

## Banking on Business: For Longtime Financier Jeffery Redeker, Challenges Created a Unique Opportunity



Jeffery Redeker (right) started Beach Cities Commercial Bank. (Courtesy of Beach Cities Commercial Bank)

Nov. 3, 2024 2:45 AM PT

When should someone start a bank? Startup Beach Cities Commercial Bank's co-founder banked on a growth trajectory at a time when competitors were looking to scale back.

"The best time to start a bank is when the economy is not doing so well. Banks get a little more conservative. We had no portfolio to worry about and we were actively looking for loans and deposits," said Jeffrey Redeker, president of Beach Cities Commercial Bank.

It was a nearly two-year-long process that required regulatory approval and a minimum fundraising commitment. In order to launch the bank, Redeker and chief executive Kent Falk wrote a 700-page business plan and applied for a state charter through the California Department of Financial Protection and Innovation and deposit insurance from the Federal Deposit Insurance Corp. The bank needed commitments of \$25 million in assets to open, per government regulations.

In the midst of the development process, there were several major events that impacted future operations. Interest rates rose dramatically and there were major bank failures at Silicon Valley Bank, Signature Bank and Silvergate Bank that rattled the financial markets. Although the bank was nearing its fundraising goals during the bank failures in March of 2023, Redeker offered investors a chance to take their money back. However, investors had faith and supported the vision. The bank officially opened for business on June 12, 2023. It reported assets of \$81.2 million as of June 30, 2024.

“We could tell the story that we have a clean balance sheet. Others have mortgage loans and are strapped for liquidity,” said Redeker. In addition, many banks were stuck with a portfolio of low interest loans that were below market rates. Banks, which utilize interest as a way to generate much of their income, are in a stronger financial position when rates are higher, as they were when the bank launched in mid-2023. Although it is not yet profitable, the bank is nearing \$100 million in assets and was named Start-Up of the Year by the Greater Irvine Chamber of Commerce earlier this year.

*“I don’t think it’s great for the economy or the banking industry to have consolidation. We have a vision to be a small, community, technology-forward bank”*

— Jeffrey Redeker, president of Beach Cities Commercial Bank

### **Market Volatility**

Redeker and the bank's management team have experience at small banks and some of the largest in the country. They have been through several market cycles and had a vision for the new bank. Many members of the management team came from San Juan Capistrano-based Capital Bank, which opened in 2008 and was acquired in 2017. It opened during a time of turmoil for the sector. Although there were opportunities to acquire an existing bank charter that would have side-stepped some regulatory hurdles and shortened the time to begin operations, it would have meant inheriting less desirable assets.

Within the past 25 years, the number of banks operating in the United States has decreased by more than half from nearly 10,000 to about 4,600 banks today. During that time, very few new banks have opened. The industry faced headwinds during the great financial crisis in 2008 that led to bank failures and mergers. Plus, a new crop of technology financial companies have formed that offer similar banking capabilities without being beholden to brick-and-mortar locations.

### **Historic Decline of FDIC-Insured Banks**

The number of banks operating in the United States has decreased from 8,976 banks in 2004 to 4,587 banks in 2023. "I don't think it's great for the economy or the banking industry to have consolidation. We have a vision to be a small, community, technology-forward bank," said Redeker, who grew up in and around the Laguna Beach area. Many smaller banks provide excellent customer service but don't have the technology platform offered by larger financial institutions, while the larger banks don't necessarily provide the same level of customer service.

Beach Cities Commercial Bank operates its headquarters and a branch in Irvine that serves Orange County, along with operating a regional branch in Encinitas for San Diego County. The bulk of lending is made to small businesses for commercial needs such as real estate, equipment financing, business acquisition and partner buyouts and SBA loans. The bank does not currently offer personal loans for mortgages, home equity lines of credit or automotive loans. But for Beach Cities Bank, its location in Southern California is the ideal area for this commercial segment due to the large manufacturing base along the 15 corridor in Orange County and northern San Diego County, where a multitude of manufacturers and military subcontractors operate.

### **Technology Platform**

A key differentiator is the focus on technology. Larger competitors are able to provide online and mobile platforms. Plus, there are numerous unregulated technology companies that offer similar services as banks and credit unions. But there is still a need for brick-and-mortar locations, as Redeker believes that banks need to meet customers anywhere and at any time to be successful.

He acknowledged that some banks offer similar technologies to these new-look platforms, but not many. Redeker stressed that there is a commitment by the board to invest in new technology moving forward. These features include cybersecurity protection such as multi-factor authentication, real-time payment capture and the ability to approve wire payments with phones, tablets or laptops. It's important, he says, that people can track and transfer money instantaneously – business owners are demanding faster and more complete access to their bank at any time.

“You need to be able to do business with your customers on their smartphones. People want to move money easily,” said Redeker.

*-David Nusbaum*