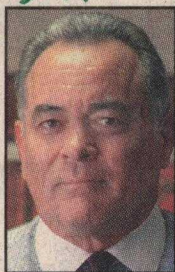


Bank will cling to its roots

Banks + Banking
Despite merger,
Coast Commercial
strives to stay local

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Sentinel business editor



Nickelson
CEO of Coast
Commercial

SANTA CRUZ — There are ultimately two types of banks, according to James Thompson, a local lawyer and founding member of Coast Commercial Bank. There are the "super big banks" and the "community banks."

But despite plans to join forces early next year with a Palo Alto-based holding company, Coast Commercial says it intends to keep its niche as the small business community bank.

It is a market, according to other local bankers, that Coast has inarguably dominated.

To continue as a leader in that niche, however, Coast will have to prove its interests remain local despite a transfer of ultimate power to an outside governing board.

In the balance — in addition to about 35 back-office employees who face prospective layoffs — is the future of a bank with

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deep community ties.

Competitors, who have not come close to grabbing a significant portion of the small business market, are now eyeing the lucrative Santa Cruz region.

"We'd like to put some brick and mortar there next year," said Demetri Snow, vice president of Small Business Administration lending for First National Bank. "I think the Santa Cruz market is a tremendous, huge, open market. ... I think they're very vulnerable."

Monterey County Bank has spent few resources to develop a large Santa Cruz County client base in the face of Coast Commercial's dominance.

"In my opinion it's one of the best-managed banks in Northern California under (Harvey Nickelson's) leadership," said Charles Chreitzberg, chief executive officer and president of Monterey County Bank. "They've been really hard to compete with. Obviously this acquisition will change that."

A nervous clientele

At Coast Commercial last week, the phones began ringing soon after announcement of the merger with Greater Bay Bancorp. Top management spent hours trying to convince clients and community members that the deal would allow the bank to maintain a level of autonomy, and that financial support to the community would not ebb.

"Everybody should remain calm and everybody should not react," Nickelson said. "... With me being in charge, what is going to happen? I've had more people ask me, 'Are you going to retire?' I have a lot of work ahead."

Nickelson pointed out that community contributions are part of a sound business plan. "We're not in the business of giving money, we're in the business of serving the community, and we believe our philosophy is one of financial support."

Coast has successfully followed that

philosophy.

Shareholder earnings have multiplied. The bank has grown to be the No. 1 Small Business Administration lender in Northern California — not just in its size category, but overall, with \$39.6 million during the 1999 fiscal year for the U.S. Small Business Administration's San Francisco district. Even measured against the mega banks, Coast topped them all.

The bank reports \$43.9 million in SBA loans for 1999 — \$11,804,650 of that in Santa Cruz County. Coast Commercial rated eighth in total dollar volume in California for the year.

If outside management changes the bank's donation structure, the pain would be felt keenly in the community. Coast is ranked No. 2 in California for its level of community reinvestment.

"Coast Commercial's contributions to the community has just been astounding," said Teresa Thomae, director of the Central Coast Small Business Development Center in Soquel.

Thomae is in the business of helping small businesses prosper and has extensive experience with banks in the region that have small business-aid programs. Coast Commercial Executive Vice President David Heald is advisory board chairman of the center.

Last year Coast Commercial funded more than \$1.2 million in SBA loans through the center, Thomae said. "A lot of those were start-ups. ... (Coast Commercial) is the client's first choice in many cases."

Started 17 years ago

Businessmen who claimed the community lacked the financial resources businesses needed started Coast Commercial 17 years ago.

The bank's client list is a local Who's Who of the business community.

"They are a lot of the businesses you're real familiar with, who are stalwarts in the community, the businesses that are the foundation of our small business community," Thomae

said. "The businesses that make up the uniqueness of Santa Cruz in products and services, many of them are financed by Coast Commercial."

As other banks have been acquired and shut down, Coast Commercial has cultivated deeper community roots.

Nickelson calls it "relationship banking." In practice, it means 100 percent of Coast Commercial employees volunteer in the community. The bank received a Points of Light Foundation award for its community involvement.

When local nonprofits need support, they call Nickelson. Each year, more calls come.

Bank officials estimate they put more than 1 percent of their assets back into the community annually.

Thompson, chairman of the board of Coast Bancorp, the holding company for Coast Commercial, said he expects to see the same community organizations on next year's list of donation recipients.

But the details have yet to be hammered out.

What is known is that Thompson will gain a seat on the Greater Bay Bancorp board. He said that he and Nickelson will work to see that as the largest contributing subsidiary of Greater Bay, Coast gets the largest amount from the holding company's multimillion-dollar foundation for community reinvestment.

"We just have to make sure the formulas recognize our contributions," Thompson said. "The policies are still being formed."

Community bankers

The holding company is made up of community bankers like Nickelson who have joined to stay afloat in the increasingly global and technological financial community.

"These are community bankers," Thompson said. "These aren't people with MBAs who are trying to figure out how to run banks. They know this."

In the deal, Coast Commercial, with about \$350 million in assets, will be part of a corporate structure with more than \$3 billion in assets.

Coast, which employs 135 people, will gain the resources to provide loan limits about five times higher than what is currently offered, according to Nickelson.

Bank leaders hope the stock swap deal in which the holding company for Coast Commercial, Coast Bancorp, dissolves into Greater Bay Bancorp, will close near the beginning of April.

David Kalkbrenner, Greater Bay Bancorp holding company president and chief executive officer, insists Coast will retain its local identity.

"Coast Commercial Bank retains its name, its local management, and it's business as usual," Kalkbrenner said.

And the community financial support?

"Harvey asked me about that and I said definitely that's what we want to continue doing," Kalkbrenner said. "There could be more actual dollars."

Mark Doiron, president and chief executive of Peninsula Bank of Com-

merce in Millbrae and San Bruno, said his bank's contributions have increased "in many cases tenfold" since merging with Greater Bay Bancorp two years ago.

The eighth addition

Kalkbrenner is head of the 3-year-old holding company that has acquired six banks already. Another acquisition is pending. Coast Commercial would be No. 8.

Kalkbrenner is former president and chief executive officer of Mid-Peninsula Bank in Palo Alto, a small independent bank that merged with Cupertino National Bank in 1996. From that union came Greater Bay Bancorp with combined assets of about \$600 million.

The holding company is only interested in high performing banks with good management teams, Kalkbrenner said. Each bank has retained its management and board of directors, he said, and each has a seat on the Greater Bay Bancorp board of directors.

Kalkbrenner said each bank continues to make its own decisions about customers.

The only thing the local boards would not be involved in that they have in the past is strategic long-term planning, Kalkbrenner said. "Other than that, Harvey Nickelson stays as president and CEO and runs it the way he's always run it."

Kalkbrenner calls it "super community banking."