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COVER STORY



IAN TERRY / THE HERALD

Sheryl Nilson, Pacific Crest Savings Bank CEO and president, and Wayne Bull, the bank's chief financial officer, stand outside of their fifth-floor office in Lynnwood. The bank has no branches and instead provides customers with online banking and service.

Bank that does things differently

By Jim Davis

THE HERALD BUSINESS JOURNAL

Picture a bank. The ATM machine at the entrance, the cashier at a window and the vault with the heavy metal door open during business hours.

That's nothing like Pacific Crest Savings Bank.

There's no ATM, no cashier, no vault. As a matter of fact, the Lynnwood bank has a sign that reads, "No Cash on Premises."

Instead, the bank encourages customers to do banking online.

"Technology has helped us justify that decision each year because so much can be done online," said Sheryl Nilson, Pacific Crest's CEO and president. "People can do transfers, they do payments, they can make deposits on their phones."

Need some cash? Customers can withdraw money from any ATM nationwide without fees. (Cash deposits need to be taken to certain ATM machines.)

While plenty of banks have shifted to online banking, Pacific Crest adds another wrinkle. The bank has only a single location, on the fifth floor in an office building near Alderwood mall.

There are no branches.

"It really is all about being efficient and having low overhead," Nilson said. "We don't need a lot of staff to sit in a branch. We bring the bank to the client."

This seems to have worked for a community bank which weathered the recession while larger, more established banks faltered around Snohomish County.

Case in point: The bank's assets surpassed \$200 million for the first time at the end of September.

Pacific Crest has a lot of foresight in the banking industry, said Fred Safstrom, the Housing Hope CEO who is the chairman of the bank's board of directors.

"There are other banks that don't have branches, so we are not completely unique in that, but I think we are far from the normal for banks," said Safstrom, who is a former president and CEO of Everett's Cascade Bank. "Normally, banks use their branching system to provide convenience to their depositors. What we're doing is we're using technology and the computer to provide that convenience."

Pacific Crest, at 3500 188th St. SW, looks more like a real estate headquarters than a traditional bank.

That's probably because the bank

started as a mortgage company.

Founders John Fairchild, Harold Sankey and Nilson created the company in 1984, which was then named Phoenix Mortgage and Escrow.

Nilson had started working with Fairchild while she was still at the University of Washington, when he owned another mortgage company. He gave her opportunities to grow, and she quickly became his right-hand person at the firm.

Phoenix Mortgage was first located in the Northgate neighborhood of Seattle. The company moved its corporate offices to Lynnwood in 1990.

In 1998, the company converted to a Washington-state-chartered, federally insured savings bank, becoming Phoenix Savings Bank.

"Our tagline back then was, 'Northwest Savings for Northwest Loans,' because that is pretty much what you do, taking the deposits that help you fund more loans," Nilson said.

In 2005, the company underwent a name change. Fairchild was beginning to wind down his career, and he knew that Nilson always hated the name. It was called Phoenix because the company emerged from a previous business deal that went sideways.

Bank size

A selection of banks in Snohomish County ranked by assets with headquarters and full-time employees.

Heritage Bank, Olympia, \$3.75 billion, 735 employees

Peoples Bank, Bellingham, \$1.5 billion, 399 employees

1st Security Bank, Mountlake Terrace, \$783.9 million, 293 employees

Coastal Community Bank, Everett, \$646 million, 146 employees

UniBank, Lynnwood, \$248 million, 51 employees

Pacific Crest Savings Bank, Lynnwood, \$200 million, 16 employees

Mountain Pacific Bank, Everett, \$199 million, 42 employees

Bank of Washington, Lynnwood, \$177 million, 39 employees

Source: SNL Financial

So the company was the phoenix emerging from the ashes.

"I was the one who went to conferences and I would always get the, 'What do you mean you're in Lynnwood, but your name is Phoenix' like in Arizona," Nilson said. "You don't know how many times I repeated that we were the ashes rising above."

The company settled on Pacific Crest Savings Bank, what Nilson calls a good Northwest name in honor of the trail that makes its way along the West Coast.

Pacific Crest grew to add bank branches in Northgate and Bellevue and home loan centers in Mount Vernon, Federal Way and Lake Tahoe, Nevada.

In 2006, Fairchild thought the real estate market was becoming too erratic. So the company sold its mortgage and escrow divisions to American Home Mortgage Investment Corp. of Melville, New York. And the bank consolidated the rest of its operations in Lynnwood.

Overnight, the company dropped from 200 employees to 20.

American Home Mortgage was one of the first major mortgage companies to fold during the recession. Most of Pacific Crest's former loan officers went to work for Spokane-based Sterling Bank, which has since been acquired by Umpqua Bank.

"The timing was good," Nilson said. "Did we see the crash coming? Absolutely not."

But Pacific Crest didn't emerge unscathed.

"Honestly, going into the downturn, we like many other banks had too many construction loans," Nilson said. "That's what hurt us. We had expanded into Pierce County, and nobody expected the rug to get pulled out as fast and as hard as it did."

Still, Pacific Crest continues to make loans to the real estate industry. She thinks the Puget Sound region's market is stronger now than it was before the recession, with Amazon, Google and others investing heavily in the area. And that should make the real estate market more secure.

And real estate has always been part of Pacific Crest's core mission.

"It kind of goes back to sticking with what you know best," Nilson said. "Even though we got stung in the downturn, I'm absolutely sticking with what we know best."

The bank specializes in loans for smaller housing projects; Nilson calls a \$2



IAN TERRY / THE HERALD

With no cash on hand, Pacific Crest Savings Bank's lobby in Lynnwood looks like a typical office.

million loan its "sweet spot," although the bank has made loans up to to \$4 million. The bank may extend a loan on a project that national banks may skip.

"We always called it make-sense underwriting, because we could take different scenarios that wouldn't fit in a normal conventional box and as long as it made sense to us we can make that loan," she said. "We can help more borrowers who have a different story."

Most of the bank's loans are on projects in Snohomish and King counties. One of its specialties is lending to buyers of floating homes, the 400 homes on Lake Union and Portage Bay in Seattle. Those homes are considered personal property, rather than houses, so getting a traditional loan at a national bank can sometimes be difficult.

Pacific Crest is also a full-service bank offering checking accounts, money markets and CDs. Nilson knows that her bank does things a little differently with its emphasis on online banking and its single location.

But she notes that a lot of banks are moving away from branches.

"It's very expensive to have brick-and-mortar branches on every street corner," Nilson said. "You see the big national banks that have a lot of branches. If you go into those, they're having less and less staff, because the activity really isn't there."

While it encourages online banking, Pacific Crest works with each client. One convenience store in Lake Stevens has daily cash deposits, so the bank sends an armored truck to pick up the money.

"Everybody has different needs," Nilson said. "It's up to us to sit down and figure out how we're going to make our environment work for them."

Safstrom said he has three grown children who are millennials and they never step into a branch. All of their banking is done with smart phones or online.

"Those in that generation hate writing

checks," Safstrom said. "To them, writing a check is an antiquated way to pay your bills. Why would anybody do that? It's a different perspective."

With the emphasis on online banking and the single location, the bank has been able to keep a staff of just 17 employees. That makes the bank "incredibly efficient," Safstrom said.

Nilson said older customers flock to the bank's CDs and money market accounts, because the bank offers competitive rates. Those customers usually do visit the Lynnwood office.

"They for sure want to see that we're real and have four walls and meet our people and then they're happy customers forever," she said.

Of the original founders, Fairchild retired in 2007 and Sankey has died. Fairchild is suffering from Alzheimer's disease and his wife, Kerry Fairchild, took his seat on the board in 2012.

Another thing that sets Pacific Crest apart from other banks: Its reluctance to consider mergers. Acquiring another bank usually means taking on another bank's problems, Nilson said. Selling to another bank would mean dismantling her team, who have nearly 15 years tenure, on average.

While she says never say never, she said she prefers keeping things the way it has been.

"That's kind of everything with us," Nilson said. "Slow and steady and just kind of keeping the ship pointed straight. We don't do any outrageous lines of business. We stick with what we know and it's worked out well."

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