

Prime Security Bank – An Incredible Turnaround Story for a Bank Now Focused on Growth

As a \$135 Million Bank, Prime Security Bank is Able to Make Fast Decisions for its Real Estate Investment Entrepreneurs



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Interview conducted by:
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CEOCFO: *Mr. Larsen, you have been with Prime Security Bank since 2012, would you tell us about your roles at the bank and how it developed to where you are today as President, CEO, and director?*

Mr. Larsen: I was hired to improve the credit culture at Prime Security Bank. When I started in 2012, Prime Security Bank was under a consent order. We had assets of roughly \$60 million and there was \$5.7 million in OREO (Other Real Estate Owned), which means properties that have been taken back through foreclosure. Making up the \$5.7 million was eleven properties, in addition there was another \$1.2 million in un-performing loans. The total capital was \$4 million at the time, which equated to a Texas Ratio of around 150% (Texas Ratio is used in assessing a bank's financial position), when a bank is around or north of 100% there is a high probability of failing. So I was brought in to turn around the bank.

My background was in workouts and underwriting. Over the first few years at PSB, I sold all the OREO properties and got rid of the non-performing loans. Making up the eleven OREO properties were various types of real estate properties, and even some houses that we got back half-built. I would lease up the properties or hire a contractor to finish the houses and make them attractive to purchase. Then I would sell the properties, many at gains. That was a big part of my job. Retaining as much capital as possible, while cleaning up the balance sheet was a big step to getting off the consent order.

After working through the balance sheet issues, my role changed to bringing the bank back to profitability. When I started, the bank was averaging a net loss of \$1 million per year for the previous four years. We are currently at \$135 million in assets, all organic growth; asset growth is 20.29% for 2023 which is top 5% and return on assets is 2.19 which is top 7% nationally.

CEOCFO: *Has the vision changed much from its founding vision? Are you a community bank, a business bank; what is your focus today?*

Mr. Larsen: We have three offices and they are all unique. Karlstad, MN is located in the corner of northwest Minnesota, is a farming community and is a completely different environment and focus than we have in the Minneapolis/St. Paul

metro area. Shakopee and Eagan are growing south metro cities. Our focus is small businesses and entrepreneurs. We have a larger volume of commercial real estate including hotels and industrial properties.

We are an SBA-preferred lender, so that allows us to approve SBA loans in-house. We have been given the delegated authority to approve loans in-house without going through the SBA so that speeds up the process. That is where our focus lies.

We continue to grow the bank organically and we are open to opportunities for opening new offices. Up north our focus is taking care of our customer base that has been with the bank since 1925. There is a lot of traffic in our office up north and we make sure we answer the phones and greet them. We know all of our customers by name. There certainly isn't as much loan demand but our team does an excellent job of taking care of our customers.

CEO/CFO: *You have branches in Shakopee, Eagan, and Karlstad. 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. Larsen: Shakopee is 45 thousand population. It is 25 miles southwest of Minneapolis, and is a rapidly-growing suburb that has quadrupled in size since 1990. There are a lot of businesses coming into Shakopee and new homes being built. It is known for its Valleyfair Amusement Park and the Canterbury Park with horse racing and card tables.

Eagan is about 25 miles away, the population is 70 thousand, and 15 miles south of St. Paul. There are many large businesses in Eagan, including the Minnesota Vikings football team headquarters. The population is fairly stable, Eagan experienced a population boom in the 70s and 80s.

Karlstad is located in northwest Minnesota. It is a farming community with a few larger employers in the surrounding area within an hour or 45 minutes.

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CEO/CFO: *Are you more small business focused or looking to attract the bigger businesses to your bank as customers?*

Mr. Larsen: With the size of our bank, we cater to real estate investment entrepreneurs, small business owners and construction companies. Most SBA-preferred lenders are much larger than Prime Security Bank. So being that we are a smaller \$135 million-dollar bank, we meet face to face with our customers and make fast decisions.

Right now, we are looking at financing a Snap Fitness owner that has three fitness centers. I personally went to each location to hear their vision for expansion. We get to understand what their goals are and how we can help.

We focus on entrepreneurs and small businesses. Once we build trust with our borrowers and customers, we can provide mortgage financing and home equity lines of credit, etc. We offer a full suite of loan and deposit products.

CEO/CFO: *In your local area you have manufacturers, builders, developers, restaurants, fitness centers, car dealerships, and a host of others. Any Ag business?*

Mr. Larsen: In Karlstad it is. We have multi-generational farmers that bank at our Karlstad office and we provide operating lines of credit and equipment loans for farmers. There is a lot of competition in the area for AG business. We provide the best service that we can for them but it is difficult to grow because of the competition.

CEO/CFO: *What are some of the challenges that you face in reaching those entrepreneurs and small businesses?*

Mr. Larsen: First the challenge is reaching out and getting the connections and good referrals. We try to grow one customer at a time. We have weekly sales meetings and recognize every closed loan and new deposit relationship. We value each new customer and make sure they are greeted and onboarded by our knowledgeable staff. We grow one customer at a time and it is all by word-of-mouth. Marketing is very expensive, there is a lot of competition in the Twin

Cities and marketing is expensive. We want our salespeople to make the connections and be out at those businesses' offices and meet with those customers face-to-face.

Unlike credit unions, we pay Federal and state income tax, therefore, there is a big challenge of marketing. We do not have the marketing budget because we pay 40% of our net income in taxes. I think the most effective way for us to overcome some of those challenges is to be present, to go the extra step and be out at our customers' places of business.

CEO CFO: *What do you look for in a new team member?*

Mr. Larsen: The people that are successful at our bank are people with great attitudes that are positive and can multi-task because you wear many different hats. For example, I have CFO and CCO duties, I do business development with a \$50 million loan portfolio, run loan meetings and I am also involved on the HR side. You always have to be willing to do whatever is necessary. I answer the phones if it is busy and others are tied up. I think attitude is very important and to stay positive and understand that some days will be challenging.

CEO CFO: *Where will future growth come from; increasing your customer base in already existing markets, or adding new branches?*

Mr. Larsen: There are some opportunities for us to look at acquiring offices or other banks, so that is a possibility. However, in the last year, our growth has been 20% which is in the top 5% of all banks in the US. We are growing organically very rapidly.

Our asset growth has come from various types of lending, including commercial real estate and SBA loans. A focus has been on industrial warehouse properties. That is where the growth is and we have gotten more into equipment financing for diversification. However, our bread and butter is commercial real estate.

CEO CFO: *How did you end up in banking?*

Mr. Larsen: I was an economics major at St. Olaf's private liberal arts college in Minnesota and then went into getting my MBA and that gave me a good foundation of leadership, public speaking, communication, and analytical skills. I was already in banking when I started that MBA program but the way I found banking was while I was a financial advisor. I was talking with different banks and was looking at working for one of the banks as an advisor. The discussions led me to meet with the chief credit officer, and after a few informational interviews I was drawn in. It was a lot more interesting to me, so I went down that path and started as a credit assistant doing documents and understanding how to structure loans. I then became a credit analyst and started analyzing the credits for risk. Following that became a commercial loan officer and eventually came to the role I have now.

I think my education provided a good foundation. I also went to The Graduate School of Banking, in Madison where you get a well-rounded education in banking. You might be studying HR for one class, and then you move onto operations, the financial side of banking, then credit, sales, etc. You complete projects in all these different areas of the bank, so it gives you an appreciation for what every team member is going through and a little bit of background in how to hire for those positions.

CEO CFO: *I see that you use Locknet® for IT and regulatory services. Why is this important for the bank and its customers?*

Mr. Larsen: We are now with Total Networks which is a local IT provider that works with banks. They are out of our neighboring town Burnsville. I think in today's banking and any business, having the right security and third-party IT professionals overlooking the security of your bank and all the sensitive information that we have on our customers, has become one of the most important areas of the bank.

CEO CFO: *Do you have a marketing person or team, and do you have social media for the bank?*

Mr. Larsen: We have a marketing committee. We meet every Thursday to discuss our marketing plan. The main way we bring in business is through referrals. It is hard to compete with television and radio ads so we take those dollars that we would put into that type of marketing and put it into getting out into the community and bringing in business that way.

We do have a LinkedIn page. I think in today's world with social media that is very important and something we need to look into but you have to have somebody dedicated to running that page. That is something that I think is in the near future for us.

CEO/CFO: *How important is Prime Security Bank to the growth of the communities that you serve? Is community involvement important for you?*

Mr. Larsen: Yes definitely! In Karlstad there are concerts, town festivals etc. We are involved in the parades and have the best floats, we hand candy, t-shirts, and other gifts. We do lunches throughout the year at the office and appreciation days for our customers. The Karlstad team does an awesome job and gets excited about supporting our community.

In Shakopee and Eagan, we are supportive of the high school and athletics, including the hockey and basketball teams. We get involved where we can and sponsor various events.

CEO/CFO: *In closing, you have written a great turnaround story, were you approached or did you throw your hat in the ring?*

Mr. Larsen: The first bank I worked for was Home Federal Savings Bank, out of Rochester. The President and CEO of that bank is Brad Krehbiel. I started as a credit assistant doing documents, but whenever I was in the Rochester office I would check in and meet with Brad who provided time for me.

Lee Madetzke the Chairman of the Board and owner of Prime Security Bank had worked with Brad Krehbiel for several years, and when Lee happened to mention to Brad that he needed somebody to come in and turn the bank around and run Prime Security, Brad passed my name on to Lee.

The most important takeaway from my career was doing the very best job in whatever role I had. I began doing documents and learning the basics of banking. I wanted to be the best in each role I was given so I wouldn't be passed up if there was ever an opportunity to move up. I never took any position I had for granted. It was not a race but a long process of understanding the foundations of banking to get to the spot I'm at today.

