A DISCUSSION WITH:

Back Row left to right

RYAN SUCHALA
President Dallas Market
Bank of Texas

KEVIN HANIGAN
President and CEO
LegacyTexas Bank

ZACH FEE
CEO Texas Region
UMB Bank

Front Row left to right

MARK WARREN
North Texas Market Manager
Green Bank

ROBERT A. HULSEY
President and CEO
American National Bank of Texas
DCEO has turned to some of Dallas’ most respected banking leaders to get their assessment regarding the current state of how Dallas businesses handle their banking and finances as well as the various trends they have been observing, and often establishing. These experts offer a glimpse into the state of banking from the perspectives of those sought after for delivering financial business advice and giving beneficial updates about trends and changes in banking.

**Based on what you’ve seen with your clients, how does the current state of our economy affect business-banking strategies?**

**Hanigan:** Let me say first that Dallas, or more broadly Dallas-Fort Worth, is a fabulous place to be headquartered, and growth opportunities here are among the best in the nation. We all benefit from Texas’ policies of no individual income taxes, low-cost housing and, in the case of Dallas, significant employment growth through corporate relocations. With that said, we are in the midst of an unusually long economic recovery with uncertainties both economically and politically.

**Fee:** One factor is the sustained low-interest rate environment we are in, which means more businesses are borrowing money at historically low rates. They are using that capital for investments in commercial real estate expansions, equipment purchases, new fleets, and talent. The bottom line is that the majority of businesses here in Dallas-Fort Worth are doing well, and they have cash to spend.

**Suchala:** For many businesses, the recent and current economic challenges have been solved by companies doing more with less. Increases in efficiency and productivity have helped companies survive and thrive. Banks must be part of that solution and consistently bring value to their clients. That value can be technology, risk management protocols, cash flow management, or providing capital. Banking today is more about value-added relationships with higher levels of service than ever before. Like all important relationships, having a partner who will listen and understand your needs and work hard to address those needs is critical.

**Hulsey:** The more economic uncertainty we see, the more it leads business leaders and decision makers to be conservative in their plans. We feel regulatory burdens have a continued impact on economic development—in both local communities throughout North Texas as well as across the country. This is home base for ANBTX, and we want businesses here to thrive. Until the recent drop-off in oil prices, Texas had some good years, post-recession. We also believe this market could be more vibrant with sensible regulatory policy.

**Has the selection criteria changed for businesses looking to build new banking relationships? If so, what are businesses looking for now compared to 10 years ago?**

**Suchala:** Today, there is more focus on fit and service. The past 10 years brought a magnitude of challenges to many industries. Businesses look for banks that understand and are committed to their industry. Banks that are consistent in good times and bad are desired. Businesses are looking for a financial partner versus a vendor. Location is less important, as technology has eliminated the need for a branch on every corner. Local, experienced teams providing exceptional service without a 1-800 number are valued. Businesses are also looking for a bank that has technology to support internal financial controls and maximize efficiency.

**Fee:** Ten years ago you could easily differentiate banks based on their products and technology. Today, that’s not the case. Banks of all sizes – from the smallest community banks to the largest institutions – have access to the best technology, and they are using it. The other major factor clients look at when choosing a bank is the health of the bank, including its balance sheet and sustainability. The Great Recession was a wake-up call for many businesses because they needed to be assured that their bank was healthy and sustainable. They’re still looking for that now.

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Technology, especially in deposit services and treasury management, enters into the equation more than it did 10 years ago, but the main drivers remain largely the same. Businesses are looking for a bank that will take the time to fully understand their business and their plans, and they want an experienced banker who will advocate for them. Also important are access to key decision makers and surety of execution. Their bank should be large enough to handle their needs today and into the foreseeable future, but not so big they lose access to the decision makers.

**Warren:** We’ve seen a migration of clients from the large national or regional banks to community banks. Clients are still interested in the cost of their relationship, but they understand that flexibility, service, response rate, and a meaningful relationship with their bank is extremely valuable.

**How does a bank in 2016 differentiate itself from the competition?**

**Hulsey:** We have to demonstrate how American National Bank of Texas will impact a client’s business in a more positive way than the other folks. The old view of community banking doesn’t always apply. We have the products and services to compete with the national institutions. We’re focused on matching their banking technology, both front line and back end. We have a footprint across Dallas-Fort Worth. However, one aspect of community banking does still apply—a deep understanding of the local market and the needs of business owners and local leaders. We understand their challenges, and our solutions will separate us from the competition.

**Fee:** Our biggest differentiator is our people. They’re on the street talking to clients and walking the floor of their businesses building lasting relationships. They really are the glue that holds everything together. Another big one for us is the access to decision makers within UMB. The direct access to executive leadership allows our bankers to be nimble, responsive, and proactive with clients. We’re able to offer the products and services of a large institution with the customer service and relationships of a community bank.

**Warren:** People. You differentiate by having highly talented, highly motivated bankers equipped with the tools to meet a client’s needs. A lot of banks try to compete with products, policies, and procedures. At the end of the day, clients bank with people they trust and who communicate well with them.

**Suchala:** Our local delivery, service, and decision making provides a superior client experience. We hire and develop great bankers who are empowered to provide solutions. Most businesses prefer to do business with people who know them. Our bankers and leadership teams know and understand our clients and their needs. We are in the solution business. Working with Norm Bagwell, chairman and CEO, and Mark Wade, our president and COO, my responsibility is to own every Dallas client, provide resources to our bankers, and make sure we are executing on our strategy of delivering value to our clients.

**Hanigan:** Dallas is a very competitive market for the banking business. All of the big banks are here, out-of-state banks continue to open offices here, and we also have many locally-oriented banks. LegacyBank is from here, all of our branches are in Dallas-Fort Worth, and we have more than 60 years of corporate history in Dallas. As a local bank with capacity to bank businesses of virtually any size, we can put decision makers in front of local business owners and entrepreneurs.

**How do you position your clients for the potential of a slower-growth economy?**

**Hulsey:** We’re listening carefully and working to understand the dynamics of their business. We’ve been doing this for 140 years, so we’ve seen it all in terms of economic conditions. And we have the financial products to help our clients in any economy. What’s most important is providing our expertise. With that and a meaningful understanding of their company, positioning our clients in a product suite for a slower growth economy is a bit easier.

**Fee:** This is where our people can really shine. Our bankers have varying industry expertise – from commercial real estate to healthcare to manufacturing – and can share best practices of things business owners should be thinking about. For example, how do you finance equipment and trucks to capitalize on them now and have a plan to downsize during the next cycle? We think it’s important to help clients plan ahead knowing the economy will always ebb and flow. It’s our job to help financially prepare them for the future.

**Hanigan:** Talking to our clients about the potential for a slower growth economy – worldwide, domestically, and locally – helps make them aware of the trends we are seeing. We also encourage them to stress test their assumptions as they take on new capital investments. It is always good to know what your expected returns might be if the rate of your sales growth...
new insurance and healthcare regulations have a major impact on a company’s bottom line. This is a theme that is a lot more topical now than it was 10 years ago.

**Suchala:** The primary change in investor decision making since 2008 is to flock to bonds and to sell stocks. More than $1 trillion has flowed into bond mutual funds since 2008 while over $400 billion has exited equity mutual funds. That behavior has remained consistent through the first six months of 2016. Selling stocks and buying bonds has produced positive returns, just not as good as was possible had investors stayed with their original equity exposure.

**Warren:** We have found that business managers today are keen to understand their business risk both from a macro and micro economic standpoint. Clients tend to provide better financial reporting and clearer projections and budgets than they had in the past. As a banker, this makes our jobs somewhat easier and improves our confidence in the client.

**Hanigan:** Clearly the events of the economic rollercoaster, or high volatility as we call it, impact investment decisions. The level of volatility and uncertainties around monetary and economic policies put particular pressure on planning for long-term investments that may have extended paybacks. Expanding or building a new plant, or buying expensive equipment generally takes years to pay back and get acceptable returns. This is why stress testing base case assumptions about sales, margins and profitability pays big dividends.

What are some of your clients’ biggest financial concerns currently, and how are you addressing them?

**Fee:** We have seen a lot of companies experiencing tremendous growth, and that isn’t slowing down, which means cash flow is an ever-increasing challenge for them. They are trying to capitalize on the current market while maintaining adequate cash flow. It is a definite growing pain for many companies out there. To help clients through that, we work with them to establish the right working capital plan that helps with growing pains and cash flow concerns.

**Hulsey:** This is really a matter of turning our mouths down and our ears up. All of our clients have financial concerns, and it doesn’t help us to categorize them into specific buckets. Every business is unique, and the financial concerns of their leaders are unique. We want our business bankers to be knowledgeable about every client, and to truly understand their clients’ business.

How have the events of the economic rollercoaster changed investment behavior and investor decision-making?

**Fee:** There is less leverage in general, but still a sense of urgency to capitalize on the current market. Specifically, I think about commercial real estate, construction, and transportation. All of these industries are trying to grow and manage this growth with less leverage than in the previous cycle. The other piece that has changed investment behavior is the regulatory environment. Just as bankers have new regulations, so do most other industries. There are environmental regulations for transportation and pipelines. New employment regulations affect labor policies. And

**Hulsey:** We’ll see a return to business owners looking for more personalized relationships with their institution, leading to solutions for their specific financial needs. Many decision-makers will put a premium on local market expertise.
“TALENTED MANAGERS AND TEAMS ARE THE KEY TO MAKING GREAT THINGS HAPPEN AND ALWAYS SEEM TO IDENTIFY OPPORTUNITIES, EVEN IN THE MIDST OF CHAOS. WE BUILD NEW BUSINESSES AT THE BANK AROUND PEOPLE, AND WE SEEK TO BANK TALENTED, ENGAGED BUSINESS ENTREPRENEURS.”

-Kevin Hanigan, President and CEO, LegacyTexas Bank

What are some of your predictions for how business banking may change or evolve during the next five to 10 years?

Fee: There will be fewer banks and more consolidation. Businesses will be choosing banks that have strong balance sheet management and that are sustainable for the next 100 years. People don’t want to change bankers and re-educate them about their business. That’s why it’s important to pick a partner who can grow with you through the years. Also, I think we are going to see some major technology shifts throughout the next decade. We are already starting to see that with the fintech industry, and we believe it’s our responsibility to invest in those companies and be in a position to bring those solutions to our clients in the future.

Warren: There will be a continued migration of commercial businesses leaving the large national or regional banks and moving to community banks. This migration continues to be a result of a higher level of customer service combined with a lower need for a brick-and-mortar location down the street.

Hanigan: Changes will be driven by technology—the decline in the use of a physical branch and the continued proliferation of non-bank competitors. Perhaps the biggest changes will occur in the smaller end of the business market, meaning businesses with loan needs below $250,000. Smaller loans are more homogenized, so they can be underwritten and approved by models (technology). This could increase the likelihood of their migration toward non-bank lending models.

Suchala: Brick-and-mortar bank branches will continue to decline in number, but the importance of a having a great “banker” will not. Bankers who care about clients’ needs and work hard to provide real solutions for clients will always be valued. Niche lenders and service providers (fintech) will continue to evolve to compete with traditional banks and provide different style of financial service to businesses. Interest rates will go up and require businesses to have strategies around increased interest expense.

Hulsey: We’ll continue to see a heavier reliance on digital offerings by our business clients. Our customers will look for our digital platforms to offer more personalization and customization for their specific business needs. And they’ll want as much analysis and data as we can provide so they remain ahead of their competition. While that digital movement continues forward, we believe our clients will also rely more and more on their business banker for broader market knowledge related to their industry and footprint.

In today’s economic environment, which industries and markets show opportunity?

Warren: The continued growth in the North Texas market presents great opportunities for commercial real estate, housing, and the business sectors that are associated with growth. North Texas leads nationally, and there are boundless opportunities.

Fee: Dallas is growing at an exceptional pace and that is reflected in our employment numbers, new housing, and corporate relocations. All of that growth translates into real opportunities across a variety of sectors, including commercial real estate, healthcare, construction, wholesalers, and transportation/logistics.

Suchala: Overall we are fans of the oil and gas sector, industrial companies, and still feel that many technology companies are undervalued. Opportunity can be found in U.S. equity markets with companies that have a sound and sustainable business model that currently pay a dividend at or above the overall market and have the ability to grow the dividend payout.

Hulsey: We’ve been fortunate in North Texas to see opportunity most places we look. Obviously with the growth in the area, we’re interested in construction. Healthcare is another area of opportunity. But more important than specific industries and markets are the characteristics of the company with whom we’re considering a partnership. We’re looking for an experienced management team with a proven track record. We want to see a rational business plan. Really, the same things our clients are looking for in American National Bank of Texas, we’re looking for in them.

Any trends you are seeing in what Dallas-Fort Worth-based business borrowers are doing with the financing you provide?

Suchala: Businesses are taking advantage of historically low rates and putting in place longer debt arrangements with a fixed rate of interest. They are utilizing capital to pay down short-term debt, make investments in equipment, or acquire strategic targets. Companies are positioning their balance sheets to be flexible so they can take advantage of opportunities. This year has brought significant
volatility to equity and commodity markets, so well-capitalized companies are taking advantage of that to repurchase shares of their stock or acquire valuable assets and companies that have been under managed.

**Fee:** Developers are spending money on developing new properties in all asset classes. There is a significant supply and demand challenge in this market, which is spurring a lot of that growth. From a business standpoint, we see general reinvestments in equipment across all industries, which is a direct result of the growth many companies are experiencing. These businesses are growing, and they need the equipment and technology to keep pace.

### “THE CONTINUED GROWTH IN THE NORTH TEXAS MARKET PRESENTS GREAT OPPORTUNITIES FOR COMMERCIAL REAL ESTATE, HOUSING, AND THE BUSINESS SECTORS THAT ARE ASSOCIATED WITH GROWTH. NORTH TEXAS LEADS NATIONALLY, AND THERE ARE BOUNDLESS OPPORTUNITIES.”

- Mark Warren, North Texas Market Manager, Green Bank

These industries are trying to grow and manage this growth with less leverage than in the previous cycle. The other piece that has changed investment behavior is the regulatory environment. Just as bankers have new regulations, so do most other industries. There are environmental regulations for transportation and pipelines. New employment regulations affect labor policies. And new insurance and healthcare regulations have a major impact on a company’s bottom line. This is a theme that is a lot more topical now than it was 10 years ago.

### How serious a threat to businesses is cyber-crime? Are we seeing more or less of the activity?

**Hanigan:** We view business cyber-crime as a very real and growing threat. Just think about the large data intrusive breaches that have impacted tens of millions of people. The hackers are innovating faster than most businesses are protecting. Even if a company isn’t directly attacked, business can still be disrupted if it happens to a client or vendor. To help protect against this, LegacyTexas and other banks have developed robust vendor management processes. Unfortunately, cyber-crime is here to stay.

**Suchala:** We are seeing more activity as technology and the ever-increasing creativity of criminals grows. Email hacking with fraudsters impersonating executives and directing financial teams to wire money to accounts controlled by the perpetrators is more common. Malware attacks are on the rise with the goal of gaining employee credentials to direct banking activities. Criminals are utilizing skimmer devices to capture consumer data. Banks are allocating more and more resources to provide education and fraud prevention tools. Strong banking partners help businesses assess internal controls for financial transactions and other efforts to mitigate against fraud.

**Hulsey:** We’re seeing more activity, and we consider it a threat. Not just to our organization, but to our customers as well. Every business is trying to stay current with the latest prevention controls and technology. What every business should be doing, ours included, is staying ahead. That’s our long-term goal because we simply cannot be sloppy with our control systems related to cyber-crime prevention. The threat can also be reduced after a breach, if you have the correct communication protocols ready to quickly engage your customers and lead them through immediate measures to change security protocols.

### What do most Dallas-Fort Worth businesses need to succeed, and what are some common obstacles getting in their way?

**Hanigan:** They need the same things most businesses need to be successful- a product or service that others need, a good strategy, and a talented team of people to execute day to day. As a bank, we also tend to stress the importance of a chief financial officer and a well-positioned balance sheet with the right combination of equity and debt to support growth and protect against lean times, should they come. Businesses should also surround themselves with the right advisors, accounting firms, lawyers, and bankers.

**Hulsey:** Most business owners and decision-makers understand their product and delivery system well. Unfortunately, they tend to devote an inordinate amount of time to the minutiae of running a business. These demands on their time keep them from the tasks that build their organization for the future—inovation, new product development, etc. Plus, they need to accomplish these tasks faster than ever, because the internet has made competition global, not just local.