



Relationship Banking is the Key to Success over the 52 years of Benchmark Bank in Dallas, Plano and Austin Texas



Mike Barnett
Chairman and Chief Executive Officer

Benchmark Bank

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CEOCFO: Mr. Barnett, every bank has their own philosophy. What is the idea behind Benchmark Bank?

Mr. Barnett: I think it is all relationships with people. It has been really simple. We have been in business for 52 years and we have gone through a lot of iterations during that timeframe. What we focus on now is our bankers knowing our customers and understanding what they need. I think we have a very loyal group of customers because of that. I know we have an exceptional group of employees.

CEOCFO: What is the key to understanding what a customer needs?

Mr. Barnett: That is a great question. I like to think we are interactive with them relative to what their business is, i.e. if we see something we think they are going to do does not make sense to us, we will tell them, whereas what we see with most bankers is they get a request and they process request. We think we are there to not only tell them, “Hey, that is a great idea,” but there are times when we tell them, “That is really a very fundamentally poor decision, and while we will loan you the money and you have the ability to pay us back, you are going to be real irritated during that process because it really just is not a good deal for you.”

CEOCFO: Would you tell us about the communities you serve?

Mr. Barnett: We are lucky as we can be to be in Texas having experienced the 80s, as I was the chairman here back in the 80s too, and that was the worst of times in Texas financially. Today, maybe are as good as times as we have ever seen in our lifetime. We are very, very fortunate to be in Texas, it is probably as robust a market as there is in the country and we cannot take it for granted because that too shall change as we all know – everything does eventually. We are excited about where we are. We are in three markets in Dallas, we are in Park City, we are in Plano, and we are in uptown. We have been very successful in all three and love our customer mix. Actually, we just got back from a management retreat and we will begin to look for another location somewhere in the Dallas area. We are not in any rush; it needs to be the right pick, right place. Sometime in the next two years, let us say, we will probably find a place here and we have three locations in Austin. The third one actually opens in February and we are excited about that. We started there about four years ago, and we have gotten better than we ever dreamed we would. We are excited about it; we are excited about the new location, and think it will be an accretive add-on for us. We have more opportunities for our people there too and that is important. Sometimes, we decide to open branches based on our talent level in that location. They need to have a branch that they can kind of manage themselves. That is the case in Austin and we have a great group down there and excited about that one opening. We only have one location right now in the Houston area that is in The Woodlands and it is only a year old. We are kind of looking at maybe a branch every year, 18 months or so.

CEOCFO: Why has the Austin location done better than you expected?

Mr. Barnett: There is a lot of petition down there so when we projected what size we would be and quite frankly, how many deposits we gather and profitability, we thought that we would eventually get to three branches. Again, we have been owned generationally, so we are not in any hurry to get something up and make a widespread announcement. We are not public; we are very private. We don't have to rush to get to certain thresholds, but we exceeded them all in Austin much quicker than expected and I am thrilled about it because it is a reflection of how great our people have done down there. It is a great group down there.

CEOCFO: How do you stand out among the various community banks?

Mr. Barnett: I think we have a good story. Fifty-two years is a pretty good story in our business and we actually build relationships. Most of our people bank with us before we ever do any kind of lending or anything else for them; they just gravitate towards when they walk in the lobby, somebody says, "Hi Len, how is your day going?" I think that is just different than most places they go.

CEOCFO: How do you breakdown between commercial and consumer? Would you like to see the mix change?

Mr. Barnett: We have always been, even in the 80s and 2000, 2007, and even today, we have always been a small commercial and real-estate lender. That is our primary portfolio and has always been our level of expertise. We have been very comfortable with it, and even in the downturn it served us well. We survived them all; so that is a good thing, better than most of our competition did in the 80s. I think we are just better prepared to handle those things and we are proactive. Again, we look at that market and a customer of ours may come in and say, "I want to do this deal," and we may say, "It has been a great run in that business, but maybe now is not the time to do it." We may not want to expand or look at building a speculative building or anything else. We typically will be very interactive with them about where we see the market going. We are certainly not anywhere close to 100 percent, I can promise you that, but we certainly want to give them our guidance of what we feel and see.

CEOCFO: Do your customers tend to see you as a trusted advisor?

Mr. Barnett: I think that is very true, and it is one of the reasons why we entered the private wealth management business a couple of years ago. One, we found the right talent, he is a guy that has been a customer of the banks for 11 years and we talked and talked. We are a registered investment advisor, which is a little bit different; everybody is in a fee business, but our fee business is based on the assets, not on whether we turn them and churn them every day and every week, it is a fixed fee. We really spend a lot of time with people going through what they have and do not have because a lot of times that is what people miss - they are really good at being in a certain business, but they have no diversification in anything they do. So that if there is a downturn in their particular area, they really are tremendously impacted, and what we try and do is say, "Hey, I know you are great in the real estate business or you are great as a doctor, but here are alternatives you can look at that should in some cases be a see-saw effect in case your business turns the other direction, this business should go up." We try to really help guide people to areas to keep them safe.

CEOCFO: How do you keep up with the regulatory environment?

Mr. Barnett: It is the same one faced by all of the community banks. We have been painted with a broad brush by the political environment and so the majority of people do not view us any different than the mega banks who have a whole different - and I am not criticizing - they just have a whole different criteria for what they are trying to accomplish because they are public they have certain metrics they have to hit all the time. We do not have that pressure, yet we are treated as if we do and the cost to us, when you spread it over \$550 million, is a heck of a lot different than if you spread it over 8 trillion dollars because I still have to have somebody that knows this regulation and that regulation and we are spreading them over very few assets while they get to spread their cost per asset which ends up being much thinner than ours. In some cases, one percent is their cost while mine can be 100 percent relative to theirs. We are pretty much tasked with the same regulations, and is it unfair? Sure, I mean obviously my answer is I think it is, and I think it is a disadvantage for our customer because we have to figure out ways to try and overcome that cost so that we can still remain profitable. That is what we have to do at the end of the day. If we are not profitable, then we will not exist.

CEOCFO: How do you keep up to date with technology for your clients, particularly in user friendliness?

Mr. Barnett: Unfortunately, our customers, and the bank, are subject to an enormous volume of phishing and spam attacks due to the ability of hackers. If you want to send a wire -it used to be sufficient to send an email, we now do a phone verification, and some of our customers find that irritating and intrusive. They say, "I sent you an email," and that is in fact true but we have also had emails come from your computer that are not necessarily that particular person but somebody's computer that were not sent by them. It happens more than you would think, and it is really sad. While technology is great, it also has opened the world up to a bunch of criminals who spend all day trying to figure out how to

get money from other people. We have been real diligent because it is their money. If the email originates from their computer and says it to us, "We want to transfer this money," and we do, or wire money to another bank which turns out to be a fraud, it is really their responsibility because they sent it to us; we had the authorization. But it still creates tremendous ill will. What we try to do is mitigate that by making those phone calls any time we see something out of the ordinary. And again, we are fortunate, just by sheer scale we can know our customers better. We will see a transaction and say, "That looks interesting, to say the least," and we will hold it until we talk to the customer and say, "You really intend to send money to Czechoslovakia or Turkey or Bosnia?" Usually, they really do not have many relatives there. That is one of the ways we try to differ from everybody else.

CEOCFO: Benchmark Bank was recognized as one of the best banks to work for in the country. How have you fostered that environment?

Mr. Barnett: One, today is Friday, so it is easy to say we have a jean day every Friday where anybody that works here can submit requests for whatever charity they want it to be for a jeans day. They have to give us reason, which we send out to everybody. If you wear blue jeans on that specified Friday you have to pay \$5, which almost everybody does. That money goes to whatever the charity is, and if there are people here that that is a cause that is important to them, they may donate more than the \$5. We do that every week. In conjunction, we provide lunch for everybody every Friday in the branches. I think it is a great time for them to get together and just visit; it makes them kind of pull together. While work is important, one of the things I found out early on in my career before I got here was that if you are not happy at work, it spills over to the other aspects of your life. We only have one set of kids and we only have one family and for me the most important thing for them is that these people have to be a priority to them, and then work comes somewhere after that. That has really been our mantra for a long time; if you have a kid's soccer game, no one is going to remember if you filled out the report at the bank that day 20 years from now, but they are going to remember if your child did not play or scored the winning goal. You were there, and that is what is important in their lives. We still have metrics and we still want people to get their jobs done, but I do not care if they do it at eight o'clock at night if they had to go to a soccer game from three to five. That is probably the biggest differentiator we have. We expect our employees to get work done – we do not necessarily care if it is exactly from eight until five every day. We want them to be involved in their kids' lives and their families' lives. That is probably the biggest thing. We try and do some fun things during the year. We just went to the zoo last month at six o'clock and we could feed the giraffes and that was kind of fun. I think out of the 118 people that were eligible to go we had 101 attend, which is really good given kids' event and everything else. It is just a fun time, and I think we have a uniquely awesome group of people. All I try to do is get out of their way.



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