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How an Indiana tech guru built a fast-growing bank

Back in the mid-1980s, entrepreneur David Becker told a friend that people would one day do their banking on TV screens. Then, in 1999, Becker started First Internet Bank, a branchless bank that interacted with people via computer screens.

People who know Becker said he has long been a visionary, but they were a bit surprised when he launched First Internet. He was a technologist who had never been a banker, and he wasn't fond of banks.

Becker not only launched First Internet, but he's steered it to become one of the area's fastest-growing banks in recent years. The company has nearly doubled its assets since 2011 to more than $1.1 billion, and it has generated more profits in the first half of 2015 than it did all of last year.

Shares of parent First Internet Bancorp are up 86 percent this year, while many bank stocks are flat or down.

Starting online-only banks in the late 1990s was largely uncharted territory, and regulators weren't sure what to make of them. Many of the entrepreneurial attempts to do so evaporated when the tech bubble burst in 2000.

But Becker successfully navigated those and other rough waters, and people close to him said the outcome has a lot to do with the business savvy, confidence and ambition of one of the state's great entrepreneurs.

"David is the ideal for what we all want to see happen here," said David Johnson of the Central Indiana Corporate Partnership, speaking about people who start companies, chart successful paths and stick around to do it again.

"To this day, I don't know many people who do that very well, and I don't know anyone who does it better than David."

Indiana tech pioneer

Becker, 62, is considered one of the godfathers of the Indiana technology ecosystem, having started and sold various tech firms over the past three decades.

They include ViFi, a provider of Internet services to financial institutions, and re:Member Data Services, which processed electronic data for credit unions.

He sold ViFi in 2001 for $52 million and re:Member in 2004 for $22 million.

Becker also was intimately involved with the Indiana Information Technology Association and the Indiana Technology Partnership, which merged to form TechPoint in 2002. He became TechPoint's first chairman the following year.

Mark Hill, who co-founded the banking-software firm Baker Hill in 1983, said he met Becker in the mid-1990s and the two went on to collaborate on tech advocacy, angel investments and more.

"He was kind of an early mentor for me as I was thinking about the struggles and challenges that we were having at Baker Hill," Hill said. "And he was very insightful."

Becker hardly considers himself a banker, and almost never dresses like one. Hasn't worn a tie to work in years, and it's not unheard of to find him at the job in a collar-less shirt. His casual wear reflects his down-to-earth persona, and many of his employees have followed his dress code.

Becker injured his left leg in a 2006 motorcycle accident, and used to walk with a limp. The limp is gone, but exercise remains a challenge, and he jokes that that's part of the reason for his stout build.

"I can't run anymore, which didn't help my waistline any," he said.

The idea for re:Member came to Becker around 1980 while he was a consultant for the Indiana Credit Union League. He tried to launch a division within the organization, but officials there dithered on a decision. So he left to start it himself the next year.

He spent the next two decades starting and growing nationally recognized technology companies focused on the financial sector, including credit and debit card processing firm AmeriCard, which later became OneBridge. He sold that in 2014 for an undisclosed price.

While he had never been a banker, he had worked in and around finance, doing stints at General Electric Credit Corp. and the credit union league. In the mid-1990s, he decided to launch a bank himself.

"Because of his software companies dealing with the banking industry, [Becker] understood the banking industry and some of the shortcomings of the industry," said Steve Beck, a friend and managing director of Geneva Capital Group, referring to the industry's slowness in using technology for efficiency and to improve customer experience.

David Becker

Age: 61

Title: chairman and CEO of First Internet Bank

Hometown: Indianapolis

Education: Monrovia High School, 1971; political science degree from DePauw University, 1975

First jobs: Indianapolis Times evening newspaper route at 9 years old, gas station attendant around 13 years old

Post-graduate jobs: General Electric Credit Corp. manager, then Indiana Credit Union League consultant

Notable: First chairman of advocacy group TechPoint, and involved in the two organizations that merged to form it in 2002–the Indiana Information Technology Association and the Indiana Technology Partnership.

Source: IBJ research

First Internet Bank

Founded: 1999

Assets: $1.1 billion

Profit for first half of 2015: $4.3 million

Employees: 155

Branches: 0

Source: IBJ research

Appreciating assets

For much of the 2000s, asset growth at First Internet was moderate, and the bank dealt mainly in consumer loans. But over the past few years, it's been aggressively growing residential and commercial real estate loans.

Consumer loans weren't lucrative, primarily because of the thin spreads between the competitive rates online banks offer on deposit accounts and what they charge on loans.

They also lacked the upfront fee income that makes mortgage and commercial real estate loans big revenue generators.

The strategy shift meant the bank had to forge personal relationships more than it had been with retail customers, just as traditional banks do. It did so by attracting top talent from other banks and extending itself during the recession while other banks cut back.

The new approach has swelled the size of First Internet's loan portfolio—from $302 million at the end of 2010 to $727 million at the end of last year.

Investors have taken notice, bidding up the shares to about $31, giving First Internet a market value of $143 million. The 86 percent year-to-date increase compares with a decline of 3.9 percent for the benchmark KBW Bank Index.

"It's a very fast-growing bank," said Andrew Liesch, an analyst with New York-based Sandler O'Neill & Partners.

"They've raised capital in late 2013 to support the growth," he said about the $25 million secondary stock offering that November, "and they've done a very good job deploying this capital into loan growth."

It hasn't always been smooth sailing for First Internet.

Before the bank even landed its first deposit, Becker had to persuade federal regulators to approve a charter for a bank model they had never encountered.

Then, just months after First Internet opened for business, the Internet bubble burst, and investor interest in online banks all but dried up.

Becker said he believes First Internet outlasted similar banks that fell by the wayside because it kept expenses low and raised two rounds of private financing just before the bubble burst.

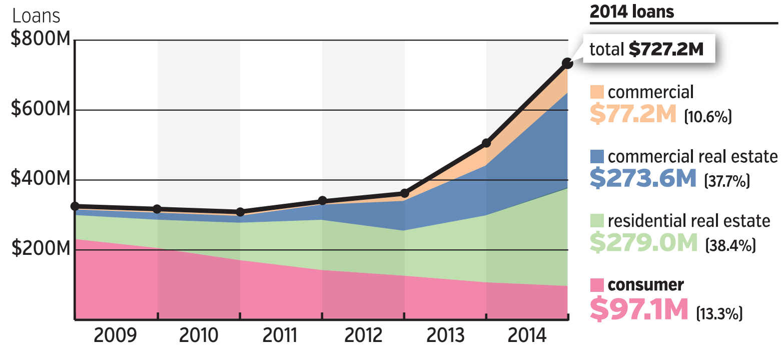
"We beat the window by about 30 days," Becker said. "It enabled us to grow for years without worrying about the capital markets."

Defining moments

Though First Internet survived, profit margins were tight.

Portfolio adjustment

At the end of 2008, about 73 percent of First Internet Bank's loans were consumer loans. The company then shifted to more profitable loan products.



Source: First Internet Bank annual reports

It didn't take long for the bank to amass customers in all 50 states, but nearly all were retail customers—folks who made deposits but weren't big borrowers.

"We had 50-year-old males as our primary client," Becker said. "They were kind of on the other end of life, and everything was fairly well set on the lending side of things."

Becker knew the real money was in residential mortgages, but it's not an easy market to crack.

"It needs perfect execution, or else it can backfire," said Morris Maurer, CEO of the National Bank of Indianapolis, speaking generally about any bank that wants to enter new lending territory.

"And you don't want to be the last one to the party," he added. "Usually, the last lender to the party is where all the loans go that nobody else wanted."

Becker chose not to start from scratch. In mid-2007, First Internet bought Indianapolis-based Landmark Financial Corp., which already made home loans.

The $12 million acquisition was a big one for First Internet, which had only $45 million in capital. And the timing was awkward, since sliding home values were beginning to drag on the economy.

Becker said a reporter at the time asked him why he was getting into the mortgage game. He responded: "I learned in my 30-year career in business that the greatest opportunities and best times are when the markets are in the craziest turmoil."

Eye for talent

After a few years and a couple of million dollars in integration costs, the Landmark acquisition started paying off—particularly as people refinanced their homes at record-low interest rates.

And it paved the way for Becker to start looking at revenue from commercial lending.

He started with commercial real estate, then so-called "commercial and industrial" loans, which deal with everything besides real estate. He didn't acquire companies, but rather people, to advance this strategy.

Two key hires were Michael Lewis, a commercial real estate banker who jumped from Huntington National Bank, and Connie Shepherd, a commercial banker who was previously with National City Bank.

Lewis, who is senior vice president of commercial real estate banking, joined in 2010. From the end of that year through 2014, commercial real estate loans grew from $20 million, or 6 percent of the bank's portfolio—to $274 million, or 38 percent.

Shepherd, vice president of commercial banking, joined in 2011. From the end of that year through 2014, commercial loans swelled from just $2 million to $77 million, or 10 percent of the portfolio.

Becker said he believes Lewis and Shepherd were attracted by the prospect of building their own teams with an unorthodox bank.

"He's got a great eye for talent," said John Taylor, Becker's attorney and good friend since the 1980s.

"People are loyal to him, and he's loyal to them," he said.

Far from bored

People close to Becker aren't surprised First Internet diversified just as his banking competitors were battening down the hatches.

"He's not a guy who's going to flinch or panic," said Hill, the Baker Hill co-founder.

The challenges likely aren't over.

Financial industry regulations in a post-recession world are especially tight, and seem unlikely to loosen anytime soon.

Online-only banks such as Capital One 360 present competition, as does the proliferation of so-called fin-tech startups that use crowdfunding and other non-bank models to provide capital for people and businesses.

Taylor said Becker loves challenges, and his bring-it-on style might be part of the reason he's still at First Internet.

Becker said that, after he starts companies, he usually turns them over to management teams once he gets bored. But he's far from bored with First Internet because he's essentially been starting new companies within the bank.

"We started in consumer retail, then went to consumer mortgage, then went to [commercial real estate], then went to C&I," Becker said. "So I'm kind of doing the same thing" he was doing before First Internet. "I just didn't have to leave the company."•