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QNB, 143 Years Old and Still Going Strong



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CEOCFO: *Mr. Freeman, QNB was founded in 1877. Would you give us a little history of the bank and introduce us to QNB Corp., the parent and public company? Was QNB the original name at its founding?*

Mr. Freeman: For many years we were Quakertown National Bank. I came here in 2010, so a couple years before then, we decided to change from a nationally chartered bank to a state chartered bank which would necessitate us getting rid of the National in our name. We also took the opportunity to rebrand with just the initials QNB and that is where that came from, but we started off as a national bank.

CEOCFO: *On January 29th of this year QNB celebrated a grand opening in the Upper Perkiomen Valley Office. Why was that significant and how does the new office differ from the old one?*

Mr. Freeman: That has been a very successful branch for us. The shopping center there purchased the homes that were in front of the center and added that to the shopping center and put some out-parcels much closer to Route 663, which is the main road through there. We had the opportunity to take one of those out-parcels and after we looked at all the pluses and minuses we decided to do that.

We were able to build a much more modern facility and much more open with a lot of windows. We also have a lot more customer privacy. It is interesting because it is actually a little smaller square footage than our regular office but it looks like it is twice as big because of the design. We have seen great results and the branch has been open since December with the grand opening just recently. We had our highest new household growth at this branch ever in January. Before the old branch was a destination place and people knew we were there and came there. A lot of commuter traffic goes through there. We were not capturing that because you could not see us, but now that we are out on the road people can see us. We believe we will pick up some business from that.

CEOCFO: *You also celebrated a grand opening in Allentown in October or 2019. How did that come about?*

Mr. Freeman: We had looked at that branch site a couple years ago. It was an old Lafayette Ambassador Bank and was in there until a few years ago when they ended up leaving that and opening up a new location a mile away. At the time we did not feel that strong of a need for deposit growth because we were growing the other branches. The landlord came back to us and said he was taking one more shot at us and that he had talked to some other banks and if he didn't get a bank in there he was going to start leasing to some other types of businesses.

We decided to go back and take a look at it and by that time we had significant loan growth so our loan to deposit ratio had gotten a little higher so we did feel that we could definitely benefit from more deposits. We took a look at it and the

demographics were very strong. You have 31 thousand households within a mile, you have almost 900 businesses within a mile of that location and it has busy foot traffic in that area, with a lot of people walking around. The Civic Theater is there and Allentown fairgrounds is there. We felt we were going to generate loans there but we also thought it was a very strong deposit branch and that was the reason for opening that location.

CEOFCO: *This branch features full cash handling via automated cash recyclers, a coin machine, instant issue check cards, and a 24-hour ATM and night depository. Are these common in all of your branches?*

Mr. Freeman: Most of those features are common. The cash recyclers we have at our four busiest branches; our main office in Quakertown, our branch on Route 309 in Quakertown, the Upper Perkiomen Valley branch and Coopersburg branch, and all have cash recyclers. Any new branch we open also has the cash recyclers, so Warminster, and in Allentown. Some of our other branches are not as high-volume, and we do not have cash recyclers there yet, but all of the other things we do have.

CEOFCO: *What separates you from other local banks? Are you up with the latest in Fintech?*

Mr. Freeman: We have not done a lot in the way of Fintech. We have spent money on technology and we have a good mobile app. We have mobile capture where you take a picture of the check with your phone to deposit it. We have remote deposit capture where you can get a scanner and deposit checks for your business. We tried to look at having online account opening and online loan applications on both the consumer and the business side. The cost to get into that business is so high that the volume we would have to do, we do not think is feasible at this point in time. We think we have a solution we are going to be able to employ for taking online commercial loan applications which will integrate with our existing system; we think we might have that at the end of the year. We are continuing to look at other solutions.

A big differentiator is we are a good business lender to companies between zero to \$40 million in sales. Typically the big banks are not interested in companies that size, and then the smaller banks say they do commercial lending, but they only want to make a loan if they have real estate and we lend on business assets. We are one of the few banks that really truly do commercial lending, where we lend on business assets and that has been a differentiator for us and a strong growth area.

"We have a strong culture around team work and working together, and promoting internally."- David W. Freeman

On the deposit side we have a really good rewards checking program for consumers where if they meet criteria, they receive a high rate of interest, they get their ATM surcharges refunded and a number of things like that. That has done well and we have had good growth on that side. We have had double the growth on the business checking side and I think that is primarily driven by the fact that we are easy to do business with and we can handle cash. We do not have a lot of fees so I think people see us as a good alternative from what else is in the marketplace.

CEOFCO: *Are you more of a business bank or persona?*

Mr. Freeman: We are both. On the lending side we are about 80/20 business loans to mortgage and consumer loans, but on the deposit side we have a significant amount of consumer deposits as well as business deposits.

CEOFCO: *How many branches do you currently have and do you grow and develop branches de novo or through acquisition?*

Mr. Freeman: Allentown is our twelfth branch. Years ago before my time here, we purchased the Perkasio Branch. They were trying to shrink their bank. We bought it for the appraised value of the real estate and the deposits were thrown in for free. That has been the only acquisition we had. If we had the opportunity to buy branches with deposits in the markets we want to serve, we would look at the opportunity, but in general most of the big banks close them. They figure that with technology, most of the customers will stay. We have seen Bank of America close an office in Coopersburg and consolidated that to Hellertown. That was about a \$100 million deposit branch and they closed that branch also. If you wanted to get to a branch you have to go up to Allentown or Bethlehem now. We have not seen that opportunity much but if it came available we would certainly look to buy.

CEOFCO: *Would you tell us about the communities you serve? Are they more rural, urban or suburban?*

Mr. Freeman: Bucks County is interesting because it is the third or fourth most populated county in Pennsylvania but it still has a very strong rural character. There is still a decent amount of farming, a decent amount of land. Our market is primarily suburban. We are relatively a small suburban community with Allentown being an exception, which is probably

our first truly urban branch. We have seven branches in Bucks County, we have three branches in Lehigh County and we have two branches in Montgomery County. We consider our primary market area those three counties plus Northampton County where Bethlehem is. Even though we do not have a physical presence we do a lot of lending up there. Those are four counties that are our core. We will do business all over the suburban Philadelphia area. We have lent money in Philadelphia as well as all the other counties surrounding Philly and even Berks County.

CEOCFO: *You reach a wide area with lending. How do you reach out and get business in these other areas other than Quakertown?*

Mr. Freeman: Until recently all of our lenders worked out of the same building I am in. As we became geographically spread out, that does not make a lot of sense, as you need to get people to the market they are primarily calling on. When we opened up in Warminster, we decided to have lenders down there fulltime. They only come to Quakertown for meetings. To get from Warminster to Quakertown in the middle of the day, easily takes an hour and a half even though it is close, as the crow flies. In Allentown we did the same thing; we have two lenders up there fulltime. I expect us to do that more especially when we are in markets that are difficult to get to and from. We are involved in all the chambers in the area; we are members of about eleven or twelve different chambers.

CEOCFO: *Would you tell us about the businesses you serve and that support the community providing jobs and financial resources?*

Mr. Freeman: One thing that is really great about this area, particularly Bucks and Montgomery Counties is they have a very diverse economy. One of our strengths and kind of our core is lending to manufacturers – we love manufacturers. They typically have to buy new equipment regularly, so they need term debt credit. Many times they own their own buildings and they keep reasonably good deposits. We do that and everything in-between. We have been very involved in this area of Quakertown and all the areas we serve, lending money for real estate projects. You see a lot of old industrial buildings that are being reused for apartments or townhomes, so we have done a lot of that. The real estate market has been stable here. We are also very involved in supporting nonprofits. All of our executives serve on nonprofit boards. We do a lot of volunteering and participating in community events, particularly where we have branches.

CEOCFO: *Is community involvement and giving back important to your bank?*

Mr. Freeman: Yes it is. Every year we have broken the record for sponsorships. We feel that as a community bank, you are only as strong as the community you serve. Everything that we do to strengthen the community, comes back to strengthen the bank. It is a nice synergy to have there.

CEOCFO: *Mr. Freeman, you have been CEO of QNB since 2013. What are some of the changes that have taken place from then to now? How have you put your stamp on the bank?*

Mr. Freeman: We have a strong culture around team work and working together, and promoting internally. We also started a comprehensive mentoring program. We have 205 employees and over fifty of those employees are involved in mentee and mentor programs. That helps the culture and we do a lot of things to get feedback from our employees to make sure we are listening to them and getting better at what we are doing. Quarterly I meet with a randomly selected group of employees to talk about what we are doing well and what we are not doing well. The things we are not doing well with will be assigned to one of the executives and then we respond and share with the entire employee base.

We did basically completely redo our investment and brokerage business, and that is going well for us. We manage over \$140 million in assets presently. We think that is going to be a business that we can grow double-digits indefinitely because there is a great need for investment advice particularly with people that have less than the amount that Merrill Lynch and those folks want to pay attention to. That is a good core business for us and I was instrumental in putting that together.

CEOCFO: *What do you look for in your bankers, loan officers, tellers and support staff?*

Mr. Freeman: We are looking for people who like working together. One of the things we hear from our new employees a lot is when they have a question, everybody is willing to help and no one is too busy to help them. It is a tight job market as you know and we actually had our lowest turnover rate last year, so we feel like we are doing pretty well with that. We also want people who have a strong care and respect for our customers. We try to be a trusted advisor to our customers. One of our strengths and one thing that has fueled our growth is we do not lose customers very often, so that is attributed to our employees and the great job they do for them. Instead of setting product goals and pushing our employees to sell particular products, we ask our employees to find out what the customers goals are and then sell them products to fit those goals. We think that ends up with a much more highly satisfied customer.

CEO CFO: *We have seen the fallout from Sabanes-Oxley and Tarp and an era of financial institution mergers, closures and financial bailouts. How is it that QNB is one of the few surviving independent banks in Bucks, Montgomery, and Lehigh counties?*

Mr. Freeman: Part of it is the will and the commitment of the board. You have to make decisions to try to stay independent and make different decisions knowing you are trying to stay independent. That is where our board has been very supportive and wants us to stay independent so that has been a part of it. We also have a very strong local investor base so lots of our shares are in the hands of those folks. They are more concerned about the dividend being increased than the price of stock necessarily because they are not selling their shares. We have had a good return for our shareholders. We know that is important.

CEO CFO: *Do you reach out to the local community to get investors?*

Mr. Freeman: Yes we do that. A lot of our current shareholders are in our dividend and reinvestment plan and that allows them to reinvest their dividends and buy stock at a 5% discount with no commission. They also can put up an additional \$10 thousand per quarter, purchase stock with the same discount. We have a number of our long-term loyal shareholders and that is how they purchase their stock. They are not buying out in the open market. They are buying through the dividend reinvestment plan.

CEO CFO: *In closing, why is QNB Bank important to the communities you serve and why should shareholders have confidence in the future of the bank?*

Mr. Freeman: I think we are important to the community because we are stalwart. Community organizations have counted on us. We are an employer obviously so we come into the economy that way. We work to strengthen and help our communities and we have great relationships with all of the borough managers, township managers and school superintendents. They would see us as somebody they can come to, and that is important for us. Our shareholders are looking for us to have consistent earnings and to be able to raise the dividend every year, which we have done except for the worst year of recession.