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BayVanguard Bank

Built on Tradition Focused on Community
Since 1873

BayVanguard Bank Grew From \$157 million to \$820 million in Less Than Two Years



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“There are still a fair number of banks in Maryland; however, we are not confining ourselves only to Maryland. We are also looking in Virginia, Delaware, and Pennsylvania to open up a larger pool of opportunity for mergers and acquisitions. We are structured as a mutual holding company, so we have the ability to merge with mutual and stock institutions.” David M. Flair

CEOCFO: Mr. Flair, every bank has their own approach. What is the philosophy behind BV Financial and BayVanguard Bank?

Mr. Flair: I would tend to say most banks have the same philosophy of trying to deliver the best quality service to its depositors and borrowers and to service the communities in which they are in. We have been aggressively disciplined in our desire to grow the institution. If you have followed us, you would know that we completed two mergers this year and one last year.

In January 2019, we were a \$157 million bank, now today, not quite two years later, we are at \$820 million. We knew as a small bank that we needed to grow in order to service our communities and customers. As a small institution, it is tough to do that with the heavy regulatory burden. In order to provide the necessary level of service, you have to have some scale and that is what we have been concentrating on the last few years.

CEOCFO: What do you look for in an acquisition?

Mr. Flair: We consider every acquisition opportunity, look for the value, and determine if we can make it work. We are aggressively disciplined; we look at each opportunity separately because they are all different and need to be viewed differently. The first one, for example, that we merged with was Kopernik Bank, which brought us a lot of capital and doubled our size. We brought in my Co-President and Co-CEO, Tim

Prindle, which has been fantastic. The additional capital allowed us to move into our next steps. We acquired a non-profitable institution that we looked at and said, "Yes, this can be profitable, but we will have to make severe cost cuts." In addition, we priced this accordingly and acquired the institution at a discount. We are open and honest in our negotiations with institutions and let them know what we can do and what we can pay.

Our most recent acquisition was 1880 Bank on the Eastern Shore of Maryland. The bank was successful and possessed talented employees. We retained a majority of the staff in an effort to maintain the success. The institution was well-performing and it was priced accordingly.

CEOCFO: *Are there many banks left to acquire in your geography?*

Mr. Flair: There are still a fair number of banks in Maryland; however, we are not confining ourselves only to Maryland. We are also looking in Virginia, Delaware, and Pennsylvania to open up a larger pool of opportunity for mergers and acquisitions. We are structured as a mutual holding company, so we have the ability to merge with mutual and stock institutions.

CEOCFO: *What is the key to a successful integration, both from the backend and from the customer's perspective?*

Mr. Flair: Great staff is the key to a successful integration, so I surround myself with great people. In the first quarter of 2019, we changed our core data processor, merged with Kopernik Bank, and converted their systems. A full data conversion to a new core processor in itself is a lot of work and can be taxing; however, our team was able to complete our data conversion, Kopernik's data conversion, and the merger all within three months. This experience has given our team the strength to be able to successfully integrate systems. In addition, the volume of mergers that we have been involved with in a short period of time has given our staff the ability to successfully integrate merged institutions.

Each merger is different, some are smoother than others because the systems and locations involved. In connection with our 1880 merger, which was in a different market, we added a Market President for the area. We wanted to make sure they knew we were still going to remain involved in that community and maybe even more involved. Taking care of the local communities of the target bank is very important, each time you go to a new market you want them to know that you are going to take care of that community.

CEOCFO: *Would you tell us about the range of services at BayVanguard and how you break down between consumer and commercial? Would you like to see the mix change?*

Mr. Flair: We are changing the mix of our portfolio and the recent acquisition of 1880 Bank was transformational for us. We were a thrift in the process of trying to convert to a commercial bank, which is never an

easy process. As we were doing that, we changed our product mix. Previously, we did not have business banking, ACH banking, remote deposit capture, or mobile banking and we were not doing the commercial lending properly. We integrated all of that into our current product mix. We feel like we have a complete line of products and services in place now.

On the lending side, through my partner, Tim Prindle, we have opened up a national commercial lending product for a group of investors that we have relationships with, some are local and some are not. They buy commercial properties throughout the southeast United States. We provide them a single bank to make loans in the different states that they buy properties in. We have been able to provide that service to them, so when they go buy property in say South Carolina, they do not have to find a bank in South Carolina that is willing to finance it. We take the time to underwrite the loans properly and we found that this has been a nice little niche for us that a lot of other banks are not willing to do.

CEOFCO: *What is the key to doing that successfully?*

Mr. Flair: Our success with the national lending product has been driven by our relationships with the borrowers and the attorneys that are sourcing the deals. We are able to execute in a quick and timely manner because we are so familiar with the group of borrowers and the attorneys. They come to us due to the fact that they do not have to shop multiple banks and they know that we can get the loans closed efficiently. Proper underwriting is important to make sure the bank is protected and Tim and his team have great work ethic to ensure everything get done from start to finish.

CEOFCO: *How are you faring under COVID and overall for the bank in general?*

Mr. Flair: This time has been crazy and almost scary good. Our delinquencies are at the lowest ever. Most of our loans have come off of deferral. The SBA's Paycheck Protection Program was good to all the banks, I believe. We did about \$24 million and 1880 did roughly the same, together we did about \$50 million in PPP loans. We are now processing forgiveness applications and recognizing our fee income as they are forgiven. We are having a record year due to our recent growth. It is not strictly our net income but also our ROAA and ROAE, we are doing the best we have ever done. Our loan production has been very robust during this time, as well.

CEOFCO: *What is the key to weathering the ups and downs?*

Mr. Flair: The key to weathering the ups and downs is being disciplined, we find that oftentimes there are institutions that are willing to undercut pricing and when they are doing that, you have to be disciplined and sometimes you have to walk away from the deal. We are in a very competitive area here in the Mid-Atlantic. In Maryland, there are a lot of banks and a lot of competition. It is tremendously important to be disciplined with pricing and underwriting.

I have been through all the downturns at this point. You learn a lot in the downturns about what not to do in the good times. I think a lot of my fellow bankers have the same philosophy. There are always going to be ups and downs in this business so you have to be prepared and maintain adequate reserves. We try to run at around 10% capital.

CEO CFO: *What is different for customers of BayVanguard?*

Mr. Flair: At BayVanguard, we still have branches with tellers. We do not push our customers toward ATMs or Mobile Banking. We certainly offer all the modern services for those who prefer that method of doing business. We still have a lot of elderly customers that want to come in and they want the tellers to know who they are when they walk in the door. Our tellers know our customers and our customers have a good rapport with them. We always look at how we can help our customers and not just treat them as a number, I know it is cliché, but we do not treat them as a number. Our Loan Officers are in constant contact with their customers and Tim and I will give customers our cell phone numbers so they may contact us should they need anything.

When the large banks were only processing PPP loans for their best customers, which was what they should have done, their other customers were left behind and they went to the community banks. I would not cast stones at all for those large institutions because they had to take care of their best customers first. They were limited on the amount of PPP loans that they could do, so it opened up opportunities for community banks like us to pick up some of those customers that were not able to be serviced. We did PPP loans for non-customers, which resulted in new depository relationships. Those non-customers figured if we were willing to do this to help them, they would be willing to bring their deposits to us.

CEO CFO: *How do you keep in-touch with the various departments /branches as you grow so that the community bank experience remains intact?*

Mr. Flair: I still make an effort to get to every branch two to three times a year. We have sixteen branches now so it has become more difficult, but I make it a priority. I make an appearance, talk with the Manager, and see how things are going. In fact, tomorrow I am going down to the Eastern Shore to go through the six branches that we just acquired down there. I have done it twice already and want to make sure that they understand that we are here and are all on the same team.

I meet with my Managers almost on a daily basis informally. I like to pop in their offices and make sure everything is running smoothly. We have a formal meeting once a quarter.

Tim meets with his lending team daily, as well. He has a daily walk with his Chief Credit Officer where they can just get out and exercise for a short period of time and have a conversation away from the office.

CEO CFO: *What would you find when you visit a branch?*

Mr. Flair: When I visit the branches, the Managers tell me about any issues they have encountered, any ideas they have, and any customer feedback they have received. One of our customers might have a problem, so we talk about it and try to find a solution for them. It is very important to interact with the frontline employees because they have the most contact with the customers. I listen and make adjustments according to feedback that is given on my trips to the branches.

CEO/CFO: *Why choose BV Financial/BayVanguard?*

Mr. Flair: We are very relationship-oriented. With the large Banks it is very difficult to talk to anyone if you have a problem, with us and most community banks, you have the ability to call or come in and talk to someone. We encourage our customers to communicate with us. Customers call me on the phone and say, "Dave, I have a problem, I lost my job, my daughter got sick, what can I do?" We can usually work something out to help.

We visit with our large borrowers, we keep in contact with our large depositors, and we build relationships. We know our customers, we know their business, and we provide what they need, not what we need to sell. From time to time, we will tell a customer not to take a loan because it might put them in a bad position and we do not want our customers to fail. I would say that most community banks are very similar in caring for their customers.



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