HOMETOWN BANKS 101: WHERE THE MONEY IS

By Martin V. Lavin

The brick building in this old colonial town in southern New Hampshire looked "postcard pretty" as we sat in the car circa 1993. Rich Stewart (now of Western Finance in Denver) and I were making a call on a small bank and, being way early, were looking to make another call. In that brick building was another small, multi-branch bank. This was our target customer.

Rich and I worked for a loan broker and correspondent lender who represented a number of regional and local banks in this industry's lending marketplace. The Northeast had just undergone a lending meltdown in virtually all loan products from real estate to RVs. Our job was to find more and better lending sources. What a novel problem!

We approached the receptionist at the new bank, who directed us to the consumer loan department on the second floor. There, we met another receptionist who took our business cards and inquired about the purpose of our call. After doing so, she disappeared into the office in back to ask "Larry" if he could see us without an appointment. She returned quickly, explaining he would see us in a few minutes after he'd finished a task.

Time passed slowly as we wondered why it was taking so long for Larry to meet with us. Finally, at our urging, the receptionist went back to find him. She came back quickly, flustered and embarrassed. Larry had opened a window and climbed down the fire escape to avoid talking to the "trailer" solicitors. No explanations were given, but his actions spoke volumes.

I've called on lenders for a variety of reasons for more than 30 years and have seen many things. Although this episode sticks in my mind because of Larry's unique approach to avoiding our presentation, I've witnessed many others. In many cases, lenders do not understand our product or have had a poor experience with it and are pretty direct in their rejection.

This rejection comes from two things bankers dislike: loan losses and the high level of work relative to the amount of money loaned. Often, this industry is guilty on both accounts.

There is a balancing benefit to such loans: high yields. One thing bankers do like is the ability to charge borrowers high interest rates. This is where the industry excels. So, it was always my strategy to emphasize the higher rates available with our products and explain how we could overcome the downside of greater loan losses and heavy origination and servicing costs by helping banks do the heavy lifting.

Presently, the factory-built housing industry has suffered a 55 percent pullback since the last industry high in 1998. All segments of the industry have contracted, but lending more than most. We've gone from having so many lenders that you needed a Rolodex, to so few you know their fax numbers by heart. Obviously, this degree of contraction in lending has reduced sales significantly.

Doing your homework

I wrote an industry white paper for a Wall Street firm recently. One of the explicit questions posed was about lending capacity to and in the industry. My multi-part answer featured several conclusions, including the two that follow.

- For straightforward retail loans with credit-capable customers who are willing to pay 300 to 800 basis points more for factory-built housing than conforming real estate loans, substantial industry lending capacity still exists. That said, we haven't found many of these customers recently. Industry loan capacity is well above the level of originations.
- Even with the strongly reduced need within the industry, as well as lower volume for home loans, there is no way the existing retail lenders are even remotely handling all of the loans being made now. (In fact, the same was just as true in the past.) Loans are being made on our product by a large number of other outside parties. Foremost among these "others" are local, hometown banks.

If you aren't calling on your local, hometown bank for retail or inventory financing, you are missing an opportunity to increase your business and profits and create a transition to more flexible programs geared more closely to your specific needs.

Create a personal relationship with your local bank, build on it through performance creating trust and nurture it through integrity and fair dealings. Hopefully, but not always, the bank will respond in kind.

I am not advocating any razzle-dazzle or short-term thinking to take advantage of anyone. But, how do you keep from having your local banker shun you, or worse, exit via the fire escape?

Understand most local bankers will probably not give you much help. Many will refuse to have anything to do with factory-built housing because of what they read in *The Wall Street Journal* about the GreenTree/Conseco mess and all the other industry lenders having difficulties. Never mind you will not recommend they lend in the fashion Conseco did.

For some, those horror stories won't be so devastating due to Warren Buffett's recent move to buy Clayton Homes, the big home builder in Marysville, Tenn. Buffett's forays into undervalued industries will have many taking a second look at this industry, especially since Clayton's finance subsidiary has been a stellar performer in this downturn (still accounting for most of its parent company's earnings).

If Conseco comes up, know the facts and counter them with the Warren Buffett story.

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Banks aren't in the knuckle-busting business and can't handle the under 650 FICO score credit tiers. If you've sold your bank on this industry then start shuttling this type of paper to them, your relationship will be short-lived. Don't do it!

The meeting

When you start calling your local banks, determine the department in charge of factory-built housing loans for chattel and real estate. Ask to speak with the head of that department and explain who you are and that you do business in the area and want to introduce yourself. Tell them you are referring (or considering referring) clients to that bank and you want to understand their policies and procedures so you will not send them unqualified clients.

Be upbeat, straight-forward and polite, but say you want to schedule an appointment to meet in person because that is your way of doing business. You want to do business with people you know (and so do they).

Avoid going into too much detail before you meet and schedule that first appointment for the following week. This is purely an introductory meeting.

Use the time between your call and the appointment to craft a good story. When you meet at the banker's office, talk about yourself, your company and the industry. Be knowledgeable, have facts and figures, bring presentation materials and practice the whole thing in front of the mirror and in your mind before you make it. Remember, you are the expert.

Make sure you get there early enough to introduce yourself to the banker's assistant, who can be very helpful in scheduling future appointments. Be friendly, introduce yourself and try to create rapport. You will need assistance from people who go out of their way to help the friendly and appreciative. Make sure this person can place your face with your name.

Take your time at the first meeting. If things go well, it should last about an hour. Spend the early part of the meeting building rapport and warm feelings. Try to determine people you both know. Find out about the loan officer. What is this person's background? Was this person an athlete? Does the banker like certain activities you do such as golf or hunting?

The thrust of your contact should be genuine. This quality of interest always shows through. Have your best business persona on that day.

Bankers are excellent listeners, so be careful with how and what you say. Weigh your words, using them only to build what you want to convey. You'll carry most of the conversation. You are selling and the person sitting on the other side of the desk is the buyer, listening to what you do and don't say.

The banker must determine if you are going to be a part of the solution to a problem: This person needs to make profitable loans. The banker will be judging your words based on that need, and how you may help.

Make no mistake, as an industry advocate, you come to this meeting with a lot to prove. Be ready for low enthusiasm for your product, even though the banker may like you personally. Factory-built housing lending is an "acquired taste" and it is your job to help the loan officer do just that.

Bankers have dress codes. If you think it's OK to wear piercings through your nose, tongue or ears, heavy gold jewelry, big Rolex watches, ripped jeans and grossly expansive tattoos, understand your burden of proof is greater.

The loan officer on the other side of the desk is most unlikely to have any of these and, generally, will believe folks with these accoutrements are unreliable. Not always, of course, but dress like you mean business.

As the interview (yes, it's an interview) winds down, ask if you can send the bank certain clients with needs for home financing. Leave it at that unless the loan officer wants more. They will always find a way to signal greater interest. A bank officer is always looking for retail customers, unless there is a prohibition on factory-built housing. Ask to whom you should refer the retail client.

If you followed these steps, you accomplished all you wanted in the first meeting. But that's only the start. Do it with every bank in town that will see you. Call and see them all. Even if they are not receptive at first, do not give up. Create an identity.

A banker's needs change often, as does their focus. That next change may benefit your needs. And remember, your product—affordable housing—generates loans that win bankers "brownie points" with state and federal bank regulators. If the banker has an existing problem with factory-built housing, offer to help. Become a "white knight."

Perform and protect

The next meeting—taking the loan officer to lunch—should be scheduled two to three weeks later but not more than a month. At this meeting (you'll always buy lunch), the tone of the conversation will be casual social and business chatter as you begin to firm up your friendship.

Be real here. Find areas of mutual interest, as this may be the start of a relationship that goes further and deeper than the business world. Some of my most valued personal relationships are with bankers and lenders with whom I have done business for many years.

This second meeting may be a combination of an early lunch followed by a short business meeting, perhaps back at the bank where you may present a more definitive proposal as to how the bank can help you and your organization help them. You'll know what to ask for, but not too much all at once.

An important lesson to remember here is that you often need to give something of yourself to the banker in order to get something back in return.

What can you offer a bank? Perhaps, it is a potential relationship with one of the investment bankers you know who would be willing to accept closed factory-built housing loans the banker originates.

Maybe, it is an opportunity to start first-time relationships with new customers who are buying their first home and also need to establish checking or savings accounts. What about creating a banking relationship with that newly retired couple to whom you sold a home last week?

Give the banker time to see how you perform, keep your promises and show how you will be a part of the solution instead of one more problem. Bankers are particularly hesitant to take on another problem, even if the possibility exists for a big reward. This person is likely to be much more risk-averse than you are—that's natural.

The final ingredient to this recipe for building a successful relationship with your banker is probably the most essential: You must protect the bank—the valued source of your funding—at all times by helping with the difficult things.

For example, you can assist with voluntary repossessions. Without your assistance, they have to hire and pay an attorney. Helping the bank remarket repossessions effectively will go far to alleviate your loan officer's gravest concerns about factory-built home loans. You can be their eyes and ears on the street, providing information to reduce losses, making yourself valuable once again.

Accept that you've got to do more than the candy store the banker finances. Risks and work go hand-in-hand with the opportunity for high yields on factory-built home loans, much of which many banks do not handle particularly well. This is how you create longevity and value.

The biggest advantage in dealing with a local, hometown bank is you will have a more secure and reliable source of lower cost capital than is generally available from industry sources. In addition, loans that may not fit into a major industry lender's matrix may well be made on the local level.

Be careful about the business you refer to your bank. Keep the deals real and refer only borrowers with proven capability. Even with your help, banks are not in the knuckle-busting business and can't handle the under 650 FICO score credit tiers. If you've sold your bank on you and this industry then start shuttling this type of paper to them, your relationship will be short-lived. Don't do it.

Nothing lasts forever. Your bank can change directions quickly and dump you unceremoniously without any notice. That can happen even if you've done nothing wrong. But many of these relationships can last for years and be unusually profitable for you.

It can only happen if you knock on the door, tell a good story about yourself and this industry and develop a relationship. Once you're onboard, protect your bank at every reasonable opportunity. Your business relationship will be based on straight, good performing loans and you will refer nothing else.

The first goal in this rewarding process and the tool with which to achieve it is already on your desk. Pick up the phone and call now! ∩

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