

Long-Term Players

**An Interview with Ehud Arnon,
President and Chief Executive Officer, IDB Bank**

EDITORS' NOTE *Ehud Arnon most recently served as Senior Executive Vice President and a member of the Board of Management and Head of the Corporate Division of Israel Discount Bank, Ltd. He began his career with the Bank of Israel and then joined the Exchange National Bank of Chicago, and thereafter First International Bank of Israel. Arnon spent the next 20 years at Bank Hapolarim B.M., and then served HSBC Bank plc as the Head of Corporate Division in Israel before joining Israel Discount Bank in 2007. He holds a Bachelor of Arts in Economics and International Relations and a Master of Business Administration, both from Hebrew University.*



Ehud Arnon

COMPANY BRIEF *IDB Bank (www.idbbank.com) is a New York State-chartered commercial bank and a member of the FDIC. In addition to its Manhattan headquarters and local branches, the bank maintains other full-service branches in Southern Florida and Southern California, and provides a complete range of personal and commercial banking, trade services, and innovative FDIC-insured bank deposit products to U.S. and international clients. Areas of expertise include Middle Market, Asset Based and Commercial Real Estate Lending; Factoring through its division, IDB Factors®; Trade Finance; and U.S. and International Private Banking.*

Were you surprised at how deep the economic recession became and how was IDB Bank positioned during that time?

At the time, I was head of Corporate in IDB Israel, so it was viewed from an Israeli perspective. One of the prime causes of the crises in the U.S. was the handling of mortgages.

The difference is the Israeli mortgage market is conservative. There is no such thing on a single family mortgage as nonrecourse; it's all recourse. The first thing you look at is the purchaser's income and only then at the value of the property; loan-to-value is the secondary guideline. We won't give a loan where the monthly repayment is more than 30 percent of the person's income.

Also, in Israel, everyone is part of an extended family. If you get into trouble on your mortgage, someone in your family will probably help you out.

The economy slowed down in Israel during the crises, but the Israeli banks had the advantage of being totally self-funded with deposits. We were in the intrabank market because banks our size have to be, but we didn't rely on the intrabank market, and likewise for our subsidiary in New York.

In the U.S., we are a wholly owned subsidiary of Israel Discount Bank Ltd. and are a \$10-billion bank on a stand-alone basis. We have always relied on our own deposit base, most of which comes from our long-term clients. Hence,

when liquidity dried up, it was not a concern for us because we had ample liquidity domestically.

Also, this bank has always been very traditional and conservative in its lending policies. The know-your-customer bit is not something we do because of regulations; we know our customers and their families and they have been banking with us for a long time.

Our clients did have a difficult period and our reserves and provisions went up, but not to the extent that it had any major impact on the bank.

Throughout the crisis, this bank made money every year, albeit less. We were concerned like everyone else but we needed no governmental assistance, maintaining a strong capital base throughout.

Is there an effective understanding of IDB Bank both in New York and across the U.S.?

We're not a retail entity. We are a wholesale player, both in our private banking and commercial endeavors. When that is your profile, then you're not a household name.

We're in the New York area as well as Miami and Los Angeles, and we have a South American footprint: we own the sixth largest bank in Uruguay as a wholly owned subsidiary – it's a billion-dollar operation and a retail operation, and everyone there knows it.

Having said that, in the U.S., anyone in the markets we're in – apparel, food, and medium-sized players in commercial real estate – knows us.

How challenging is it to differentiate in this space?

Our business is all personal. Many talk about it; we actually do it. It's not part of our DNA to have a 1-800 number, be it on the commercial side of our business or in our private banking endeavor. And we're expanding our footprint in local private banking.

When things got difficult, we were in no hurry to foreclose, which other banks might have had to do.

It's the DNA of the group in Israel as well that we have a philosophy that foreclosure is the last thing you want to do.

When a customer has difficulties, you work with him. Our experience has always shown us that considering the client is doing the best he can, you will do better by working things out with him and being in it for the long-term rather than cutting your losses and running.

We're long-term players and there is no reason to change.

We're a unique foreign bank in that we're an American bank with foreign ownership; we're not a foreign bank that has a U.S. presence. We're 25 percent of the group's balance sheet.

There are big European banks that are now folding their U.S. operations because of problems at home. Not only are we not shutting down but we're expanding. We recently opened private banking branches in New Jersey and Brooklyn.

Are there opportunities to attract other mid-size bank clients?

The universe of competition for us is the large and medium-size banks. The smaller banks are not relevant.

But we are proud to compare ourselves with any bank now. The thing regulators look at is tier-one capital – your basic root capital, your equity, and your retained earnings. We don't have any sub-debt. We only have tier one.

Under U.S. regulations, a very well capitalized bank is at 10 percent; we are above 14 percent.

We compete for the client who tends to work with the medium-size banks because of the lack of personal service at the bigger ones.

We also do a lot of business with other banks, servicing clients jointly. And when we participate or when somebody participates with us in deals we lead, we like everyone to be active. We're considered a good participant among our colleagues.

A niche we developed naturally is Israeli related business, which is an important aspect of our corporate business but not the main thrust of what we're doing.

What are you focused on to make sure IDB remains a leader in the space?

The key element is not planning for the next six months but looking at where we want to be in five years and planning backward from there. We're long-term players and we're not interested only in the next quarter's P&L. ●