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Left to Right: John Guedry, Bank of Nevada; **Bruce Ford**, City National Bank; **John Kley**, First Savings Bank; **Al Welch**, Bank of America; **Phyllis Gurevich**, Nevada Bankers Association; **Reed Radosevich**, Northern Trust; **Connie Brennan**, *Nevada Business Magazine*; **T. Ryan Sullivan**, Bank of George; **James York**, Valley Bank; **Kirk Clausen**, Wells Fargo Bank

As the Silver State continues to bounce back from the recent recession, Nevada banking continues to experience ups and downs throughout the recovery. Potential rising interest rates, regulatory changes and staffing issues remain a challenge to the industry. However, loan demand is up and bankers have expressed an optimism going forward. Banking executives recently met at the Las Vegas offices of City National Bank to discuss the health of their industry.

Connie Brennan, CEO and publisher of *Nevada Business Magazine*, serves as moderator for the event. These monthly meetings are designed to bring leaders together to discuss issues relevant to their industries. Following is a condensed version of the roundtable discussion.

Is loan demand strong?

BRUCE FORD: We're seeing higher demand in Nevada. The businesses that survived and outlived their competitors are much stronger now. That's been a positive.

AL WELCH: On the corporate side, we're seeing double digit growth across the west on loans. It's been pretty strong. On the consumer side, it's interesting. If you look at the pull-through rate in applications versus our mortgage business, Vegas stands out. It's a little lower. We scratch our head a little bit whether that's legacy issues with some of the backgrounds of borrowers.

T. RYAN SULLIVAN: We're seeing a huge increase in the pipeline in loan demand. Maybe that's just because 100 percent of what we do is small business. We just surpassed $120 million in our loan portfolio and we have about a third of that currently sitting on our pipeline. There's multiple reasons for that. There's a reduced number of community banks that are left to service some of those needs. Also, borrowers now have a couple years of really good cash flow that they're able to bring to the bank that shows that they qualify.

JOHN GUEDRY: I would agree with most of that. We're seeing a much better balance sheet on the part of our borrowers. They've sat on the sidelines and built some equity in their companies. The cash flow, depending on the industry, has been a little bit more erratic where you'll see one really strong year and then they'll have an off year. It creates some challenges with underwriting. From a competitive standpoint, it's just as competitive this year as it was a couple years ago, in part, because we still see fewer loan requests than we did during the peak time. There are a lot of businesses that are still out of the market in terms of borrowing. Either they don't have the demands so they don't have the need to increase inventory or operating capital or they're just a little gun shy and afraid to take on too much debt.

REED RADOSEVICH: Bankers need to be more than just a commodity providing a loan. They need to be advice-driven and help clients in thinking about how to grow their company, how to transition to different stages, how to sell the business, all sorts of things they probably didn't think about. All those types of things that in the past you could just fit in a box to qualify for a loan. Now it's providing a little help as they think about how to run their business today and the next step tomorrow.

How have regulations impacted this industry?

PHYLLIS GURGEVICH: On a state level, we're still looking at the inequity of an HOA (homeowner's association) being able to foreclose [on homes] and extinguish [mortgages]. SB 306 is a great fix. We need a little more time to really know how it's working, but there is potential there. We're seeing other states eliminate extinguishment entirely and we're looking at that as an example Nevada might want to follow. That's the largest state issue right now. Most of the regulatory changes are federal.

GUEDRY: The cost of [Dodd-Frank] is certainly an impact. The way that we deal with our customers is completely different today. It used to be the risk that you were underwriting was credit risk and that's where you spent most of your time. Now there's operational risk on accounts that sometimes take us a long time to underwrite. Not only do you have to know your customer, but you have to know every intricate piece of business that they're doing because we've become the police force of the federal government and monetary system and have been in that role for a long time. It's becoming increasingly more challenging for us.

SULLIVAN: All this is translated into a dramatic reduction in returns for banks. If you look pre-recession, since we're in such a pervasive low interest rate environment, community banks used to be able to manage to about 5 percent in interest margin. We're about 3.6 or 3.7 [percent] now. Overhead costs are increased because it's just more expensive to meet all of the regulatory burden. The regulators are having you put more and more capital aside so you can't leverage your balance sheet as much and that's one of the reasons that you're not seeing the formation of new banks. What's the upside? The returns aren't what they used to be plus I have to deal with all this potential regulatory liability.

What's going to happen with interest rates?

FORD: For long-term rates, the US is still a safe haven. We saw that obviously after the "Brexit" vote. With long-term rates, we look at 10-year treasury and it came way down. If you talk to our economist, obviously we're expecting some gradual increase and there's probably some truth to that, but if you look at long-term rates, we're still the safest place to put your money. They stay low for longer.

KIRK CLAUSEN: There's an inflation concern there, too. That's what's kind of interesting; all the conversation about a quarter of a percent. A quarter of a percent increase doesn't do that much for any of us. You need a percent to make substantial change. The one thing it does do is, if you do a quarter percent now and do it in a pattern of once a quarter or something along those lines, it starts moving us towards a more normalized rate.

GUEDRY: There's an expectation that if and when rates do start to rise, there's going to be other options to put your money elsewhere with decent yields and we're going to see all this flush deposit money go out the door quickly. Now we, lacking sufficient liquidity again, will fund loan growth in the market. I hate to be the pessimist, but that's something that we have to be concerned about or at least be prepared for if we see rapid rising rates.

JAMES YORK: The normal [in banking] is not enough deposits to fund your loans. This is a real anomaly that we're in right now. We've never had excess deposits. We're paying nothing on an interest rate and our loan to deposit ratios have been down to the 60s and 70s. Thank goodness we're climbing up a little bit towards the 80s. We have an excess of deposits and that can and will change because the normal is just the opposite. It's like everything is in a reverse parallel universe. I wish the larger banks had less liquidity because then they wouldn't be so hungry for the small loans. They dig down into the million dollar market they never used to compete on.

How is technology changing banking?

WELCH: Currently we've got about 33 million customers or active users either online or mobile. Mobile alone is 20 million. And is growing by 7,000 a day. That's on the cliff of about 2.5 million with some upward trajectory to that. I certainly want to have access to my account and pay bills and deposit, but then it goes to linking to your Merrill Lynch account, profit sharing account and 401K plan. All that needs to be put together in a platform. The beauty of the technology is, we can take it now from the highest employee to the lowest employee within a company, because we can use online platforms. Whether you're the CEO or the lowest paid person, you're worried about education costs, healthcare, retirement, how to build a plan, how to put it in place? Now, via technology, we can deliver that in an efficient manner where you could never deliver that before.

SULLIVAN: Essentially, from the technology standpoint, we have to invest a lot of money as an industry to keep up with what technology advances are to make sure they're safe. What we find is the weakness is not inside the bank, the weakness is outside the bank. It's consumers. It's business owners. Their accounts and information is getting hacked. How do we educate them to make sure they understand, first of all, what we're doing as a bank to keep their information safe and to help them keep their information safe?

YORK: We're hoping that the impact [of chip technology] is positive in that it reduces fraud. I think it's too early to tell, but I know a year ago we had the big Home Depot and Target breach and a lot of customers were impacted with the debit card. With the chip, using the pin and chip together like they should, will likely reduce fraud and put more of that burden on the merchants. I think it's starting to do that. We haven't seen any huge losses this year like we had the prior year.

What do you look for in the next generation of bankers?

JOHN KLEY: I'm not looking for an experienced banker per se. I'm looking for the right personality. I'm looking for the right interest and the right drive. I figure we can teach them the rest of what we need them to know. From that crowd, then we create a succession plan and work through who's on first, who's on second, for positioning and see if it all works out, which is about the best you can do.

FORD: Our biggest challenge is finding high quality employees. If you think about our city 25 years ago, they had great training programs. It's a lot more difficult to find well-trained employees.

YORK: We need to start teaching and training as an industry. I went through the old management training program with First Interstate Bank. They just don't exist today. We as an industry, as Nevada bankers, talked about reviving some of this and actually had some pretty productive meetings with a few of the banks in this room and the University of Nevada, Las Vegas (UNLV) professor on finance. We talked about creating a more formal bank curriculum. I think we need to cooperate as an industry to do this because we don't have time to create our own individual training program like we did in the old days when there was just a couple of banks.

RADOSEVICH: Part of the problem is, in the expense-controlled environment, there's really very little formalized training programs at the larger institutions anymore. It's all on the job training. These are skills that need to have a lot of classroom work and study cases .

GUEDRY: Because of the changes the industry has gone through in the last 20 or 30 years, there's a lot more specialty in our industry. Somebody comes up through compliance or they come up through IT or lending or operations and they don't tend to get the same broad level of experience in multiple areas of the bank. It's a little harder to find that senior leadership level person because they spent 20 years developing expertise in one area and they need to have more experience across the board.

How does the new generation of bankers differ from past generations?

KLEY: They want to balance their lives. Our generation has a tendency to work ourselves to death and be happy to do that. With all things being equal, they want a balance in their lives and that's what they keep going to. We keep asking the wrong question a lot of times with millennials about money. Do you want more money? They don't want more money, they want more path. They want more future. They want to know where it's going. They want clarity. We're not giving them that clarity if we don't start to say that we know what you want and this is how we get you there.

CLAUSEN: That's absolutely true. [Millennials] are some of the most energetic and brightest folks that come in. They are asking exactly what you're saying. "If I come in, in this role and I want to be in your role, what does it look like to get there?" The energy in our company focused on helping folks develop has increased 100 fold just in the last five years. At Wells Fargo, it varies a little bit on the role you come in, but you have an essential learning path that's been determined ahead of time. For a personal banker, it may be 10 or 12 different classes. For a teller, it's four to six. Embedded in there is an actual session on this is what we do, this is why we do it for the customer and this is how we survive or how we make money.

SULLIVAN: It's extremely important from an employee standpoint, but it's equally as important from a consumer and customer standpoint. Over the next 20 years, we're going to be going through the biggest wealth shift to millennials in the history of this country. There is a large amount of misconceptions. For example, the average millennial coming out of school has an average student debt load in excess of $30,000. Now a lot of people are seeing that millennials are getting married later, having kids later, so there's this misconception that maybe they're just lazy or late to the game. That's not what it is. Their financial reality is different.

Is this industry more collaborate or competitive?

GUEDRY: I think it's both. Obviously, any time you're in business you're competing with those that are in your industry. I think because of the nature of our industry being very community focused, the mindset and culture of the banking community to service the communities beyond just providing loans and taking in deposits, we are very collaborative as an industry.

KLEY: The recession that we had here was a great collaborative event. It pulled more banks together than push them apart. That was like hell on earth and we all experienced it. It was universal. There were a lot of times I didn't feel quite so alone because I knew somebody else was going through it too. On the same token, I want every deal and I want to win every time. That's human nature. I don't think we could do it any other way. We have a big community and we've got to serve it.

CLAUSEN: I've had the opportunity to work in several other markets over the years. This market is truly unique. It may have been the recession that brought us together, but even before that, going back to 2003, there's just something unique about banking in Nevada. We do compete over customers, but we do it professionally. I have never seen my industry as engaged in the community in all the ways they are in Nevada anywhere else.

YORK: As a testament to what we're saying here about collaboration, just go back to a few years ago when we were all hurting and focused on our own business. Nevada Bankers Association just about fell apart. We circled the wagons and got a few of us together and brought Phyllis on. As she went around to all the banks, every one of them, from large to small, came back to the table and said they want to support Nevada Bankers. It's amazing to me, just in a couple years, how the association has got itself back into shape again.

How are you working to promote banking?

GURGEVICH: I see [training] as being a part of advocating and promoting the industry. We mentioned our relationship with UNLV and we're really fortunate to have established that. We're looking to build and strengthen the connection between bankers in our community and the university. We've got it started here with the committee and UNLV. We'd like to replicate it at the University of Nevada, Reno. We'll be training young bankers. There's a lot of bankers that mentioned they use interns. We want to really formalize that process and that relationship with the universities. We also want to make sure that finance majors are aware and interested and excited about a career path in banking.