s current strategy, but new for the community banks already involved in commercial real estate lending – is commercial and industrial lending, which differs from commercial real estate lending in the type of collateral used, said Jim Jones, founder and president of Wellesley-based First Wellesley Consulting Group, a financial services consulting firm that recently completed a study of what small-business owners are saying they want from community banks.

Continued on Next Page
With a C&I loan, a bank will give a loan such as a line of credit to a business that intends to pay it back from its cash flow, Jones explained, while a standard commercial real estate loan uses the real estate as collateral.

Tuli said the loans he’s seeking are “small-business, commercial real estate.” According to Jones – and other bankers adding such lending to their portfolios – those loans are a natural fit for a smaller bank.

“Some of the larger banks are moving away from the small-business loan,” noted Jones, who added that such banks might, in fact, “be establishing cut-off points, creating a natural vacuum that community banks are poised to satisfy.”

Asked what might happen down the line as community banks continue to look toward commercial lending, Jones predicted several possible effects.

“There’s the obvious,” he said: “Increased competition will drive down the prices for small businesses, [which will be] able to get lower rates for their loans and lower fees for the bank services they use.”

There’s another, already noticeable effect, Jones said. More frequent forays by community banks into commercial lending are “literally changing the way banks compete for business.”

“The most aggressive banks are creating a very aggressive sales culture that includes cold-calling on local businesses,” he said, which was unheard of 20 years ago.

“They [bankers] are literally turning up at their [small-business owners] doors unannounced, so that they can introduce themselves and introduce the bank,” Jones said.

Sales forces like that “are going to win customers from other banks,” Jones predicted.

Competitive Footing

Getting the loan isn’t the only part of keeping the commercial customer’s business, of course, and both Jones and Forte said a side benefit to business owners is the increasing ability to take advantage of high-end technology.

For example, Jones said, some banks are adding Check 21, a computerized check-processing system designed so that a national catastrophe would be less likely to grind U.S. finances to a halt. Banks that have it are able to offer small-business owners with equipment as simple as a small scanner the chance to “eliminate that daily trip to the bank” if they utilize the feature, Jones said.

“I always joked that Y2K was one of the best things that happened to smaller financial institutions,” added Forte. When calendars turned to 2000, he recalled, banks and many other industries were mandated to ensure their computer systems wouldn’t crash and destroy accounts, meaning that many upgraded in invested heavily in technology.

As a result, the smaller banks that could already boast of their “high-touch” know-the-customer style can now add “high-tech” to their list of accomplishments, he said.

“It’s helped them to become very, very competitive with the larger financial institutions.”

As far as competition goes, the analysts were asked, is there enough of the commercial lending pie to go around?

Jones talks of a glut of potential credit suppliers for small-businesses, even of banks “stealing customers from one another because they don’t have enough new business formation.”

But, he said, strong commercial banking organizations can still succeed.

The important thing is to hire excellent commercial lenders, he said, although he also warned “there are a limited number of them.”

Forte said a bank such as Leader shouldn’t have a problem, despite heavy competition, because the bank researches markets well before opening.

“I think [Tuli] has got a good following in that area,” Forte said. “Leader Mortgage] was already very well known and very reputable. The bank’s success,” he predicted, “will play off of that.”

Leader opened its original office at 141 Massachusetts Ave. in 2002, and earlier this month purchased the space, which it had been leasing. An earlier expansion round in which the bank raised $4 million resulted in Leader’s Arlington Center branch in September 2004 and its Central Square, Cambridge, branch in July 2005

The Leader Bank Web site describes the institution’s mission “to become the premier financial services organization that provides the highest level of quality customer service in the markets we serve.” The bank “will grow to be a $250 million financial service organization by 2007,” the vision statement predicts.

Tuli said he’ll wait to make sure that happens next year before deciding how to revise the statement to incorporate new goals.