



A Community Bank with an “Un-Community Bank” Approach



Edward Barry
Chief Executive Officer
Capital Bank, NA.

“At Capital Bank, we compete in a different way. We’re not a factory, like a McDonald’s where the hamburger is the same wherever you go. Capital Bank looks at our clients individually, relating them to the economy of the region. Back to my burger example, unlike McDonald’s you could walk in to our burger joint and get your burger medium rare with avocado and caramelized onions. An experience that McDonalds isn’t designed to provide.”

- Edward Barry

CEOCFO: Mr. Barry, what is the vision for Capital Bank?

Mr. Barry: Capital Bank is a community bank, but we operate a little differently. It’s not just about the full product offering, what sets us apart is how we work with our clients. Our focus is on providing value through customized financial solutions, which often have a strong technology underpinning. Additionally, our commercial lending is all local and we are able to bring expert knowledge on the local economy and industries to drive insights for our clients. Our two national lending platforms drive consumer lending in an expanded footprint to complement the local commercial lending.

CEOCFO: What is the range of topics you discuss with your business clients? When might they turn to you and how might you help them?

Mr. Barry: That’s a hard question to answer. To say that they run the gamut would be trite. Adding value for our clients isn’t about finding the best rate loan or saving them money on their Treasury needs. I mentioned it earlier, but it’s how we go about adding value. It’s how we be bring clients together, through our Symposiums or other events, that they can build business through and with one another. Or, for our Not-For-Profit clients, in how we help them automate their fundraising solutions, or identify new ones. Or, it could simply be that we’ll get on the phone with their teams identifying and helping them set-up their push-button reporting. It tends to be unique from client-to-client.

Capital Bank, NA.

For more information visit:
www.capitalbankmd.com

Contact:

Edward Barry
240-283-1912

ebarry@capitalbankmd.com

CEOCFO: *How do you get around skepticism that people have regarding your consultative approach?*

Mr. Barry: My view is that many core banking products are true commodities. Money is green everywhere in the United States, so how do you differentiate loan dollars from Capital Bank versus those at Bank of America? You can't. So if you are going to compete just on product, and everyone has the exact same product, what varies is the risk adjusted profitability. Much of the time that comes down to price. But lately I've seen more and more risk creep in to that style of decision making. More importantly, we have found that our clients are looking for more than price.

If we were to get into a price war with a company with a cheaper cost structure, we would lose even if we won. Moreover, long-term, shareholder value would thin out. At Capital Bank, we compete in a different way. We're not a factory, like a McDonald's where the hamburger is the same wherever you go. Capital Bank looks at our clients individually, relating them to the economy of the region. Back to my burger example, unlike McDonald's you could walk in to our burger joint and get your burger medium rare with avocado and caramelized onions. An experience that McDonalds isn't designed to provide. Whether our customer's needs are simple or complex, we try not to be all things to everybody. We have been very specific on the customers that value what we can provide – the more complex the organization, the better it is for us.

CEOCFO: *How do you help a company understand the structure of working with government and how their banking needs to follow the government timetable?*

Mr. Barry: There are a few parts to this question, between Government Contracting companies and SBA lending. I'll start with Government Contracting as it's a significant part of our local economy here in Washington D.C. Depending on their lifecycle stage a Government Contractor may need to demonstrate their ability to access credit and manage the timeline of their receivables to win a key contract. In these examples, it can be important to work with a Banker and a Bank who understands the pressures of the industry, and who understands their clients' balance sheet and income statement – that's the part that we do well, which enables our clients to do what they do well.

More specifically, we assist them on developing financial strategies so the business can focus on their core offerings. And, as our clients' gain success, we help them to start thinking about transition to more complex contracts and how they can better manage that growth. For clients ready to capitalize on an M&A opportunity, it's more than simply helping them design their financial statements; it is about helping them maximize their valuation. It relates to what I mentioned earlier in how we bring clients together. Our relationships with CPA's, Investment Bankers, Law Firms and even Wealth Advisors allow us to deliver value beyond finance to allow clients to jump at opportunities in the timelines that they need.

Government relationships are not just in the clients that work directly with the government but also those who can benefit from the tools offered by the government, such as its SBA loan programs. Capital Bank has a long-standing relationship with the SBA and have been one of the top lending organizations in loan volume. Finding the right SBA loan a client and leading them through the process can be a key factor in helping

them launch or grow their new business taking advantage of market opportunities.

CEOCFO: *Would you tell us about SBA programs?*

Mr. Barry: As I've mentioned before, we tend to work closely with the SBA, typically being very active in the 7(a) loan programs versus the 504 loans. Overall, the SBA has provided some strong financing options for companies that may find themselves on the margin for traditional loan credit decision making. At Capital Bank, we have also found the SBA loan options to be a great fit with start-ups as well, particularly valuable in this region given the continued efforts to attract new start-ups. At Capital Bank, we've found that the SBA loan option has been a great resource for these companies, helping us fill a void in the marketplace as we continue to serve customers with their unique story.

CEOCFO: *What do you understand about banking that has allowed Capital Bank to prosper when so many others have not?*

Mr. Barry: I always go back to a quote – “if the rate of change on the outside of your business is greater than the rate of change on the inside of your business, it is only a matter of time before you are out of business.” We are in continuous innovation and reinvention mode. The world is changing so rapidly, particularly in financial services, not just with regulations and technology but customer needs and preferences. We are always looking to try to jump out ahead and see the way the world is going and how we can play in it, versus trying to fight change.

CEOCFO: *What is a concrete example of where that philosophy came into play?*

Mr. Barry: Capital Bank has lived through several business cycle changes having opened our doors in 1999 amidst the beginning of industry-wide consolidation. We've witnessed other banks contract, or even fail to where the FDIC sold these banks at attractive valuations. At Capital Bank, we tend to view the world through our own lens. While we look at what could go wrong, how can we protect the downside, we also look at what could go right and what's the potential? Answering these questions helps us see where the opportunities lie. We made several financial transactions with the FDIC and secured some very attractive assets including a credit card operating division that we've grown in to a national lending platform, now accounting for ten plus percent of our earnings. More importantly, we have honed our skills in digital marketing and customer experience, which have been reinvested into our commercial and mortgage businesses with very high returns.

In the case of our lending history, we have continued to lend through several business cycles. At times when other banks were pulling back on lending, we continued to work with business owners in the D.C. metro area to find those out of favor opportunities that had long term appeal.

CEOCFO: *Would you tell us more about some of the non-local ventures and other ways you are reaching people?*

Mr. Barry: In the credit card business for example, we are finding customers in all fifty states, primarily through digital channels and almost two thirds of the customers interact with us via their smartphones. When I started at Capital Bank, there were 15,000 credit card customers and we were adding 450 new accounts per month. Investment in a proprietary mobile platform to acquire and service customers has brought us to over 80,000 customers, growing at 8,000 new customers per month. Similarly, in our mortgage business we built out direct

marketing channels, leveraging some of the digital capabilities we learned in Credit Cards. Harkening back to the beginning of 2014, we had zero percent of our business coming in direct and now half of our volume is marketing led.

CEOCFO: *Do people come into your office or is most of your banking outside the physical structure?*

Mr. Barry: Earlier you asked a question relating to the “skepticism of our consultative approach” and this is exactly where the rubber meet the road. We go to our customers versus the other way around. Our outreach efforts target customers at their locations based on their preferences. Our sales force excels at finding and attracting customers that are a good fit with our culture and our offering. We are in the business of providing value to our clients, which also includes finding solutions that enable them to stay focused on their business, in their business hours. For that reason, Capital Bank has invested in great digital and mobile tools and resources that extend our customer servicing. Many of customers never see the inside of our branches; nor would they need to with the kinds of resources we offer.

CEOCFO: *What do you looking for in your people?*

Mr. Barry: One of my old bosses said to me that most people spend ten percent of their time on recruiting and fifty percent of their time on fixing their recruiting mistakes. That always resonated with me. Now running a company, I realize that he has probably underestimated those percentages. We spend a lot of time in trying to make sure we have the right people, which does not necessarily mean they come from the “best” schools or worked at certain firms. The biggest trait that I look for when I talk to people is passion - it is something that you cannot teach. I am constantly assessing if a candidate believes in our “un-community” bank, community bank strategy; do they get excited when I speak to the culture and our approach? We tend to think of ourselves as entrepreneurial and candidates are either excited by that or scared.

CEOCFO: *Are younger people looking at banking as a career today?*

Mr. Barry: Small banks have the reputation for skewing older and more conservative. We have made a conscientious point to go out and try to get millennials into the fold. One of the things that we have been building is the classic training programs that many older bankers went through when they graduated college years ago. We are developing management and credit training programs to give people the skills and building up more semi-formal mentorship and leadership development programs to try to attract younger folks and help them grow. There are many really good people out there, they are just not getting the skills that they use to get in the classic management development programs. It is something that we have been working on and we have started to see some really good traction on it.

CEOCFO: *What is next for Capital Bank? What might be different a year from now?*

Mr. Barry: Shareholder return is always top of mind even more so than growth – how do we sustain the Returns on Equity needed to compensate our investors? We believe we have a unique strategy and approach that has generated success; in fact, I would say we have too many growth opportunities and need more focus. Continued organic market expansion is our top priority. As long as we continue to attract

high quality associates that embrace our culture and execute, there remains an ample runway.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine

