

Member Snapshot:
Bank of Cape Cod



A Growing Bank Provides Support for Cape Cod Businesses

by Robert O'Malley

When Timothy Telman and others founded the Bank of Cape Cod more than five years ago, their goal was to focus their services on the thousands of small business owners that make up the bulk of the Cape Cod economy.

“We looked at the demographics,” says Mr. Telman, president and chief executive officer at the Bank of Cape Cod. “There were about 10,000 small businesses from Provincetown to the bridge and down to Falmouth. So there was a good market for what we were looking to do.”

Five years after opening for business in 2006, the Bank of Cape Cod has close to \$150 million in assets and about \$120 million in loans outstanding. It has stayed true to its original vision of developing a successful commercial bank despite the vagaries of the recent economy. “Our business model today is very true to what it was five and a half years ago,” Mr. Telman says.

Mr. Telman attributes the bank’s steady growth to its roots in the local community. Twenty years ago – before the recent wave of bank consolidations – there were 16 banks with headquarters on Cape Cod, he says. “Today, there are four, and we are one of them.”

“We went to the regulators and said that having another bank on the Cape would be good for the public because it gives them another choice,” he says. “We are not all things to all people, but we are the bank of choice for small businesses.”

Mr. Telman says a key to the bank’s success thus far has been its flexibility and quick response to local business needs. “Decisions are made right here,” he says. “Once a customer provides us with a complete financial package, we can turn a decision around within three days.”

The bank’s customers include a wide range of local businesses, including food, medical service providers, and tourist-related



From the left, Maria Nichols, Mark E. Linehan, and Timothy Telman at Bank of Cape Cod in Hyannis.

services. Mr. Telman says the bank has yet to have a delinquency.

The bank recently financed the purchase of new equipment for Lambert's Fruit Co., a popular specialty market in Hyannis. Mr. Telman says Lambert's owner recently told him that the loan made it possible to install new prepared-food cases in the store. "He said that in the past he couldn't get to that point with other banks," Mr. Telman says. "It was nice to hear that."

Other bank customers include Cape Fish and Lobster, a seafood supplier that has operated on the Cape for about 30 years, and Cape Dairy, LLC, a distributor of dairy products that has been expanding off the Cape. "We're financing construction of Cape Fish and Lobster's new facility," Mr. Telman says. "We're also helping Cape Dairy finance its expansion through acquisition."

The bank has also financed a number of health-related businesses, including Urology Associates of Cape Cod and Shields MRI. Mr. Telman notes there's a growing demand for health-related businesses on the Cape because of the area's high median age.

Because many Cape businesses are seasonal, the bank needs to be flexible in its loan structuring. "We have to structure our deals in line with their cash flows," Mr. Telman says. "They pay interest all year long, but there may be no principal payments during the winter. A lot of these businesses have to make all of their money during a three-month period to cover their expenses for the year."

The bank's commercial loans tend to support real estate financing, Mr. Telman says. "There's little to no manufacturing down here, so there's very little need to finance inventories, such as raw materials or finished goods, or accounts receivable."

FHLB Boston Funding

A member of the Federal Home Loan Bank of Boston since 2007, Bank of Cape Cod has used Bank funding alternatives strategically to help support its growth.

Mark E. Linehan, senior vice president and chief financial officer at Bank of Cape Cod, says they often use the Bank's amortizing advances to match fund some of their commercial loans. They also take advantage of bullet and Community

Development advances.

"A lot of the commercial lending we're doing is five-year fixed-rate loans with a 20-year amortization," Mr. Linehan says. "Five-year advance rates at about 1.5 percent and lending at 5 percent means a 3.5 percent spread locked in for five years – if I can match that loan with a five-year amortizing or bullet advance."

In the current highly competitive, low interest-rate environment, Bank of Cape Cod also uses the Bank's long-term funding "to help manage interest-rate risk and lock in spreads," Mr. Telman says.

In recent years, the bank has also made use of several state and federal programs designed to promote small-business lending. Mr. Telman said both programs provided "low-cost funds" that "we were able to put to use quickly due to our robust loan growth."

The bank received \$4 million from the federal Small Business Lending Fund, which provided capital to qualified community banks and community development loan funds with assets of less than \$10 billion to encourage lending to small business.

“That \$4 million allows us to lend an additional \$50 million to the community because it is capital we can leverage,” Mr. Telman says, adding that the bank received the capital at a low rate of 1 percent to help fund their bustling loan growth.

“The SBLF has also allowed us to increase our legal lending limit and thereby add more revenue for a particular deal sooner than we would otherwise,” Mr. Telman says. “Previously our legal lending limit to one customer was \$2.5 million, but with the SBLF it has gone up to \$3.3 million.”

In addition to the SBLF funding, the bank also received \$5 million in state deposits from the state of Massachusetts Small Business Banking Partnership, which offered \$100 million in state deposits to community banks around the state as part of a strategy to boost small business lending.

The bank’s participation in the two government programs provided it with expanded liquidity during the first half of the year. “In the middle of the year, we had a lot more deposits than we needed,” Mr. Linehan says. “But our loan growth has been spectacular in the third quarter and that has soaked up most of that liquidity.”

“Going forward we’re going to be in a position to make use of more Bank advances to match some of our commercial loans,” Mr. Linehan says. “We’d also like to make use of overnight funding to give us more spread on deals where we can afford it from an interest-rate-risk standpoint.”

“Bank of Cape Cod has been a great partner for us,” says Maria Nichols, relationship manager at the Bank. “They have borrowed from us consistently since they became members, and are also using our safekeeping services.”

“We were a startup bank in the worst of economic times since the great depression and we were able to execute our business plan,” notes Mr. Telman. “The swing in the federal funds rate was 700 basis points from what we thought it was going to be, and we still managed to make money on a monthly basis after three years. Our core profitability this year will be three times what it was last year.”

With its headquarters in Hyannis and a branch in Osterville, Bank of Cape Cod plans to continue its growth with the opening of a third branch on the Cape next year. “We started with nothing, but we have created 24 jobs on Cape Cod, three in the last nine months, with four to five more anticipated in 2012,” Mr. Telman says. “I don’t know many who can say that right now.” ■

FHLB Boston’s New Home



On November 11, 2011, the Bank moved to its new office at the Prudential Tower in Boston. Left: Bank President and CEO Edward A. Hjerpe takes board members on a tour of the Bank’s new office. From the left, A. James Lavoie, trustee, Middlesex Savings Bank; Mr. Hjerpe; John Goldsmith, director, Capital Securities Management, Inc.; and John F. Treanor, director, The Washington Trust Company. Right: The money desk and the reception desk at the Bank’s new Prudential Tower office.