

COMMUNITY BANKING

Two-year-old California bank amasses \$500 million expansion war chest

By [John Reosti](#) December 19, 2023, 3:09 p.m. EST 4 Min Read

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Stephen Gordon, left, CEO of Genesis Bank in California, said that his institution has secured \$500 million in pledges from private equity firms and other investors to complete bank acquisitions in the Western U.S.

Genesis Bank Chairman and CEO Stephen Gordon believes the time is ripe to steer his 2-year-old institution on an expansion track.

Gordon announced last week that the \$173.4 million-asset Genesis Bank, which opened August 2021 in Newport Beach, California, had secured approximately \$500 million in equity capital commitments to acquire banks in the Western region. Genesis won't draw the cash — pledged by large- and medium-size private equity firms, family offices and bank investors — until it secures definitive agreements with sellers.

"We believe there is a meaningful opportunity for Genesis to leverage its leading technology and scalable platform, clean balance sheet, abundant capital, and veteran expertise, to actively and opportunistically pursue acquisition and recapitalization transactions across the Western region," Gordon said in a press release.

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Though Gordon declined to discuss timing, he disclosed his team had already begun studying potential deals. "There are banks we're looking at," Gordon said in a subsequent interview. "I'm not going to quantify timing, but there are things we're looking at."

Beyond much-discussed and long-standing difficulties keeping up with the cost technology and regulatory compliance, Gordon believes a host of community banks have had their prospects further battered, the result of higher interest rates and the spike in funding costs that followed a series of high-profile bank failures in March and April.

"I don't think it's really about the cost of regulation or technology," Gordon said. "It's about the broken balance sheets that have resulted from the rapid Fed [interest rate] increases. "It's really had an impact on the balance sheets of a lot of banks, in terms of their deposit bases, in terms of

interest-rate risk, in terms of net interest margin stress — that's before you get into any impending credit quality issues that could arise."

There will likely be no shortage of opportunity for an acquirer backed by ample funding, said Paul Davis, director of market intelligence for consulting firm Strategic Resource Management. Smaller banks are facing potential credit-quality issues plus the cost of technology upgrades in 2024. Management and board succession could also present challenges. "There are a lot of things for banks to consider," Davis said, adding Gordon and Genesis "can make some deals, for sure."

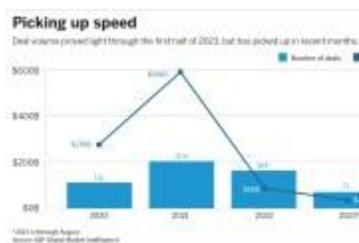
Gordon, who began his financial services career as an investment banker, is no stranger to the merger-and-acquisition arena. Prior to Genesis' launch, Gordon served as CEO at two other California institutions, Opus Bank and Commercial Capital Bancorp. Both were active acquirers. Indeed, Gordon "didn't have trouble finding sellers," Davis said.

While Gordon didn't emphasize it when Genesis opened, he and his team were developing plans for an eventual expansion. "We launched Genesis in August 2021 with the thesis being that at some point, post-COVID, there would be some sort of economic cycle that would hit," Gordon said. "You can't have rates remain at zero for 12 years and think they're always going to remain that way, that there'll be no byproduct coming from that. ... We wanted to be positioned to be able to go on offense at that moment while the rest of the banking industry might be playing defense."

Ultimately, the shock of rapidly rising interest rates, along with the banking closures in March and April pushed things into gear. "We all looked at each other and said, 'Now's the time,'" Gordon said.

Commercial Capital and Opus operated extensive branch networks. Genesis, by contrast, operates a single location in Newport Beach. Gordon is determined to maintain as lean a profile as possible as the company gears for expansion. "We're going to try to minimize all the legacy branch

infrastructure that's kind of a misguided vision of some institutions," Gordon said. "We're going to wring out efficiencies and recognize we're in a different era."



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Genesis is notable for its solid organic growth, according to Davis. It recently established a 1031 exchange division facilitating real estate transactions, as well as several other verticals supporting Southern California entrepreneurs. With just over two years of operations under its belt, Genesis has yet to break even, but appears to be well on the way to doing so. Its loan portfolio at Sept. 30 totaled \$145.6 million, up 54% year over year. Revenue through the first nine months of 2023 increased 44%, to \$3.9 million. That's "par for the course" for de novo banks, Davis said.

Since its founding, Genesis Bank has been classified as one of only two multiethnic-multiracial minority depository institutions in the country, based on the composition of its board of directors, as well as the footprint it serves. As it plots its growth path, Genesis will look for markets that resemble its highly diverse Southern California home base.

Maintaining the bank's MDI identity "is very important to us," Gordon said. "We think we can be highly effective on the M&A and recapitalization front where the markets that we'll be in overall, in

totality, will remain majority-minority," Gordon said. "It could be that a given market isn't, but overall our [footprint] will be" majority minority."

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