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After a decade, banks returning to Sacramento

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Sacramento's surging economy is again attracting the interest of banks from outside the area.

It's been a decade since multiple outside banks entered the Sacramento market — before the region emerged as a major problem spot for the nation's mortgage crisis.

After that, no new banks entered the Sacramento area — and some even pulled out.

In the past year, however, at least three banks have entered the region with new operations, and three other banks have set up shop over the past two years by acquisitions. One other bank moved its headquarters here last year.

The addition of more banks to the market is a signal of health for the local economy. For businesses, it also means more potential sources of financing, and more competition among bankers for business.

Many of the banks seeking business in Sacramento come from smaller valley towns, which means that Sacramento is likely their largest nearby market.

"To grow, you have to be in a metropolitan market. That's what Sacramento does for us," said Randy Eslick, CEO of [Bank of Commerce Holdings](#), which was founded in Redding but moved its headquarters to Sacramento last August. It operates the banks doing business as [Redding Bank of Commerce](#) and [Sacramento Bank of Commerce](#).

Eslick added that as a publicly traded company, being based in Sacramento is also easier to explain to national investors and is more compelling to them than investing in a bank headquartered in Redding.

"We like the exposure of being based in Sacramento," he said.

Eslick also said that Sacramento is a large enough market that a community bank can be successful by winning only a tiny fraction of market share.

"There is plenty of room in the Sacramento market. We have \$400 million of our assets in the Sacramento market, and that is just a half of 1 percent of the market," he said. "There is plenty of room for everybody."

Growing market, shrinking competition

The Sacramento banking market had \$51.2 billion of insured deposits as of June 30, 2017, the date of the most recent data available from the Federal Deposit Insurance Corp. That was up 4.7 percent from the previous year. While money



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in the market has been growing for years, the number of locally based banks has declined from 10 to seven in the past two years, and that includes Bank of Commerce (Nasdaq: BOCH) moving its headquarters to Sacramento.

In the period from 2016 to this year, Sacramento lost four local community banks to mergers. In 2016, Central Valley Community Bancorp agreed to buy Folsom-based Sierra Vista Bank for \$24 million. In April 2017, Central Valley Community (Nasdaq: CVCY) agreed to buy Folsom Lake Bank for \$33.6 million. Three months later, Irvine-based First Foundation Inc. said it would pay \$50.4 million to buy Auburn's Community 1st Bancorp. And last November, Visalia-based Suncrest Bank agreed to pay \$62.5 million to buy Sacramento's Community Business Bank.

The pace of bank mergers and acquisitions accelerated in the wake of the Great Recession and in reaction to new banking regulations that were enacted in response to the financial crisis. The new regulations, under laws such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, have increased compliance costs. That has led banks to seek mergers or acquisitions, as larger banks are better able to absorb the increased expense.

With so many bank mergers in Sacramento, bankers from outside the area saw opportunity.

"We were attracted to Sacramento because there had been so much dislocation in the community banking space," said Ciaran McMullan, CEO of Suncrest Bank. Noticing the series of mergers about a year ago, McMullan said he thought "there must be a lot of businesses that like to bank with a community bank that now have nowhere to go."

In all of Northern California, the economy is growing, and Sacramento is growing faster than most of the Central Valley, McMullan said.

"Unlike the last seven years, when most bankers were pinching loans from other banks, what we are seeing now is new deals and new money," he said. "We're doing good business, and we're finding good hires, and that is important in community banking. It is less the name on the door than the faces in the community."

The market for local banks tends to ebb and flow with the economy, said Chris Courtney, CEO of Oak Valley Bancorp, the parent company of Oakdale-based Oak Valley Community Bank.

Courtney visited Sacramento with the intention of opening a loan production office, but then decided to open a full branch after finding a vacant bank branch space and realizing how many community banks the region had lost to mergers.

The economy in the Central Valley "clearly is in expansion mode," and it is being led by Sacramento, Courtney said.

The commercial lender Courtney hired to serve the Sacramento market has already this year made loans in Sacramento, and Oak Valley's (Nasdaq: OVLY) Sacramento operation already has brought in deposits, he said, even though its local branch hasn't even opened yet. The bank said in April it would file with the Federal Reserve for permission to open the new branch. It's now expected to open in the next few months at 455 Capitol Mall.

Courtney said he has long been interested in the Sacramento market, and it has always been part of Oak Valley's strategy. It's a similar market to other Central Valley banking markets, but a lot bigger, he said.

"We do what we do, and we don't pay attention to what other people are doing," he said. "Sacramento has always been on our radar screen."

Different this time

The current economic expansion is different from past ones for the banking industry. There have been few new startup banks nationwide, and none in Northern California.

Often, in the past, when a rash of mergers occurred, an upturn in the economy would be accompanied by a rush of so-called replacement banks. Such banks, often managed by veteran executives of the merged banks, launched in Sacramento in the late 1990s and then again from 2005 to 2007.

But now, with more regulation following the banking crisis and higher capital requirements demanded by regulators, it's a tough environment to launch a new bank, Courtney said. All of the local banks that merged in the past two years did so because they weren't large enough to spread out the cost of regulatory expenses, and they all had 10 years of growth behind them.

Without startup banks, more established institutions may have the Sacramento market's growth to themselves.

Yuba City-based River Valley Community Bancorp, parent company of [River Valley Community Bank](#), received approval from regulators this month to open a branch in Auburn this summer.

CEO [John Jelavich](#) said Auburn and Sacramento are comfortable markets for his bank because they are similar to the market that River City serves in Yuba City, all of which include a mix of small business, professional and agricultural borrowers.

For River Valley's move into Auburn, Jelavich hired bankers who had previously worked at Community 1st Bank in Auburn, so he has people with roots in the community.

Most recently, Chico-based Northern California National Bank said this month it will open a loan production office in the Sacramento area later this year. CEO [Todd Lewis](#) is originally from Elk Grove, previously worked at Community Business Bank and says that he's also comfortable with the market.

The new Sacramento lending office will be the second location of any kind for Northern California National, which was founded in 2006.

"We're a small bank in Chico. We're going to target some business and commercial clients who appreciate a relationship-based bank that can react quickly," Lewis said. "We're not coming down there to take over the market. We're a very focused, niche player."

In addition to being familiar with the market, he said there is also opportunity in the Sacramento banking market because of the recent sales.

"With the combination of all those banks selling down there, there is a void. There was a lot of disruption," Lewis said.

The influx of bankers into the Sacramento area could also bring more support for civic and charitable organizations.

"Some bankers have a requirement under the Community Reinvestment Act to participate in the community, but many of them, in my experience, participate in groups because they want to make a difference in the community," said [Stephanie Bray](#), CEO of the United Way of California Capital Region in Sacramento

She's had bankers and credit union executives as donors and participants on her board of directors.

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