

Q & A Roundtable

In recent times the business of banking has changed faster than the Dow has risen and fallen. New regulations and compliance protocols are reinventing the way banks and financial institutions approach their day-to-day practices. Technology has

opened a new world of opportunity, bringing financial information instantaneously to consumers on their laptops, tablets and phones that has translated into more efficiencies in the

entire process. We asked three top banking executives for their impressions of what the year ahead will bring in terms of financial trends and new innovations that will enhance the banker-client relationship.



Chris Grassa
*Senior Vice President
Manager, East County Market
Torrey Pines Bank*



Jim Horton
*Senior Vice President
& San Diego Regional Manager
AmericanWest Bank*



Karen Brassfield
*Chief Banking Officer
Silvergate Bank*

1 What is your outlook on the interest rate environment and how a rise or fall might affect businesses and consumers?

Chris Grassa
*Senior Vice President
Manager, East County Market
Torrey Pines Bank*

In the short term I expect the interest rate environment to remain relatively unchanged, particularly if the Federal Reserve continues to delay its tapering of quantitative easing. I think the economy is already showing signs of growth and will begin to expand at a more robust rate causing a modest increase in rates. Rising rates will benefit those who rely on interest income. However, businesses and consumers who borrow would have to cope with relative higher borrowing costs. Ideally, with an expanding economy, business and personal income should grow at a greater pace which may offset increased borrowing impact.



Jim Horton
*Senior Vice President & Regional Manager
AmericanWest Bank*

Into 2014 we anticipate short-term interest rates will be modest but the yield curve will get steeper because long-term rates will start to rise. On the consumer side, mortgage rates will likely rise but still be considered historically low. We think it will continue to be great news for local business owners, as the cost to borrow will remain low on short term basis. Beyond basic value, this is good for business owners because it provides the luxury of choosing a bank for reasons other than rate.

I often remind businesses they're in the driver's seat. It's key to work with a banker who truly knows your business. Your banker should be a trusted advisor and a resource year-round, not just when your loan or line is up for renewal.

Overall, we believe growth will be low to moderate so it shouldn't impact businesses. In fact, the overall slow growth of the economy will have a greater impact on businesses than interest rates.

Karen Brassfield
*Chief Banking Officer
Silvergate Bank*

Our outlook is that interest rates will definitely rise, we just don't know when. Right now, even though rates are very low, we are seeing low business loan demand and low demand for mortgage loans. This year mortgage rates rose somewhat just in anticipation of increasing rates. With that increase, we saw the refinance market dry up. Whenever rates do rise, we expect loan demand for business loans and mortgage loans to slow further. The good news for businesses is that the banks will continue to compete for loans and this should keep fees, rates and terms priced aggressively in favor of the borrower.

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Q & A Roundtable

2 With a shrinking number of banks, what is the outlook for the industry and how will having fewer players impact the landscape?

Chris Grassa

Senior Vice President
Manager, East County Market
Torrey Pines Bank

The population of U.S. banks has rapidly declined over the past three years to below 7,000, an 11.4 percent drop since 2010. A key factor in the decline is the lack of startups. No new banks have opened since mid-2011 and only 23 have started operation since 2008. The lack of start-ups is attributable to a weaker demand for loans, competition, rising compliance and technology costs, higher capital requirements, and recruiting capable management teams who can run the bank while making some money at it.

A key problem with this situation is that many community banks (banks with less than \$1 billion of assets) are disappearing. Almost 95 percent of all U.S. banks are community banks, many of which are the only banking options in the communities they serve. Community banks are a vital part of the U.S. economy yet are being compressed out of existence.

As the banking industry continues to shrink there is an opportunity for high quality organizations like Torrey Pines not only to survive, but prosper by recruiting talented bankers and providing unsurpassed personal service. Smart organizations find opportunities to grow even during difficult times.

Jim Horton

Senior Vice President
& Regional Manager
AmericanWest Bank

First, it's important to know that we have substantially more banks per capita than any country in the world. Having said that, it's true that the impact of economic challenges in recent years and the subsequent plethora of banking regulations are prompting consolidation in our industry.

Among shrinking margins and other challenges, regulatory costs make it nearly cost-prohibitive. Small and medium-size banks could be looking to merge to achieve economies of scale (i.e. to cover costs of Dodd Frank, BASEL III, etc.). However, there always will be a place for community banks. We've historically been the primary lender for local small businesses and well-capitalized banks, like AmericanWest, are actively lending to continue filling that role.

Also, community banks willingly subscribe to a business model that includes a high-level of customer service, despite it being a more expensive model to operate. At AmericanWest, we believe our clients deserve one-to-one consultations with bankers who truly know and understand their business and partner with them to create solutions so they reach their financial goals. That's a community banker.

Karen Brassfield

Chief Banking Officer
Silvergate Bank

The shrinking number of banks is occurring primarily among the smaller banks as they are acquired. This is driving consumers and business into the larger banks, unfortunately translating into more fees being charged, less personalized service and fewer customized products for businesses. So for those consumers and businesses who want personal attention and customized products and services, the choice is usually a locally-owned community bank, and the choices have decreased in number. This is certainly positive for a bank like Silvergate Bank, which caters to small business. Our local decision-making and focus on innovation allows businesses to benefit from customized products and services, lower fees and a personal, relationship-based approach from a team that understands small business.

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San Diego Business Journal

2014 Economic Trends Event

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Panel of Experts



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Additional panelists to be announced.

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By Providing Capital to Nearly 10,000 Small Businesses: CDC Small Business Finance Helps Create More Than 125,000 Jobs

More than 125,000 new jobs have been created through nearly 10,000 small businesses that have received financing provided by CDC Small Business Finance over the last 35 years.

"We know that putting capital in the hands of small businesses results in new jobs and strengthens communities," said Kurt Chilcott, President/CEO of CDC Small Business Finance, which is celebrating 35 years of investing in local economies. "We're extremely proud of the economic impact our efforts have generated through small business entrepreneurs in the communities we serve."

Much of CDC's impact has come through providing SBA-504 loans, which allow small business owners to purchase their own building or large equipment. The loan only requires a 10 percent down payment on a 20-year fixed-rate mortgage. SBA-504 loan rates have been under 5 percent for 20 straight months.

Most business owners come to the crossroads of whether they should buy a facility or continue to lease. In addition to the historic low interest rate, there are long-term equity and tax benefits.

"We were renting space for 10 years before deciding to buy a building with a SBA-504 loan," said Steve Phillips, owner of Punch Visual Concepts, a premier designer/builder of tradeshow exhibits and displays. "Now every month, the payment I make is an investment in my future, not just rent that goes into a landlord's pocket."

Jeff Partrick, chief executive officer of Hoist Fitness Systems in Poway, also turned to the SBA-504 program when he needed more space for his growing business of manufacturing home and commercial gym systems.

"We acquired another business and needed larger, more

CDC small business impact:

- **125,000 new jobs created in California, Arizona and Nevada**
- **9,625 small businesses financed**
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- **\$2.6 billion in financing to minorities**
- **\$1.2 billion in financing to women**
- **\$386 million in loans to veterans**
- **\$3.5 million in community contributions in California, Arizona and Nevada**
- **\$100,000+ in scholarships awarded to community college entrepreneurs bound for four year universities**

efficient building space," said Partrick, of Hoist Fitness. "We used a SBA-504 loan to buy a new building and take advantage of the low interest rate and 10 percent down payment."

The SBA-504 program can also be used to refinance current real estate debt. Dave Rudie, owner of Catalina Offshore Products, one of the largest seafood processors/wholesalers in Southern California, did just that.

"We had an opportunity to refinance our current facility and take advantage of the low interest rate available with the SBA-504 loan program," said Rudie. "It was a no-brainer."

CDC is among a handful of lenders in California authorized to offer the SBA Community Advantage loan, which

makes available between \$50,000 and \$250,000 for starting, expanding or upgrading a business. A North Park restaurant owner recently took advantage of this unique program.

"We wanted to upgrade the outside decks, patio furniture and landscaping," said Mike Flores of Ritual Tavern. "CDC helped us come up with a solution and now we're in a better position to grow and serve more customers."

To mark its 35th anniversary, CDC will dedicate the coming year to celebrating its roots as a small, San Diego-based nonprofit organization that has grown into the nation's leader in SBA-504 program financing (for commercial real estate purchases) as well as its role in helping start-up and emerging small businesses via a variety of other loan programs.



Small Business Finance

Submitted by CDC Small Business Finance

CDC Small Business Finance was established as a nonprofit organization in March 1978 by Arthur Goodman, a long-time San Diego business pioneer and innovator in making capital available to small businesses, regardless of race, gender and economic status.

To contact CDC loan officers regarding getting access to capital, visit <http://cdcloans.com/contact/loan-experts/>. For more information about CDC's 35 years of impact for small businesses, go to <http://cdcloans.com/about-us/meet-cdc/>

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San Diego Outlook for 2014: A Growing Region Needing Capital and Expanded Banking Services

California's economy has always been subject to the ups and downs of economic cycles—and the local San Diego economy is no exception. Certainly, the downturn we experienced in the aftermath of the 2008 financial crisis was exceedingly severe. But as I see it, the San Diego economy has rebounded strongly over the past year—a trend I expect will continue into 2014.

In fact, according to the Center for Real Estate at the University of San Diego, the University's index of leading economic indicators for the San Diego region continues to grow as the economy recovers. The latest data shows that this widely followed index now stands at 127.9. That is its highest reading since the recession started in 2008 and has climbed to a level much higher than the low of 100.7 reached in early 2009.

So as the economy continues to recover, what is the outlook for the local banking sector in 2014? I see three trends emerging:

Meeting the Need for More Capital

In a survey that California Bank & Trust conducted earlier this year, we found that while businesses remain committed to creating jobs and growing their businesses, entrepreneurs are still concerned about access to the capital they need to meet those goals.

Yes, it's certainly been a challenge to raise capital in recent years, but as the economy recovers, we've noticed that more businesses have improved their balance sheets, making it possible for banks to fund more loans in recent months. In today's climate there seems to be a demand for capital to meet many different goals. These include raising working capital, acquiring new businesses, purchasing commercial real estate, refinancing existing debt, and more—either through traditional financing or through Small Business Administration loans.

We are certainly finding many more opportunities to lend—a trend I expect will continue into the new year. In fact, we are already noticing more pricing pressure, which is an indication that more banks are willing to provide access to capital and demonstrates the local economy is getting healthier.

I anticipate that local and regional banks such as California Bank & Trust will be well positioned to meet much of this demand because we know our customers and have a deeper understanding of the unique challenges of doing business in the San Diego area.

A Deeper Focus on Banking Relationships

In the survey we conducted earlier this year, we noticed an interesting trend. It showed that half of California businesses rely on their banking relationships—not just individual banking services—to help them successfully meet their business goals.

I expect that banks throughout the region, including our own, will continue to emphasize relationship-based banking as a cornerstone of helping entrepreneurs successfully navigate many different business challenges. To meet these needs, banks will continue to provide seasoned expertise in such diverse areas as cash management, business financing, commercial real estate, wealth management, international banking, and more.

When it comes to finance and your business, the relationship you build with your bank and banker is a major key to your success. That's why we take pride in our professional expertise and dedication to building strong client relationships that best embodies our spirit of serving local San Diego businesses.

New Technologies to Improve Business Banking

Only a few short years ago, few bankers could have envisioned how new technologies such as smart phones and tablets would change the relationship between bankers and their customers. Today, new technologies and apps make it possible for businesses to streamline their operations as never before.

Even customers who bank on more traditional PCs have access to a wider range of technologies to better manage cash flow, track account activity, help prevent fraud and execute transactions more quickly.

These technologies help business owners and their teams spend more time focused on meeting strategic business goals and much less time dealing with routine banking matters. I expect to see continued innovation and improvements to these technologies as banks introduce even more mobile and traditional tools that enhance business operations and processes.

Above all, remember that banking relationships are critical to the success of any business. By keeping the lines of communication open and building a mutually trusting relationship, your banker can help you to grow and prosper in 2014 and beyond.



Submitted by California Bank & Trust

By Tory Nixon

Executive Vice President and San Diego Division President
California Bank & Trust

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Q & A Roundtable

3 In what ways are you servicing your business customers in the increasingly regulated banking industry?

Chris Grassa

Senior Vice President
Manager, East County Market
Torrey Pines Bank

Regardless of regulatory or industry changes my approach remains as consistent with clients as it has been for the last 15 years. Providing a high level of customer service starts with informing clients of (pending) changes in the banking environment so that there are NO surprises when issues may arise. Constant communication, both good and bad, is of the utmost importance when dealing with customers. Transparency is one of the greatest gifts I can offer my clients and honest answers will almost always strengthen a banker-customer relationship.

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Jim Horton

Senior Vice President & Regional
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We operate in a heavily regulated industry; however, we work hard to ensure the increasing impact of regulation never encroaches on the service we provide our customers. It's important to us that we find solutions that enable us to continue providing

exceptional customer service regardless of what new regulations come our way—and I'm pleased to share that our team does a phenomenal job accomplishing that goal.

Karen Brassfield

Chief Banking Officer
Silvergate Bank

Much of the new regulation is focused on consumers, not businesses. Silvergate Bank will continue to service our

business customers with no significant change. Our focus, as always, will be on serving our customers with innovative products and services and a high level of personal service. In the banks that are largely consumer-focused, more regulation will bring new disclosures and more transparency about fees being charged.

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Silvergate Bank Leads with Innovation Through Uncertain Times

The recession and slow recovery have taught us that change is the new constant for business. As 2014 approaches and Silvergate Bank looks at its business strategy and its customers' evolving business needs, we are sure of just one thing—uncertainty.

Will interest rates rise or will they stay low? How will the Affordable Care Act impact us and our business customers? What about regulation? How will the digital world and changing demographics change the way we do business? Should we plan for growth or dig in and protect earnings and capital?

Without a crystal ball, only time will provide the answers to these tough questions. However, at the core of Silvergate Bank's success over the past 25 years is its focus on innovation and ability to be nimble to proactively support our customers and their businesses as new market impacts occur.

A recent banking conference I attended focused on how innovation happens and what it takes to truly innovate for your customers. What I came away with is this: if you are doing business in these uncertain times, innovation may be the key to your success.

If interest rates go up (and Silvergate Bank believes they will, the question is when), have you considered how this will impact your business? Do you view higher interest rates as a negative event or a new opportunity? Truly innovative people invest more time and effort into strategizing how to make change an opportunity.

From your customers' perspective, if interest rates rise, have you considered whether you need to change the way you deliver your products to your customers? Do you need to re-evaluate your pricing practices? Do you engage your vendors as a resource to help you with this innovation?

Where your operations are concerned, how will higher interest rates affect your cost basis for the capital you need to borrow to grow your business? Are there innovative things you can do internally to manage costs and cash flow while still delivering on your company's mission?

A company's bank is one of its most important relationships. Better stated, a company's bank should be one of its most important assets. Unfortunately, the number of San Diego banks serving the business community has declined markedly. With fewer financial partners to choose from at a time when innovation is more important than ever, here are a few things you should ask relative to your bank:

- Is your bank ready to assist you with innovation and change? Perhaps you want to process your receivables in a new way, or perhaps you would like your bank to act as an advisor, consulting with you about the financial foundation of your business.
- Does your banker sit down with you to understand your changing needs and then proactively problem solve so you have the support you need?
- Does your bank understand your unique needs and have the ability to customize products and services to help you succeed? Or does your bank promote pre-packaged, pricey products you do not need?
- Does your bank offer a competitive earnings credit rate to help keep your banking costs low? Does your banker take the time to show you how the earnings credit rate you have positively or negatively impacts your cost of doing business?
- Does your bank provide you with convenient and free banking options such as remote deposit from your office, mobile small business banking, easy online banking, customized reporting and lockbox services?
- Has your dialogue with your banker developed into a business friendship?

At Silvergate Bank our relationship with our customers drives our focus on innovation. Despite increasing regulation, we continually look for new ways to serve our customers with products and services that support their business and help them grow. Count on us to continue to make substantial investments in digital technology and innovative practices, yet deliver a banking experience the old fashioned way—with a focus on our relationship with you that will continue no matter how uncertain times become.



Submitted by Silvergate Bank

By Karen Brassfield, Chief Banking Officer, Silvergate Bank

About Silvergate Bank

Silvergate Bank is a San Diego-based bank that specializes in meeting the needs of small businesses through a comprehensive offering of lending products and personalized banking services. Silvergate Bank opened in 1988 and is a subsidiary of Silvergate Capital Corporation. Bank branches are located in Carlsbad, Escondido, La Jolla, La Mesa, and Lancaster. Silvergate Bank's headquarters office is located at 4275 Executive Square, Suite 800, La Jolla, CA 92037. The Bank's website is www.silvergatebank.com.

Escondido, La Jolla, La Mesa, and Lancaster. Silvergate Bank's headquarters office is located at 4275 Executive Square, Suite 800, La Jolla, CA 92037. The Bank's website is www.silvergatebank.com.

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