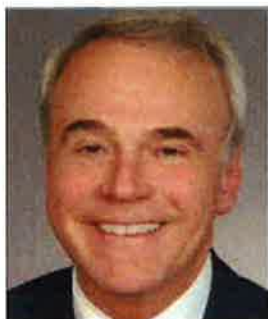


A Conversation With Marty Steele



Marty Steele is the President & CEO of First Sound Bank, headquartered in downtown Seattle. In November, the bank announced a strategic merger with BM Technologies, a Philadelphia-based digital banking platform, pending regulatory approval.

Tell us about First Sound Bank and how did this deal come about?

So the main theme of this should be that I'm trying to make something extraordinary happen here, however

I need to be realistic about the regulatory approval challenge I am facing. Fintechs and banks merging together is a relatively new concept, and the regulatory approval process will be longer and more complicated than a traditional bank-to-bank merger.

We are a small community bank. We're one of the smallest banks in the state at about \$150 million in assets with a single office. We do commercial banking and private banking. Most of our clients are high net worth individuals, small businesses, and we do a lot of SBA lending. Historically, this small bank business model used to be reasonably profitable because interest rates were higher. With interest rates so low right now, it's hard to make money in today's world. When I came to the bank three years ago, I had just done something else extraordinary. I had sold The Bank of Washington to a credit union. No bank in the state of Washington had ever merged with a credit union, so that was kind of unique and it was fun. But for a lot of people it was controversial given the historical tension between banks and credit unions.

When I came to First Sound Bank, the bank was not performing well. Capital was draining, the shareholders were unhappy and the board was fatigued. We turned it around by bringing in a new sales team, diversifying our sources of revenue, expanding our SBA lending and enhancing our board. We restructured the operation and eliminated a lot of overhead. We are now profitable with excellent credit quality.

Then I started thinking about strategic alternatives, which is a nice way of saying do we sell the bank or not. I talked to several banks and numerous investment bankers, and what I learned was that the market right now for small bank M&A is not ideal for numerous reasons including low interest rates. I had dinner with an investment banker and he said you've got to learn about fintechs, which at that point I knew very little about. I have long admired Eric Sprink, the President & CEO

of Coastal Community Bank, and how he jumped feet first into the fintech industry. What he's done is really cool. So I started studying what he did. That caused me to explore the industry; I began researching fintechs, what they do and how they work. Ten years ago, the fintech industry was on a mission to disrupt the banking industry. Well, it turns out, the opposite is kind of true; they are very compatible with banks. There are a lot of partnerships now. They have technology that we don't have and customers that we don't have, but we have FDIC insurance and a balance sheet to grow loans and deposits. So eventually I called the investment banker back and said, "I think we should partner with a fintech." The craziest thing was I just said, "yes, I'm interested," and a week later, I got a phone call from a company called BM Technologies.

What is BM Technologies, and what do they offer?

They have a digital deposit gathering platform and are one of the largest fintechs in the country. They have about two million customers and about \$2 billion in deposits. They are the largest provider of accounts for college students. They work with different colleges across the country; it's a business to business to customer model, so they partner with the colleges that then offers the app to the students. This allows the students to connect their account with their financial aid, student loans and receive from their parents. It makes life easy for these college kids. That's about half of BM Technologies' business. The other half is white-label banking services with T-Mobile as their biggest customer. If you're a customer or employee of T-Mobile, there is a mobile banking app called T-Mobile Money, and BM Technologies is the engine behind it.

BM Technologies, or BMTX – their stock ticker – was started as an incubator project six years ago inside Customers Bank, a \$20 billion regional bank in Philadelphia. Luvleen Sidhu was the founding CEO of BMTX at age 28. Luvleen's father, Jay Sidhu, was CEO of Customers Bank at the time. Luvleen and her team have done a fabulous job of developing the technology platform behind BMTX while establishing a nationwide customer base. As with most fintechs, there are two things missing: FDIC insurance, and a balance sheet to place the deposits eventually grow loans to absorb the liquidity. In the beginning Customers Bank provided what is known in the fintech industry as a "partner bank" relationship. In early 2021 the decision was made to spin BM Technologies off of Customers Bank as a separate publicly traded company. For the first few months BMTX continued its partner bank relationship with Customers Bank, but from a long-term profitability standpoint the ultimate objective was to obtain a regulated bank charter. An interesting challenge for fintechs is they want

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Events Calendar

February 10-11 – NW Compliance Conference, DoubleTree Suites, Southcenter

March 2-3 – Virtual Senior Credit Conference

March 29 – Virtual Retail Sales & Leadership Conference

March 31 – Marketing Conference, DoubleTree Suites Seattle Airport

April 19 – Hybrid Management Development Program

April 20-21 – Virtual Fintech Conference

May 10 – NW Agriculture Conference, Three Rivers Conference Center, Kennewick

May 17-18 – Education/Human Resources Conference, Historic Davenport Hotel, Spokane

July 11-13 – 2022 IBA, NBA, OBA, WBA Annual Convention, Coeur d'Alene, ID

To register or to learn more about any of the listed events, please visit www.wabankers.com/calendar.

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to buy the smallest bank possible and then recapitalize it post-merger. The obvious reason is the upfront dilution caused by the premium over-book value associated with the bank acquisition; whereas in the recapitalization you are putting the new capital to work dollar for dollar. Luvleen Sidhu was looking for the smallest bank she could find, but she needed a bank CEO who was not only open to doing a fintech merger but who could execute their long-term strategic plan and run a much larger enterprise. They were also looking for someone ideally in Seattle because their biggest customer is right here in T-Mobile.

I received a phone call saying, well, you're one of the smallest banks and a CEO who understands what we're doing, plus you're right down the road from our biggest customer

T-Mobile. So I flew out to Philadelphia, then they flew here, and it was love at first sight. We signed a letter of intent in September 2021 and entered into a definitive agreement in November. Now we are in the process of applying for FDIC approval. During this process I have gained tremendous respect and admiration for Luvleen and her team at BMTX, and I am humbled by the fact that I guess I was in the right spot at the right time.

What about BM Technologies' business model made this so intriguing?

They've got \$2 billion in deposits, and I need deposits. Fintechs can raise capital much more quickly and easily than a bank can. I will grow my earning assets and increase the bank's profitability; my management team will be strengthened because they have some great people. Even my sensitivity to interest rate risk will go down

because most of the BMTX deposits are checking accounts while at the same time I will be growing loans in a presumably rising interest rate environment. But I have to convince the regulators. There have been a small handful of deals like this approved so far. It's not that the regulators don't want this to happen, but this is relatively new to them. They want the fintech industry to be regulated, and one of the best ways for that to happen is to merge banks and fintechs together. Philosophically, the regulators are very interested in this, and my initial discussions with them have been very positive. So it's going to take a while. On the other hand, it's kind of new, right?

Describe some of the benefits for clients once the merger has been finalized?

The business model states that we take their low-cost deposits, put them on the bank's balance sheet, raise substantial capital to support those deposits, then the bank has to grow assets. I will have \$2 billion in deposits burning a hole in my pocket, so I have to carefully and conservatively grow the loan portfolio to absorb those deposits. We have a very detailed business plan, over 200 pages, which maps it out although it will take some time to execute.

The other great thing is that BMTX also provides a way to help people build their banking relationships. Users of the app don't have to have a background in finance or understand everything about banking; the app is simple to use with easy access. People who are underserved or wouldn't otherwise have access to banking accounts can use this and build credit. For the college student portion of the business, when they're out of college, they already have this great banking history built up and ready to go.

What happens if/when the regulators approve the deal?

If you're already a customer of First Sound Bank or BMTX, nothing changes on that end. But for the bank side, we get the chance to grow. We'll change our name to BMTX Bank. My job will be somewhat different in that I'll have two jobs because I'll have to continue to run the community bank as it is. So if you're a customer of First Sound Bank, you'll continue to be a customer of BMTX Bank. We will continue to grow the local portfolio, but we'll have a bigger lending limit because we'll have more capital. We'll be able to grow organically faster. My other job is to build on the \$2 billion in deposits, so I will have to increase my geographic scope.

What was the reaction from within your organization?

The employees are fired up for so many reasons. We're going to hire more people, probably double the staff. With most mergers, that's not how it works; typically there are redundancies and overlap and therefore "cost saves" which is a nice way of saying laying people off. With this merger, it is not about cost saves but rather it's about growth. Also, unlike most bank mergers, we are preserving the charter of the smaller bank.

Do you think the industry will continue to see these types of partnerships happen?

I can only imagine that we're going to see more of it. I'm sure we won't be having this conversation ten years from now. Ten years ago, we weren't used to PayPal or Venmo, but now it's common. It feels like I'm this crazy trailblazer, but actually, I think this is going to be the future for the entire banking industry.

Industry News

New Hires

Shawn Carlson
Vice President, Community and Business
Banking Officer at 1st Security Bank of
Washington

Michelle Hohlbein
Human Resources Business Partner at First
Financial Northwest Bank

Robert Boswell
Commercial Banking Team Leader at
Columbia Bank

Jocelyn Stockton
Senior Vice President and Commercial
Relationship Manager at Columbia Bank

Riley Gaffney
Senior Vice President and Commercial
Banking Relationship Manager at Columbia Bank

Anna DeCaterina
Vice President and Commercial Relationship
Manager at Columbia Bank

Miranda Jones
Vice President and Portfolio Manager at
Columbia Bank

Shannon Luetke
Vice President and Relationship Banking Officer
at Heritage Bank

Promotions

Katy Wagnon
Vice President, Corporate Communications and
Public Relations at Washington Trust Bank

Kristina Ware
Senior Vice President and Chief Financial Officer
at Olympia Federal Savings

Brian Bruggeman
Chief Innovation Officer at Baker Boyer Bank

Cindy Purcell
Executive Vice President, Chief Strategy and
Administration Officer at Banner Bank

Dana Evans
Vice President and Chief Administration
Officer at Baker Boyer Bank

Jessie Ilaoa
Senior Vice President and Director of Audit and
Risk at Baker Boyer Bank

Rosendo Guizar
Senior Vice President and Chief Credit Officer at
Baker Boyer Bank

Laurel Bishop
Assistant Vice President and Branch Manager at
Yakima Federal Savings

Tina Naasz
Assistant Vice President and Branch Manager at
Yakima Federal Savings

Tony Mayorga
Assistant Secretary and Branch Manager at
Yakima Federal Savings

Have Industry News to share with WBA? Email megan@wabankers.com or call (206) 344-3472.