

# Namaste!

## An Interview with Indus American Bank

### *Imagine the conversation:*

*“The New York and New Jersey metro banking markets are fierce.”*

*“And how. They’re saturated. The competition is positively cutthroat.”*

*“The big banks that are already here are using the capital and resources they’ve built up over the years to go way out on the edge in pricing.”*

*“And here we are, moving into a tougher part of the credit cycle.”*

*“Hey! I’ve got a great idea. Let’s ask a bunch of people for money to open a new bank here. We can tell them not to expect any payback for at least three years—maybe never!”*

*“Right! We can lure them in by telling them we plan to offer some of banking’s riskier products—commercial loans, commercial real estate, and consumer loans.”*

by Beverly Foster

It’s conceivable that around 200 banks across the U.S. have had similar conversations in the past couple years. The risks seem astonishing, but when the gamble pays off, it’s worth it. And if a de novo bank can establish and carry off a niche, the chances for success improve. In the interim, it’s exciting, challenging, and often maddeningly frustrating.

As established community banks will tell you, they find de novos to be frustrating as well, because many open with the sole purpose of becoming enough of a competitive threat that the established bank has to buy them out. However, this would not be the case for de novos that open to serve a minority population that feels more comfortable dealing with bankers who literally speak their language.

Late in the summer of 2004, several people, primarily of South Asian descent, came together to form a bank holding company, IA Bancorp, in Iselin, a town in northern New Jersey. They knew the risks. They also knew the South Asian commu-

nity was growing very quickly, held lots of promise, and didn’t have a bank targeted to its unique circumstances and needs.

After close to a 16-month gestation period, Indus American Bank was born. Within a year Indus American had opened two additional offices—one in Parsippany, New Jersey, and the other in Port Chester, New York. The bank also has leased space in Jersey City and plans to open that office by mid-2007. The board, as well as the bank’s 14 full-time and several part-time employees, includes people experienced in start-ups, veterans of other successful banks, and centers of influence with strong ties to the region’s South Asian community.

In this interview, we meet **Kevin M. Lenihan**, president and CEO of Indus American Bank; **Zilay Wahidy**, board member and managing director of DCD Capital in New York, formerly at Habib American Bank; **Deepak Khanna**, board member



**The board of directors of Indus American Bank (from left to right)  
Bipin Patel; Sharad Wagle (co-chair); Anil Bansal (co-chair); Meenakshi Khanna; Deepak Khanna; Zilay Wahidy; Kevin Lenihan**

and senior equity analyst with Jennison Associates; and Thomas O'Donnell, senior vice president and chief loan officer. Both Lenihan and O'Donnell are veterans of other start-up banks.

**RMAJ:** *IA Bancorp recognized the risks involved in forming a de novo bank. Can you explain how the decision to launch Indus American Bank was made?*

**Khanna:** We saw a need and an opportunity in creating a de novo to serve a niche population, but you're right about the risks. So we wanted to take the proper steps in addressing those risks before moving further.

All of your readers can appreciate that the biggest risk in banking is credit risk. A critical first step, then, was to put together a team of professionals with credit experience at the community-bank level.

Once we had that team in place, we conducted a feasibility study with FinPro, a New Jersey-based management consulting firm. That study looked at the market potential for a bank seeking to serve the

South Asian market, which, in our area, is primarily Indian, Pakistani, and Bangladeshi. We found that the population was large enough to support a niche bank.

We then looked at the financials of other banks in the area that had opened to serve niche markets. In particular, we looked at the Korean and the Chinese banks, whose customer base has roots reaching back about 18 years. We found that those banks enjoy a 10-12% market share—a baseline for success is about 10%. We also looked at the growth patterns of those banks—from one branch to multiple branches, and from one state to surrounding states—and we looked at customer attrition and how it might differ from attrition at large banks in the area.

Encouraged and reinforced in our belief that we could be successful, we took an additional step. Before applying for a license, we had pre-certification meetings with the state and the FDIC, which would be our regulators. Those meetings were very positive and powerful in the sense that the state banking regulators also recognized a market need for a bank serving the South Asian community.



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—Zilay Wahidy

to guide our team to operate within the appropriate rules and regulations.

**RMAJ:** *Since beginning operations, what changes have you made to your initial business plan?*

**RMAJ:** *Was the South Asian community considered an unbanked population?*

**Wahidy:** No, I’d called it “underbanked.” Again, using the Korean and Chinese banks as examples, many of their customers previously had been customers of other banks. But once there were banks that literally spoke their language, a large number went to those institutions instead. So it’s more a question of the feasibility of having a strong enough market share.

**Lenihan:** The last de novo I was with targeted the Chinese population, so I had firsthand experience with how the process could roll out. After seeing the results of the feasibility study and our meetings with the regulators, it became a no-brainer that Indus American Bank could succeed. Although there are risks in any business venture, our due diligence led to the conclusion that the rewards would outweigh the risks.

**RMAJ:** *How did you choose your board of directors? Did corporate governance considerations play into the choices made?*

**Khanna:** For our board of directors, we were looking for people who filled the bill in three areas:

1. A center of influence within the community.
2. Knowledgeable about the development of the community itself.
3. A level of expertise they can bring to the table and help ensure the growth of the bank.

**Lenihan:** Perhaps unique to a de novo bank, there is a learning experience at both ends—the board as well as the management staff. Zilay has a banking background, so he brings that expertise to heading up the loan committee. Also, the bank has contracted with consultants who advise the board in the different governance categories, providing a good way for members to learn about the banking regulations and

**Lenihan:** We designed the plan to be flexible in order to take advantages of opportunities as they came up. Our original business plan called for one branch in Jersey City. Six months after we began operations, however, we learned that a branch housed in a Pathmark supermarket in Parsippany had been abandoned by a larger bank. We took over that branch and were able to enter a fast-growing, well-to-do community quickly and inexpensively. Another Pathmark branch in Westchester County, New York, was available at the same time, and we jumped on that opportunity. We have all the necessary approvals, so now we’re looking to expand our network into New York.

We remain on target, however, with the plan we submitted to the regulators in terms of products and services we promised to offer. We’re also creating new products as we see the need arise in the community.

**RMAJ:** *What makes the South Asian community unique?*

**Wahidy:** First, let’s establish that their needs are the same as any American’s needs—a bank account, car loans, home mortgages, business loans, and so forth.

In terms of difference, the most obvious is language. The “parent” language shared by Bangladeshi, Indian, and Pakistani is Hindi. The majority of our employees, then, are bilingual; in fact, all together they can speak seven different dialects. Addressing customers in their native language is very important in overcoming barriers.

Our marketing materials—whether ads in ethnic publications or participation at events—are all in English and Hindi. And we do celebrate the major events of the community, such as Diwali.<sup>1</sup> The staff, including Kevin and Tom, dress in festive attire for the occasion.

If we were to make a generalization, South Asian customers are not aggressive; they are more likely to be soft-spoken, reserved. So we adopt those aspects of their character and attend to their needs accordingly.

**Lenihan:** Indus American Bank is the third ethnically focused institution I've worked with in New Jersey. Previously, I worked for an institution that served a Spanish community and another that targeted the Chinese community.

South Asians are very industrious, very entrepreneurial, and, while they enjoy life, business is very much a central focus. Many of the individuals I've met are involved in four or five different businesses, something I hadn't seen before coming to Indus American Bank.

They also are very family oriented and place a high priority on education. There is a high level of homeownership. They are technically savvy to the point of being on the cutting edge of technology. They have a high rate of savings.

**O'Donnell:** From my experience, customers in the Chinese community do not borrow as much as our South Asian customers do. They prefer to pay with cash, whether for personal or business reasons. Also, the Chinese customers tended to have very low LTVs on their homes. Rather than borrowing for their businesses, they preferred to fund from cash flow. South Asians are more aggressive in their borrowing and will use debt to help build their businesses.

**Lenihan:** In short, if you were to ask banks at large what characteristics they'd be looking for in their better clients, they would pretty much hit upon all of the traits of our customers.

**RMAJ:** *What are some of the specific products and services you offer to the South Asian community?*

**O'Donnell:** South Asians have the highest ethnic concentration in the medical professions. To address their needs, we instituted a Physicians Advantage Program. Along those lines, malpractice insurance financing is a much-needed service, and I have some experience in that product.

In addition, close to 75% of the hotels and motels in the U.S. are owned by members of the South Asian community. The same is true for convenience stores and gas stations. Thus, we've developed expertise in lending to those areas.

**Lenihan:** Most recently, with a partner in California, we've introduced a free money-transfer service to customers who were using Western Union, Wells Fargo, and similar companies to transfer funds to India and Sri Lanka. Because this service is available only to existing customers of our bank, we are able to address "know your customer" issues.

We've also introduced a secured credit card targeted primarily toward South Asians who are students at U.S. colleges and universities. Because they hold H-1 visas, they generally are unable to secure credit, so we have arranged with a third-party provider to offer cards. We learned about this need quite directly, from customers who came to us because they were being denied credit elsewhere.

Because our customers value saving, we offer a plethora of investment products, money markets, CDs, and savings accounts.

Another product we'll be introducing shortly is the Merchant Capture Program. Without leaving their businesses, merchants' checks can be scanned and deposited electronically to their accounts. This product will allow us to expand our reach, and I believe it will be particularly attractive to physicians, who keep healthy balances and are good credit sources. There also is a demand in the business community for business overdraft checking facilities.

**RMAJ:** *Zilay had mentioned that, in general, the South Asian customer tends to be quieter and more reserved than other populations. A credit officer has to ask tough questions and, at times, be confrontational. Is that a problem? Have you had to make concessions?*

**O'Donnell:** This is my fifth de novo bank and my second ethnic de novo bank, and I think it's difficult in any bank, in any situation, to ask those questions. Quite honestly, I have not noticed much of a difference here at Indus American Bank. I haven't found

**If an institution does not exist to fill a specific need or niche, their chances of success, in my opinion, are greatly limited.**

—Kevin Lenihan





**At the end of the day, the customer has to be satisfied—but how the customer is handled is where we win.**

—Deepak Khanna

**RMAJ:** *Kevin and Tom, what other learnings do you bring from your past work with de novos?*

**Lenihan:** One of the things I've learned from all community banks, and particularly

South Asian customers to be any more sensitive than others.

**RMAJ:** *How do you handle concentrations—for example, the large hotels and motels portfolio?*

**O'Donnell:** Many community banks may seek to serve those businesses that are, say, within three miles of a branch. We want to address the South Asian community everywhere in the region. Our borrower, for example, might own six hotels in six different parts of the state; another borrower's business may be in this state as well as in New York. We go where the business is.

The flip side is that, while we may be operating outside our immediate footprint or comfort zone, we also have some built-in geographic diversification. It would be a much greater risk to have eight hotels along the Jersey Shore than having them spread out throughout the state.

We also use RMA's materials on lending to the hotel industry. The same thing is true for a concentration we have in lending to physicians. I've signed up for RMA's *Lending to Medical Practices* course.

the ethnic community banks, is that word gets around very quickly—whether it's about something you're doing or something you're not doing. The local business people all belong to the same types of organizations and groups, so they see one another frequently. It's very important to address the needs of your customers; otherwise, you will develop a reputation very quickly for not being responsive.

**O'Donnell:** All de novo banks have a small staff. You have to be somewhat diverse in your knowledge and your abilities because you're going to have to cover a lot of different things. You usually can't hire people coming from a large bank, where they have very focused jobs, and place them in a de novo bank. We need doers, not delegators.

Also, the de novo obviously is limited in the size of loans you can make, which is a bit of a hindrance when you want to work with a customer who may have multiple businesses or several locations for a business. You certainly don't want to scare away customers because of your size. So you need to develop relationships with similar-sized banks and other community banks, participating with one another on loans.

We also use brokers to help us bring some business in because we are very limited in the number of people we can have out there knocking on doors. We have to be at the bank much of the time to service the customers we already have.

**Wahidy:** Meanwhile, on the operations side of the bank, we are subject to the same regulations as any of the large banks. This can be particularly challenging for any small bank. Kevin serves as our compliance officer, and he in turn outsources some of the work. The Bank Secrecy Act alone is a huge compliance burden, and we could not handle it all on our own.

**RMAJ:** *You mentioned that your staff must be able to handle a variety of responsibilities. Given the additional requirements for working at a bank serving a very specific customer base, that must present some hiring issues.*

### Namaste

Some readers may be wondering what *namaste* means. According to wikipedia.com, it is both a greeting and a sign of respect that may be accompanied by a slight bow made with the hands pressed together, palms touching, in front of the chest.

*Namaste* can mean any of the following:

- The spirit in me meets the same spirit in you.
- I greet that place where you and I are one.
- I salute the light of life in you.
- I receive the free spirit in you.
- I recognize that within each of us is a place where peace dwells, and when we are in that place, we are one.
- My energy salutes your energy.
- May the life within you be strong.
- The light within me sees and honors the light within you.

**Lenihan:** One of my major challenges has been to find South Asians who have community banking experience. Most of the people I find have not been part of the community that long; of those who have been, many come from fields other than banking.

As we open branches, I first look to hire local South Asians with banking experience. Because the two we've opened so far have been in what I would call South Asian enclaves, I've been able to attract branch personnel principally from other banks. This may not be the case going forward.

I like hiring people who have some of the basic skills and then educating them and bringing them along. I think they are empowered and they are a symbol to the community when they do advance. How to accomplish that at a de novo is the challenge.

**O'Donnell:** You can't really train people properly in a small bank. There simply are not enough bodies to do that, nor can we afford to pay a salary for six months or eight months while someone is learning the business. So it's very important that we have sources of education or training available.

RMA is one of the biggest and one of the best training resources. In fact, the bank's second lender is at an RMA seminar on loan negotiation today. Much of our training material is from RMA, and we regularly use RMA's *Annual Statement Studies*® to see what our peers are doing. It's a big help to see if what we're doing fits the industry norms or not.

**Wahidy:** I am a long-standing RMA member also, and I have used RMA extensively since the 1980s. I have a small library here based on the publications and the research that RMA has provided over the years. So RMA is very useful for us, and always has been.

**RMAJ:** *True or false: Because you are an ethnically focused bank, you don't have to compete on price.*

**O'Donnell:** Not true at all. However, that doesn't mean we compromise our credit standards. I am much more willing to bend

on rate than to bend on standards.

As a start-up bank, and as is true for all de novo banks, our mandate for the first couple of years is to use deposits and capital in the most productive manner. That means getting some loans on the books because they provide a better return, even if we have to shave the rate. But we will not bend on credit standards, because we couldn't afford to take a hit this early in our existence.

**RMAJ:** *Does shaving rates mean that interest rate risk would be one of your most worrisome risks?*

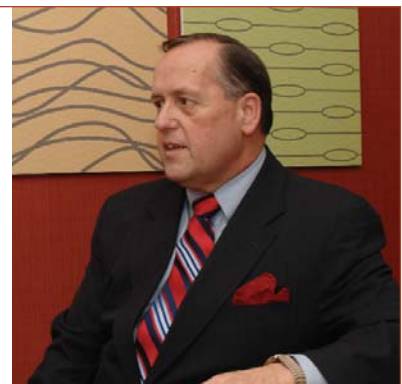
**Lenihan:** Absolutely, and we have to be sensitive to that. The South Asian community is very much in tune with rates, and they are not going to take a loan from us or give us a deposit at their expense. It's a highly competitive marketplace, and simply speaking their language isn't going to win us their business.

**Khanna:** At the end of the day, the customer has to be satisfied—but how the customer is handled is where we win. Products are the same everywhere, and pricing is very competitive. We cannot overrate the value of the personal touch, and that is a major differentiating point as we win business and retain it.

**O'Donnell:** That's a very good point. We can't necessarily compete with the larger banks in all loans—in particular, the longer-term fixed rates—but if we can turn a request around more quickly or be a little more flexible in our structuring, that gives us an advantage that might, in many cases, offset some of the pricing aspects of loans. We frequently receive requests from people who may have made a loan request more than a month before at a large bank and not heard back yet. We can turn the request around in a week or even a couple of days.

**You certainly don't want to scare away customers because of your size. So you need to develop relationships with similar-sized banks and other community banks, participating with one another on loans.**

—Thomas O'Donnell



**Wahidy:** When customers walk into our bank, we greet them by name. They feel at home; they feel our warmth.

Also, business people like to deal with decision makers. They don't want to walk into a branch and hand over a request that's sent somewhere else for a decision. Here, the president, the senior loan officer, and the chief financial officer all sit within 15 feet of each other.

**RMAJ:** *There's a wealth of experience at Indus American. Please share any final thoughts on the future for de novo banks and for community banks. What do you see as the main challenges and the main rewards?*

**Lenihan:** In an era of tightening interest spreads and increased pressure to reduce operating costs, I feel the typical de novo will find it difficult to compete. If an institution does not exist to fill a specific need or niche, their chances of success, in my opinion, are greatly limited.

**O'Donnell:** New Jersey, Florida, and perhaps California have usually been among the most active in new-bank formations. I strongly believe there will always be a need for de novo banks and community banks. In a merger, the local bank invariably is no longer locally oriented, which presents the opportunity for a new local bank that is truly part of the community. It is human nature for people not to want to have someone they've never met making decisions that can affect them so profoundly. And it's human nature to want to feel important—to feel like a big fish in a small pond. The most important factor in the success of a de novo bank, in my opinion, is the initial capital raised. I believe that for a de novo to have a good chance of succeeding, at least \$10 million is required. That said, there's definitely a

future for community banks and for de novo banks, and I feel gratified each day to be helping to make that happen. □

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**Notes**

<sup>1</sup> This five-day festival in some ways is like a New Year's celebration. In 2006 it was October 16-22, with October 21 designated as the main day to celebrate; in 2007 it will be November 9. *Diwali* originates from the word *deep-avali*, or "row of lights," symbolizing good overcoming evil, knowledge transcending ignorance, an illumination of the mind, and hope for mankind during a dark time of the year. It is a time to rejoice, wear something new, and exchange gifts and greetings ("Shubh Diwali!"), and a time for the children to seek the blessings of the elderly.



Clockwise from upper left: Deepak Khanna, Tom O'Donnell, Zilay Wahidy, Kevin Lenihan.