

Silvergate: On Your Mark, Get Set, Go Public?

Bank Prepares Its People, Technology And Compliance as It Considers Possible Move

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CEO Alan Lane is positioning Silvergate Bank to go public if management elects to go in that direction.

Photo by Jamie Scott Lytle.

San Diego — Silvergate Bank is gearing up for the big leagues.

With a new core banking system and a review underway to ensure compliance with good-governance regulations for public companies, the privately held La Jolla-based financial institution — San Diego County’s largest locally headquartered commercial bank, with assets of nearly \$1 billion — is preparing to go public.

Although bank management hasn’t decided definitively when or whether it will do so, Silvergate wants to be ready, said CEO Alan Lane.

That means making sure its operations live up to the guidelines established in 2002 under Sarbanes-Oxley, the legislation created by Congress in the wake of a string of corporate mismanagement and accounting scandals that requires public companies establish internal controls.

“By the end of the year, we hope to be done, and if we decide to go public in 2018, we’ll be ready,” Lane said. “While we haven’t set a specific timetable, we decided to go ahead and become compliant so that it doesn’t become a fire drill when and if we do.”

Plenty of Reasons to Go Public

Banks generally choose to go public to fuel expansion.

The opportunity to raise capital is a factor in Silvergate’s consideration, Lane said, but not the only reason.

Going public would also allow the bank to provide longtime shareholders with liquidity and give local customers the opportunity to become shareholders, he said.

While ensuring its processes are up to regulatory snuff, the bank also has launched an effort to improve its internal processes and map exactly how the business functions.

That undertaking was inspired by the bank's conversion of its core banking system — that's the infrastructure behind everything from customer transactions to mobile banking — in mid-August. Prior to the switch, the bank had been using the same core system since 2004.

In 2009, when Silvergate was roughly one-third the size it is today, the bank got regulators' OK to change its charter from an industrial loan company to a commercial bank. The change, which allowed it to begin offering checking account services to its customers, shifted it into growth mode.

Updating Technology

In a perfect world, Silvergate would have gone through a core conversion then, but Lane said the bank was focused on ensuring it did not join the ranks of those regional institutions being pulled under by the financial crisis. The bank was also busy hiring talented employees left adrift by industry consolidation, Lane said.

“We decided to keep things as they were,” he said. “What we learned over the preceding three or four years was that as we embarked on trying to be a more traditional bank, we were doing that with one hand tied behind our bank by staying on the old system.”

Issues with the aging system included the inconvenience to customers caused by programs installed by third parties, which added functionality but required a slew of individual sign-ons to access.

In 2014, about two years before the contract for that system was set to expire, the bank began prospecting for a more modern software platform.

Eventually, it came down to two options: a platform with more functionality from the provider of the bank's old system, or a pricier system from a new provider, Jacksonville, Fla.-based financial services technology firm FIS.

Increasing Efficiencies

Banks of all sizes are coming to FIS for such solutions, said Tere Brun, a senior vice president with the company and manager of the firm's Community Core Solutions division.

Financial institutions are feeling the pressure to accommodate customers through a variety of channels, from in-person meetings to tablet devices with a range of operating systems.

Silvergate opted for the costlier system, justifying the expense based on the increased efficiencies management believes the system will bring — and on FIS' reputation for innovation, a core value which Silvergate shares, Lane said.

That attitude underpins its decision in recent years to develop a relatively novel niche customer segment: those in the financial technology, or fintech, space, such as cryptocurrency firms. (Bitcoin, of course, is the predominant digital currency in today's crypto-tech landscape.)

Today, fintech customers' deposits make up about 10 percent of the bank's deposit base, Lane said.

The Fintech Arena

Soon the bank plans to go live with the option for those firms to access its services via an API (application program interface) — code that allows external software to talk with the bank's system. That's possible due to Silvergate's new core banking system.

“We think it’s going to be a big year for us in the fintech arena,” he said.

Improvements already in effect include a single sign-on for customers regardless of the service they are trying to access and better mobile banking available on smartphones and tablets alike. That accessibility also allows employees visiting prospective customers to walk them through the account process without having to haul along a stack of papers, Lane said.

“At this point, we believe that our business online banking platform is at the top of its game,” he said. “We can do everything that the bigger banks can do and everything that the regionals banks can do.”

Over time, Silvergate hopes the improved integrations and systems will make its operations more efficient.

“We want to be trying to use the new system rather than the manual workarounds we had developed over time,” he said. “The clunky workarounds are mostly in the back office, behind the scenes, but they do impact our profitability.”

FIS’ Brun said the company’s software is appealing to banks because of the ease of integrating all the moving parts that make up a bank’s operations.

“Integration drives efficiency for the banks, and efficiencies help them deploy their resources for other things,” she said.

Aiming for 150 Employees

By the end of 2017, Silvergate plans to bring on about 20 employees. The bank’s workforce has expanded by more than 200 percent since Lane was hired in 2008, when Silvergate had fewer than 40 people.

Hiring 20 additional workers would take the bank’s number of local employees to about 150, spread out over its La Jolla headquarters, branches in Carlsbad, Escondido, La Jolla and La Mesa and a loan production office in the Orange County city of Seal Beach.

Silvergate is also considering adding a new branch, its first in Orange County, Lane said. The bank already has customers in that region, plus the loan production office.

“It probably won’t happen this year — although it could, for the right opportunity,” he said. “Certainly, by the end of 2018, we would hope to have a branch up in Orange County.”

In the meantime, the bank will be busy checking items off of its “massive checklist,” Lane said, which includes the requirements the bank must meet under Sarbanes-Oxley and those required by banks with at least \$1 billion in assets in anticipation of soon surpassing that milestone.

Expectations of Deregulation

David Ely, a finance professor at San Diego State University, said rising interest rates and signs of laxer government oversight under the new administration could prompt increased interest by privately held banks in going public.

“It may be a good time to go public just simply because with expectations of deregulation and maybe an improving economy, banks are worth more than they were a few years ago,” he said. “Since the election, bank stocks have appreciated quite a bit.”

At the close of 2016, Silvergate reported \$978.1 million in assets, up about 3 percent from \$948.2 million the prior year. If the bank’s assets grow by at least the same percentage in 2017, Silvergate will start 2018 as the only San Diego-based commercial bank operating with assets in the billion-dollar range.

“Even though we’ve grown a lot over the last several years, I would say in many respects, we feel like we’re just getting started,” Lane said.