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Celebrating their 20th Anniversary in 2023, Falcon National Bank Has Grown from \$4.5 Million in Assets to Nearly \$1 Billion Today

CEO John Herges has a passion to serve and the experience to lead, from the first employee of the de novo bank to the six locations they are today.



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CEOCFO: *Mr. Herges, would you give us a little history of Falcon National? I understand it all started with a phone call between you and Board Chairman Brian Bauerly.*

Mr. Herges: That is correct. In late 2002, I received a call from Brian Bauerly. Brian and his brothers owned a Ready-Mix company in Saint Cloud. I was working at a local bank; we banked Brian, his brothers in their Ready-Mix business. Brian asked for a meeting with me. I thought it would be bank-related to their concrete paving business. It was banking related, but something totally different. He told me they were starting a bank in Foley, Minnesota and they are looking for somebody to run it, be a partner, and an investor in it. The request caught me a little off guard. I told him I would give it some thought, but it did not take me too long. I called him back and told him to count me in. I was hired as the President and CEO of Falcon National Bank and the first order of business was to apply for a bank charter. We obtained the bank charter in early 2003 and opened our bank in Foley, Minnesota on July 1st, 2003.

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John Herges

CEO CFO: *Where did the name Falcon National come from?*

Mr. Herges: Our first location was in Foley, Minnesota. At one of our first board meetings, we were brainstorming as to what to name the bank. One of the board members asked what the mascot was for the Foley High School. I mentioned that it was the Falcons. He said that a name with Falcon in it would play well in the community, and you could use the name outside the immediate Foley area. As a result of that discussion, the name Falcon National Bank was chosen.

CEO CFO: *What is the significance of being a national bank?*

Mr. Herges: My banking experience has been in national banks, which gave me a good relationship with the national bank regulators. My knowledge in this space would give us an advantage in terms of getting our charter approved. As it turned out, we now have a nationwide equipment financing division and SBA division. Being a national bank gives us the opportunity to go national with our some of our lines of business, a side benefit that we were not even thinking about at the time.

CEO CFO: *Would you tell us about the merger of Eagle Community Bank with Falcon National Bank? Fill us in on how the deal developed and how it has worked out since it was finalized in April of 2021. What are some of the opportunities that you were able to take advantage of with the acquisition?*

Mr. Herges: Eagle Community Bank was the third acquisition for us. I met a gentleman, who was the President and CEO of Eagle Community Bank at the time, at a banking meeting. He later introduced me to the chairman and owner of Eagle Community Bank. The owner was interested in selling because he, nor anybody in his family, hadn't any interest in being active in the bank. To grow, the bank required additional capital and the owner was either unwilling or unable at the time to do that. That led to Falcon National Bank buying Eagle Community Bank.

Eagle Community Bank was in located in Maple Grove, Minnesota. Maple Grove fits right into Falcon's overall geographic strategy. It's one of the fastest-growing communities in the state. It is about an hour's drive from St. Cloud. Eagle Community Bank was not a large bank, around \$35 million, when we purchased it. The location and the future opportunity are what sold us on it.

CEO CFO: *Would you tell us about your background? Were you always in banking? Is this a passion for you?*

Mr. Herges: I have spent most of my working adult life in banking. I spent twenty years with the Bremer organization, a good-sized regional bank. I spent ten years with Stearns Bank. I joined Falcon National Bank in 2002. My father was in banking. I worked with him in my early years, through high school and college. I suppose that is how I got acclimated to the banking world.

CEO CFO: *We have seen a few bank failures recently. Can you explain what happened and the difference between a Silicon Valley Bank and a local community institution in Minnesota?*

Mr. Herges: A few years ago, banks, including our bank, were flush with liquidity. In those times, we had loan demand, and we were using our liquidity to fund loans to small and medium-sized businesses. Silicon Valley did not have the opportunities to make the loans and therefore their excess funds were being invested in long term bonds and securities. In order to get any type of yield they had to extend the maturity of these investments for a long period of time.

Fast-forward to today with all the rate increases, the investment portfolio of banks, that did what Silicon Valley did, were under water. Depositors wanted to take funds and utilize them, and the only way Silicon Valley could meet the demands of their depositors was sell their investments. Because of the rate environment they were selling investments at a loss. They took losses in order to get cash to the point where they became illiquid and could not meet all the depositors demands. Their net worth went negative, and they were out of business.

CEOCFO: *I would venture to say your strategy and focus have led to stability for Falcon National Bank and given reasons for people to be confident in your future.*

Mr. Herges: Correct. On Silicon Valley's part, they took on way more concentration risk putting all their eggs in one basket of bonds and securities and then reaching for yield, just poor management. Our balance sheet make-up is much different and much more diversified. When you deposit money with us, we turn around and put those funds to work in the form of loans to small and medium-sized businesses in the communities that we do business in. That is a safe way to do it. We are well capitalized, and we have a shareholder group that is willing to put additional money in, should it be necessary.

CEOCFO: *In March of last year (2022), you announced that you added Steve Molander as Chief Technology Officer and Mark Nettesheim filled the Chief Sales Officer role. How have those additions worked out for you and why are those roles important?*

Mr. Herges: Those were two positions that I had been considering for some time. I needed people involved with dedicated focus and expertise, that could spend more time in these really important areas.

Technology and security are really important areas in banking today. Everything is becoming more digital and more complex. Customers today want things fast. This requires technology with more sophistication and fraud protection. The bank robber today is not a person who comes into the branch and holds up the teller. The robber today is sitting somewhere with a computer hacking into systems and getting money that way. Steve Molander came from a bank that was two or three times the size of ours. He had brought very sophisticated technology to that organization. We needed that, so we hired Steve as our CTO to take us to the next level in terms of our technology and security.

The decision to hire a CSO, was out of the need to have somebody in that role who could just focus on the revenue-generating parts of the bank. We hired Mark Nettesheim as CSO to take us to the \$1 billion

milestone and beyond. Mark has a proven track record helping banks properly align and structure themselves for growth.

CEOCFO: *You have locations in St. Cloud, Foley, Maple Grove, Ham Lake, Isanti, Richmond, and a St. Cloud Equipment Finance Office. Would you tell us about the communities that you serve? Are they more rural or urban? What changes have you seen over the past two years?*

Mr. Herges: Let me go back to the beginning and walk you through how we have grown over the years and why we have grown the way we have. The franchise started in Foley, Minnesota back on July 1st, 2003. Back then our total assets were \$4.5 million. In 2006, we branched into St. Cloud. Most of my banking career, 20 years with the Bremer Group and 10 years with Stearns, were all in St. Cloud, so it made sense for us to have a location in St. Cloud.

In 2012, we had an opportunity to buy a bank in Richmond, Minnesota. Richmond is about as far west of St. Cloud as Foley is east of St. Cloud. It fits into our geographic footprint very well. That gave us a location in Richmond. In 2014 we had an opportunity to buy another bank, Community Pride Bank. Community Pride had two locations: Ham Lake and Isanti, Minnesota. It fit nicely into our geographic plan, and we picked up two locations as a result. In 2021 we had an opportunity to buy Eagle Community bank in Maple Grove. We talked earlier about how that fit into our plan. Now we have six locations and just under \$1 billion in total assets.

Of the six locations, Isanti, Foley, and Richmond are more of what I would call rural. Maple Grove and Ham Lake are both what I would call metro, they are on the northern part of the metropolitan market. St. Cloud is halfway between rural and metro. We are close to the rural areas, but we are only about an hour from Maple Grove and an hour and fifteen minutes from Ham Lake. That gives us a nice footprint in central Minnesota.

CEOCFO: *When you hire officers, what do you consider?*

Mr. Herges: We have a motto at Falcon "Let's think of a few reasons why it can be done." Our lenders are passionate about finding the right solution for our customers. They think outside the box. They become our customer's trusted advisors. They form personalized relationships with their customers. We hire people that share those same core values.

CEOCFO: *Would you tell me about the businesses in your communities? You have hospitals, manufacturers, retailers, and more. Which industries would you say are the backbone of the community, providing jobs and community development?*

Mr. Herges: For the greater St. Cloud/Central Minnesota market, we are fortunate to have good diversity. There are a few things that are important to the St. Cloud area. First is CentraCare, which is a regional hospital. They are the largest employer in the area, and they provide excellent healthcare which is always an important ingredient in your community; it draws people in for sure. It creates good-paying jobs and the money they spend in the community has a multiplying benefit.

The other general area is education. We are fortunate to have St. Cloud State University and a large and growing technical community college. We also have two other universities, not located in St. Cloud, but not far away from St. Cloud, the College of St. Benedict and St. John's University. These institutions add to the economic strength of the greater St. Cloud area.

In addition, we are also considered a retail hub and have many solid manufacturing businesses, which are also a very positive things to have.

CEOCFO: *Which of the different industries that you serve provides the greatest revenue potential for your bank today?*

Mr. Herges: If I had to pick one, I would say it would be manufacturing. Central Minnesota rich in manufacturing, so there is a lot of potential business banking opportunities with companies in that industry. It is also one of the reasons why we have a dedicated line of business for equipment finance. We have equipment manufacturers both in our local markets and across the US that use our equipment finance products to finance equipment purchases.

CEOCFO: *What are your advantages in dealing with manufacturing companies?*

Mr. Herges: There are advantages for both us and the manufacturers. From the financing side, we can be quick and deliver a high-level of personalized service. The sheer size of our organization allows us to handle a good-sized company and service them well.

Manufacturing is the kind of business that brings stability and strength to communities. They typically pay high wages. From a banking standpoint, they are an appealing customer because they have credit needs, but they also have good deposits. That is why we find manufacturing a very appealing industry for us.

CEOCFO: *I see that your Falcon Equipment Finance Page is the top-viewed page on your website or at least the first one listed. What is the significance of that? Why are you the lender to turn to for equipment financing in your local areas as well as nationally, and what are some of the types of businesses that turn to you?*

Mr. Herges: The equipment finance area is a niche for us. There are not many community banks that have an equipment finance division. What we hear, time and time again from our customers, is that we make it easy and have a quick response time. We can turn around equipment finance applications in hours not days. It is a differentiator of ours and we capitalize on that by marketing it.

CEOCFO: *Are you more of a business/commercial bank than a consumer bank? What is the mix, and would you like to see that change?*

Mr. Herges: We are more of a business bank, but that does not mean we do not have great consumer products. We do but our focus is business.

CEOCFO: *How big a part is mortgage lending for you and is it in the commercial or consumer side of the business?*

Mr. Herges: We do mortgage lending. We have another niche in our residential real estate area in that we do construction lending on housing. There are a lot of banks that do not want to get involved in construction lending, so we do it for the banks that do not want to do it. We do it for mortgage companies, we do it for builders. It is a niche.

On the commercial side, we do mortgages primarily if it is a construction mortgage to a commercial customer, it would be something that we are going to permit a loan on after the construction is over. These deals are typically owner-occupied properties. We have a long-term commercial mortgage financing product for that.

CEOCFO: *Do you have a marketing person or team? If so, what is their role? Is it community relations messaging, helping pitch your products and loan offerings, or a mix?*

Mr. Herges: We have an in-house marketing team. They handle everything from traditional marketing, like advertising, social media, website, to email marketing. They also do local events and handle all our PR. They work closely with our business leaders to understand our products, who is the best fit for those products and services and how to stay in front of that audience. Marketing is a big piece of what makes us successful.

CEOCFO: *You have LinkedIn and Facebook social media pages. What do you use those for? Is it more community relations or sales-focused?*

Mr. Herges: I think it is both. Our marketing team manages our social media pages. They have a good mix of material that they post. They will highlight product promotions, local events, customer and employee news. We use social media to connect also with the local organizations that we support. This is a good way to reach our customers and community.

CEOCFO: *Where will future growth come from?*

Mr. Herges: Our equipment finance area is one area that I see future growth coming from. We have a great team and a great product, and it aligns with our focus of doing business with small to medium size companies. Another area of growth is our SBA area. We are currently one of the largest SBA lenders in the State of Minnesota. The product also aligns with our target customer, the small and mid-sized business, but also includes start-ups, expansions, and businesses changing ownership. Both of those areas are nationwide. Both our equipment finance area and our SBA area are nationwide.

In terms of local markets, I see a lot of potential is in our two metro locations, Ham Lake and Maple Grove. When we bought Maple Grove, it was a small bank, but the reason we did it was because of the growth opportunities. Ham Lake is very similar; we will be putting resources in both of those areas to grow.

CEOCFO: *In closing, why is Falcon National Bank a special bank?*

Mr. Herges: We are celebrating our 20th anniversary this year. There are a lot of community banks that have been around for twenty years or

more, but there are not very many that have a better story to tell in terms of growth than what we do.

We started in 2003, with \$4.5 million in assets and today we are at nearly \$1 billion. That is a great story to tell and how we did it is a testament to all our employees who helped us get there, our advisory boards in all six locations, our board of directors, our shareholders, and last but certainly not least our good customers.

