



# De Novos Dig for Talent

By Greg Garcia

Here's an overview of the hiring trends you should pay attention to this year.

**R**ecently, banking regulators have identified community banks' ability to hire qualified people as one of their top concerns. Regulators want to see proof of experience and expertise from de novo banks on the lending and operational sides of the business. For instance, all de novo institutions must have an experienced BSA officer on staff. This is a specialized area of expertise, but it typically does not require a full-time body to fulfill the responsibility. Therefore, de novos are looking for employees who can serve a dual role in BSA and some other area of compliance or operations. However, those candidates are even harder to find. As such, recent de novos have had to pay a full-time salary for a BSA officer whose duties carry only part-time responsibility.

The recent wave of de novo banks, coupled with the brain drain as the baby boomer population nears retirement age, has shrunk the pool of experienced bankers in the marketplace. To make matters worse, the lack of internal training programs within banking institutions and lack of interest in retail banking education programs from our nation's colleges and universities has hampered the education of qualified successors. The competition for employees is tough, to say the least, which means de novos, as well as established institutions, may have to pull out all the stops to attract and retain key staff.

### De Novo Recruiting Strategies

**Poaching:** Probably the most frequently used tactic for de novo recruiting is poaching talented employees within its market. By hiring employees within the local market, the bank can get a jump start on generating business relationships. The best strategy for a de novo bank to deploy when opening its branch is to find the best branch managers in the market and woo them away from their current employers. These employees understand the pulse of the market and should be able to bring existing relationships and accounts with them. When they are unsuccessful at poaching employees, de novos have also hired successful business and community leaders as a way to generate business and promote the bank within the community.

**Mergers:** De novo institutions should also keep track of the merger market as a potential source for obtaining talented employees. Turnover and staff reductions from acquisitions create opportunities for de novo banks to acquire seasoned employees within the local market without having to spend a lot of time on training. In fact, many de novo community banks are started by former employees

of acquired institutions.

Below the management level, another hiring trend may be emerging as well. With the recent turmoil in the subprime and mortgage brokerage business, there has been a wave of talented salespeople in the marketplace who are looking for work. This has created an opportunity for institutions to selectively hire some great salespeople and reeducate them to generate business for their banks

**Referrals:** Referrals also play an important role in the de novo recruiting process. The board of directors should be on alert for talented people since board members are typically plugged into the local market that a de novo serves. Since the board understands the strategic direction of the bank, members should be able to identify who may be a suitable employee. Another great source for employee referrals is existing customers. Many customers have multiple bank relationships, and they may be able to give you some insight on talented employees they work with at other institutions.

**Trade associations:** With fewer skilled employees in the pool, institutions are also looking to their trade associations for help. Many of the associations have job postings and resume submission services available on their Web sites. Institutions should also be talking to their associations about training programs, so they can promote from within the company rather than hiring externally.

**Agencies and recruiters:** Lastly, job placement agencies or headhunters are always available as a source for finding employees. These firms will take most of the legwork out of the search process; however they typically command a substantial fee (30-40 percent of first-year salary). Furthermore, these agencies may not truly understand the strategic vision

or direction of the bank and, although they may find a person to fill the position, there is no guarantee that the person will be the right fit.

### The Separation of Sales and Operations

A growing trend at de novo organizations is the separation of sales from operations. By creating a sales force that does not have operational responsibility, this team focuses on what matters most—generating business. Historically, de novo banks were able to succeed by keeping staffing costs low. It was routine for employees to perform a multitude of tasks that would typically be specialized at larger institutions. This strategy continues to be deployed; however, it should not carry over into the business generation side of the bank. The business of banking is no longer an order-taking business. Sales and business generation has become a specialized niche within banking, and those people who are skilled in the art of sales need to be free of operational responsibilities.

However, the lack of qualified and talented employees, coupled with the ever increasing level of competition in the marketplace, has led to some innovative management trends at de novo banks. As a way to marry the business generation and operations sides of the bank, de novos have begun using a team management approach where a non-industry, working chairman becomes the CEO and is supported by talented operations and lending executives. These CEOs are not bankers by trade, but they understand that the #1 priority for de novo banks is growth and that their responsibility is to promote the image of the bank and generate business. They may not have the operational experience, but they know what it takes to make a company successful.

## The Attraction

When it comes to hiring bankers these days, you may feel like the general manager for the New York Yankees. With the lack of qualified internal candidates, bankers are becoming the equivalent of Major League Baseball free agents. But what motivates a talented, successful banker to leave his or her current position for the uncertainty of a de novo bank? More importantly, what will it take for a de novo bank to woo talented employees away from its competitors?

One of the main attractions for executives to leave their current institutions for a de novo is the opportunity to own an equity stake in the bank. Most de novo banks will implement a stock option plan for the purposes of attracting talented executives to the bank. Options can also be used to realign the salary component of an executive's total compensation package. In many instances, an executive will trade salary for options with the expectation that the equity position will be more valuable. By awarding options in lieu of salary, the executive has "skin in the game" and an additional incentive to make the de novo bank a success. Keeping salary costs lower also helps the de novo achieve profitability more quickly.

Another motivation is the yearning to start a bank from scratch. Many executives leave their current positions at existing institutions due to bureaucracy and their lack of impact on the overall culture and direction of the bank. By starting from day one, an executive can play an integral role in shaping the strategic direction of the bank.

## How Do Established Institutions Compete?

Existing institutions need to pay attention to the market and know who's entering the market, whether it is a de novo bank or a competitor via a merger. The best way for established institutions to retain and attract talented employees is to establish procedures that monitor and reward employee performance. Management succession plans should be established, and internal candidates should be identified as potential successors to be groomed or trained for promotion. One of the primary reasons staff

voluntarily leave a company is lack of career opportunities and being overlooked for job advancement. Performance evaluations go a long way in determining potential internal successor candidates as well as in identifying holes in the bank's training processes.

To attract and retain key employees, banks should consider offering deferred compensation such as Supplemental Executive Retirement Plans (SERPs) and implementing stock option plans as additional and alternative incentives to salary compensation. By awarding stock options instead of granting stock in the company, employees are rewarded for continuing to build shareholder value. Granting restricted stock to employees does not provide the same motivation to increase the stock price. For example, if stock was granted at \$10 per share, and the stock declined 30 percent to \$7 per share, the employee would still have additional compensation of \$7. In the case of stock options, since the exercise price is set when the option is issued, the options only become valuable to the employee if the stock increases in value. However, all incentives should be conditioned upon signing an employee agreement, and institutions should ask for assistance from legal counsel when drafting these agreements.

In conclusion, the key to a successful de novo or any other banking institution is talented employees. To stay competitive and generate balance sheet growth in their first few years of operation, de novo banks have been implanting unique management and organizational structures, and established institutions need to pay close attention to remain competitive. Management succession plans need to be put into place to assess the current talent at your institution and prepare for the purging of employees from de novo institutions. Implementing employee agreements and offering deferred compensation and stock options are ways to both retain and attract talented employees to your institution. **16**

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