

# INDIANAPOLIS BUSINESS JOURNAL

ELECTRONICALLY REPRINTED FROM WEEK OF MARCH 19, 2007

## Virtual bank making 'solid' move into lending

*First Internet Bancorp expands into mortgages with Landmark acquisition*

By **Peter Schnitzler**  
pschnitzler@ibj.com

Online banks usually avoid brick-and-mortar overhead. Eliminating expense is the core of their business advantage.

So why did First Internet Bancorp spend \$12 million to acquire traditional mortgage lender and savings bank Landmark Financial Corp. and its two Indianapolis branches?

Because the acquisition of Landmark provides First Internet an opportunity to finally broach the mortgage market.

Landmark, which traces its roots back to 1925, is best known as a new-construction underwriter in the local home and commercial builder market. Its traditional banking business is relatively small.

First Internet isn't changing its Internet-dominated business model, but it will keep Landmark's Monument Circle banking location open as well as a pair of loan-production offices in Hamilton and Johnson counties. Much of Landmark's business eventually will be conducted online, said First Internet Bancorp CEO David Becker.

"It's the exact same game," Becker said. "We can take a lot of the tedious tasks and make it a little more painless for the consumer to complete them on the Web."

Formed in 1999, First Internet Bancorp has grown into a substantial bank. Its \$475 million in assets and \$383.5 million



IBJ Photo Illustration/Robin Jerstad and Jo Hohlbein

*First Internet CEO  
David Becker*

### Internet

Bancorp has customers across the United States.

They're attracted by its highly competitive rates on bread-and-butter consumer banking products, such as CDs or money-market savings accounts. First Internet Bancorp can offer better pricing because it lacks many of the costs of traditional banks.

in deposits would make it about the 12th-largest bank in central Indiana, according to *IBJ's* "2007 Book of Lists." But unlike its local neighbors, First

But it's a double-edged sword. In exchange for their lower expenses, online banks surrender personal interaction. Along with it, they lose many of the most profitable banking services, such as trust management, business loans and brokerage services.

As First Internet Bancorp expands its Landmark mortgage division, Becker said the bank plans to continue to keep costs low by conducting much of its business online or on the phone, as it always has.

"There really isn't any need to add additional brick and mortar infrastructure," he said. "The game plan is to expand in our own backyard for a period of time."

Even though Landmark has a traditional banking office, its CEO, C.P. Perfetti, said Landmark has operated almost as virtually as First Internet Bancorp. Much of Landmark's business involved visiting its customers. Blue suits and white shirts just weren't Landmark's corporate culture.

"If I wore a jacket and tie, you'd think I was going to a wedding," he said.

By combining the two banks, Perfetti said, Landmark will dramatically increase its lending firepower. Previously, Landmark could offer loans only up to \$1 million. As part of First Internet Bancorp, its lending limit has increased to \$5 million. That's a major improvement for the builders Landmark underwrites.

"\$1 million doesn't go very far for high-end custom homes," said Rex Brown, president of Carmel-based Pinery Homes by Rex Brown. Brown has been a Landmark customer for 13 years. "They definitely needed each other, no question. I was complaining to C.P. [Perfetti] five years ago that \$1 million isn't enough, not in today's market."

D.B. Klain, owner of Carmel-based D.B. Klain Builders LLC, has been a Landmark customer for a decade. He agreed the increased lending limit should be helpful. But Klain said Landmark's calling card is its deep understanding of the local real estate market. Larger banks often make blanket lending policy decisions for a state, region or even the whole country, he said.

"Just because the real estate market may be soft in one area doesn't mean it's not strong in other areas," he said. "With Landmark, it has been nice to have a con-

## First Internet Bancorp

**Founded:** 1999

**Headquarters:** 7820 Innovation Blvd., Suite 210

**Web site:** www.firstib.com

**Chairman and CEO:** David Becker

**2006 assets:** \$475 million

**2006 deposits:** \$383.5 million

**2006 loans:** \$309.8 million

**2006 profit:** \$2.13 million

**Checking interest rates:** 1.26 percent, versus 0.56 percent national average

**Money market savings rates:** 3.9 percent, versus 1.23 percent national average

*Source: First Internet Bancorp*

sistent face you could talk to. In our business, the banking partners truly are partners. They have to understand the risks we take."

Under First Internet Bancorp, Becker said, Landmark will concentrate first on expanding its share of the local mortgage market. Eventually, the bank could roll out its mortgage division nationwide. But first, First Internet Bancorp must get everybody working on the same IT system.

Becker said First Internet Bancorp is in the midst of moving its entire operation, including Landmark, onto an IT platform offered by Glastonbury, Conn.-based Open Solutions Inc.—the same firm that in 2004 acquired Becker's banking software firm, re:Member Data Services Inc., for \$20 million.

Because he helped create the system, Perfetti said, Becker will be able to wring efficiencies from it that other banks can't.

"How many times have you put in a laptop program and used only 10 percent of it?" Perfetti asked. "There's a big difference between his Internet bank and somebody else's. He's not there to just manage the bank. He created the technology."

It isn't the only locally developed banking software in use at First Internet Bancorp. Becker said the bank also uses a credit analysis system developed by Baker-Hill and a consumer lending application offered from Forum Credit Union.

Using such high-end systems, First

Internet Bancorp will move many of the tedious aspects of mortgage lending online, streamlining the process for the consumer—and the lender. There was a time when conventional wisdom held that risk assessment for mortgage loans required personal interaction. But Becker said so much credit history information is now available electronically, the handshake relationship isn't as necessary—as long as First Internet Bancorp sticks to solid borrowers.

"We're not going to do 125 percent of the market value, or subprime lending, that has gotten others in trouble," he said. "Staying out of the exotic products, it really is relatively simple to Web-enable, protect yourself and make good credit decisions."

Mike Renninger, an independent banking consultant with locally based Renninger & Associates LLC, said First Internet Bancorp should be able to capitalize on the \$5 million mortgage lending limit it can now provide. It will first target expanding business with Landmark's existing customers, then attempt to attract new ones.

"To multiply 1 million times five is going to give the lenders a significantly improved platform in which to make loans," he said. "I think it was a terrific opportunity for Landmark Savings Bank."

Because it still lacks many of the products of full-service banks, First Internet Bancorp probably won't be in a position to challenge mega-banks like Chase or National City anytime soon. But that's OK. Alistair Newton, research director with Stamford, Conn.-based technology research firm Gartner Inc.'s banking industry advisory service, said it won't have to.

Five to 10 years ago, some speculated Internet banks would supplant their dinosaur rivals. Instead, it seems they've evolved content to simply nip at their heels.

"There were a lot of people suggesting the death of the full-service bank," Newton said. "What relatively recent history has taught us is that isn't the case. But some of these Web-only banks will continue to be a significant thorn in the side of some of the larger players, as long as they're able to maintain their edge on cost and agility."•