

Adjusting to deregulation

County Bank made changes

By LANE WALLACE
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Up until 1980, the banking business wasn't nearly as complicated as it soon became.

Bank officials couldn't just sit back and wait for the money to come in — they had to adhere to proper management techniques, just like any other business.

But they could rest assured knowing what interest rate they'd have to pay out — the federal government set the rate.

The interest rates the banks charged for loans varied with fluctuations in the economy, but there was always a fairly good gap between the interest paid and the interest collected on loans.

That meant that "the saver subsidized the borrower," said Wil Goodrich, senior vice president for sales and marketing for Santa Cruz-based County Bank and Trust.



Wil Goodrich, left, senior vice president of County Bank's sales and marketing division, and Paul Allen, a

senior vice president and manager of the Watsonville region.

County Bank in the '80s

But beginning in the spring of 1980, all that changed. The federal government began its six-year plan of deregulating the banking industry.

The interest rates banks and savings and loans suddenly became a competitive field — which meant a smaller gap between interest and loan rates. "The spread was dead," Goodrich said.

"When you pay that (higher interest) out, you can't give out warm and fuzzy teddy bears" in an effort to lure customers, Goodrich said.

With more money going out to door in interest, "it was much more challenging (for banks) to remain profitable," said Goodrich.

The deregulation "has put great pressure on us," Goodrich said. County Bank has remained profitable (although profits dropped during the recession of the early '80s), but it has meant some changes.

With different banks offering different services at different prices "you have to recognize what your position is," said Goodrich.

Just as a Mom-and-Pop grocery needs to offer services that supermarkets don't provide, County Bank had to try to give its customers something the big banks didn't have.

There was something the bank could sell, Goodrich said. "Convenience."

The bank has more branches locally than any other financial institution — 15 in Santa Cruz County and two in Monterey County. Another selling point, Goodrich said, is that "we keep the dollars circulating locally."

	1985	1984	1983	1982	1981	1980
	(6 mo.)					
Net income	\$1,363	2,545	2,061	1,381	2,098	2,496
Assets	468,781	456,887	391,360	344,995	335,767	315,167
Deposits	431,528	422,821	358,592	315,147	307,784	289,057

Deregulation has forced the bank to constantly review its product offerings (everything from interest rates to checking account fees to trust services) to make sure they're cost-effective, Goodrich said. Bank management has committees on product management, and market strategy — groups that didn't exist before deregulation.

In recent years, County Bank has added a number of automatic teller machines and drive-up windows. They're not revolutionary things — most banks have them — but simply a way of staying modern, Goodrich said. The bank also offers discount brokerage services.

The automatic-teller machines are just one of a variety of ways County Bank, like most businesses, is becoming increasingly computerized.

In the '80s, County Bank has opened new offices in Freedom (1980), Scotts Valley Junction (1982), Watsonville Square (1982) and an automated teller at Deer Park Center in Aptos.

Last year, County Bank moved into Monterey County when it bought the Bank of Carmel, which had been ordered closed by federal officials because of its financial

difficulties.

County Bank took over the Bank of Carmel's two offices in the Carmel area; another office will be opened in downtown Monterey in December.

Since deregulation, County Bank has put increased emphasis on its trust services; even adding the word "trust" to the bank's name. Two years ago, the bank was managing \$83 million in trust funds; that figure is \$100 million now. The emphasis on trust services is a result of deregulation: The consumer now has a wide range of investments to choose from; the trust services are a way of letting somebody else make some of the decisions on how that money is managed.

The bank has also "streamlined control and centralized operations" in the '80s, Goodrich said. There is no longer a manager at every branch, but

regional managers for three or four branches. (There's always somebody in charge at each branch, but not necessarily a regional manager.)

In May, County Bank opened a building in Scotts Valley for its administrative and support personnel — people who generally don't deal with the public. Of the bank's 555 employees, 175 work at the Scotts Valley facility.

County Bank's net income in 1980 was \$2.5 million, but the recession hit the next year. Net income dropped to \$2.1 million in 1981 and to \$1.4 million in 1982 before going up to \$2.06 million in 1983.

Despite the drop in profits, Goodrich said of those recession years: "Our problems were insignificant" compared to many other financial institutions, some of which lost money during the recession, Goodrich said.