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First Internet Bank CEO's 2018 goal: Convincing doubters a branchless model works

By Jackie Stewart

David Becker has always thought of himself as an entrepreneur and marketer.

As a 9-year-old, Becker began his first paper route and quickly realized that he would make more money if he sold more newspapers. That motivated him to persuade more people in his designated geographic area, even those who were skeptical, that they needed a newspaper.

"If I got a faster bike I could get to more houses," Becker said. "I learned the sales marketing side and how to get creative in convincing people. ... I had a pitch for everyone."

By the time his family had moved away, Becker had tripled the number of subscribers along his route.

Becker applies many of those lessons as president, chairman and CEO of First Internet Bancorp in Fishers, Ind., convincing clients, regulators, analysts and investors to believe in his branchless, internet-only bank. It took three years to satisfy regulatory requirements before First Internet Bank could launch in 1999.

"I'd describe us as one of the pioneers in the fintech community before the word was actually coined," said David Becker, President and CEO of First Internet Bank.

Since then the company has grown to $2.6 billion in assets while offering everything from mortgages and home equity lines to public finance and single-tenant lease financing.

To be sure, the model has its challenges. Investors remain somewhat skeptical because the company's net interest margin is lower than that of a traditional community bank. Concerns also exist about risk management for a nationwide lending model.

"The investors I've spoken to seem to run from this model," said Joseph Fenech, an analyst at Hovde Group. "They have had some bad experiences in the past. The common mantra I hear from investors out there is these things always blow up when the cycle turns."

Given the gradual shift toward online and mobile banking, a bank will eventually find a way to make a branchless model work.

First Internet Bank could be that bank, Fenech said. The company provides standard and formulaic products, such as mortgages, on a national scale, while completing more complex commercial banking in targeted markets.

"You see customers increasingly migrating to online and mobile channels, but the banking industry seems slow to respond to that," Fenech said. "There really hasn't been someone in a large-scale fashion that has been able to harness that potential."

This is an edited transcript of a recent conversation with Becker, who is the first of American Banker's five Community Bankers to Watch in 2018.

What can you tell me about First Internet Bank?

DAVID BECKER: I'd describe us as one of the pioneers in the fintech community before the word was actually coined. My prior history was in the financial services arena through different software companies that worked with community banks. I had the idea in 1996 of how a large bank here in Indianapolis could have a national footprint with clients in all 50 states doing it electronically versus brick and mortar.

It took three years to get through all of the regulatory hurdles. No one could figure out why someone from technology would want to launch a new bank when we were staring at Y2K. We got off the ground in 1999. We weathered Y2K and the tech bubble and burst. We weathered one of the worst economic times in our history. We came out on top.

One of our foundations is the entrepreneurial spirit I brought to the conversation and hopefully foster in all of the employees. There are the greatest opportunities out there when there's the greatest chaos. When the economic crisis hit we got into consumer mortgages when everyone was getting out, commercial real estate when everyone was getting out, C&I lending when everyone was getting out. It allowed us to grow geometrically. It took us 15 years to get to $1 billion, three years to get to another $1 billion. Now we will add the third $1 billion in a little under a year.

Do you anticipate such growth continuing?

We're at 40% growth when the industry is at 3.5% to 5%. We anticipate somewhere in the 30% range next year. The key is great-quality assets. We don't want to grow for the sake of growth. There are good opportunities and we're able to generate good assets. We have a great deposit base. The advantage we have with a national footprint is, if the economy is a little soft in one part of the country, you have the rest of the country to pull from. Our model makes us stronger in tough economic times than a traditional bank because we aren't landlocked with a certain set of customers.

How can you grow so fast while continuing to have high-quality assets?
We have the national footprint. We have the opportunity. There are pockets of the country where there's no real growth, so for a bank to grow they steal a loan from the guy down the street by lowering rates or offering no covenants. If we get in a really competitive situation where banks are going after loans, we can walk away from it. We only approve 20% to 25% of loans that are pursued.

Who are your competitors?
Take for example the commercial real estate side [where] we have single-tenant loans. It is a CVS or Burger King or a McDonald's. It's a national freestanding franchise building. We don't finance the operators, but we finance the individual investors that buy those properties. The average deal is $1.5 million. The perfect example is a lady in San Francisco who sold a multifamily property, had a 1031 tax exchange, thought if things got soft again, owning a Dollar General store would be great so she bought ones in the Southwest, Midwest and Southeast. Her local bank didn't want to do anything with it since they were all out of market. It wasn't a big enough deal for the regional and big banks to get them excited. We were the perfect bank for her because we don't care where the customer is located or where the properties are. We got our term sheet to her before anyone else would really talk to her.

What are the disadvantages of being branchless?
We had been around for 14 years when we went public back in 2013. I spent the first two or three years as a public company explaining how an internet bank worked and how it was different than the rest of the world. There are times we have to sell ourselves from the first time we talk to a customer. They maybe don't understand what to do if they don't have a branch to visit. When you think about how many of your items are done face to face with a bank … well I can't remember the last time I was there. Exactly.

Why are investors apprehensive?
I think the investment community has filters when they look at opportunities. When we went public, we didn't get a whole lot of interest until we reached $100 million in market cap and broke the $1 billion mark [in assets]. Then we started showing up on radar screens. The biggest differentiator in our model is our net interest margin is lower than a traditional bank. A lot of [investors] have a filter; they don't want to look at anyone under 300 basis points of net interest margin. Because we pay very attractive rates to our deposit base, our NIM will never match that of a traditional bank.

When you get to the bottom line our operating leverage, our noninterest expense, our costs [beat a traditional bank.] You have to go through the model to understand where we make the money. Since we've been public and now grown to $3 billion [in assets], my CFO and myself have been on the road for three years pitching this story.

Are there any big initiatives for 2018?
We're continually looking for good deposit generators or good asset generators. In 2016, we were the second-fastest growing bank in the country that was doing it purely organically. Last year, we had the opportunity to pick up Tim Dusing who opened up [a municipal lending business]. We will finish the year at almost $350 or $400 million of [municipal] loans on the books. We just hooked up with Lendeavor in the medical space. We have already bought close to $30 million in loans.

From a technology standpoint, we have the all the bells and whistles. You can open your account with your thumbprint, swipe your phone and get all of your balances. We're leading edge, but not necessarily bleeding edge. There's a lot of risk in the cyber world today.

Are you interested in M&A?
I had a broker call [to pitch six branches in Cincinnati, but] they just don't make sense. On the other side of M&A, there are some single-branch facilities across the country that have a great SBA team or a great [asset-based] lender. Anyone who has a great deposit-generating franchise or asset-generating franchise and has a limited branch network, we take a look at those. We are constantly talking at people all over the country. For us to buy a bank that has 100 branches wouldn't make any sense.

What are your thoughts on the future of branches?
Getting back to the early days the regulators asked us [what we would do when traditional banks got into internet banking]. They have, obviously. Hands down, we have the best product. My father passed away a couple of years ago, but he would give me money to bring to the bank to buy a CD. He wouldn't go online and do it. And he went to the same branch [of his bank] for 30 years. He was almost in tears when the lady who waited on him for 30 years decided to retire. He didn't know what to do.

On the other extreme, my oldest son got married two years ago. He called me in a panic saying [he needed to give an $800 check to a vendor he wanted to work with on the wedding]. He was 33 years old and had never written a check in his life. … He does everything electronically. He's used to living off his debit card. There are both extremes out there.

I think we'll coexist for a long time to come. If I was starting the bank today I'd still go branchless. I think most bankers would tell you if they could do a total reset they'd do away with branches because you really don't need it. But there are an awful lot of consumers that like to think that, when they need a branch, they will be able to go there. But when they really think about it the bank is probably closed when they can get there.