# Great Bear Bank organizers expect unique business model to bring success

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*By Zach Davis*

John Hayes and Peter Krajsa think they have a unique business model that will give Allentown, Pa.-based Great Bear Bank a leg up on competition, as well as allow it to see profits by the end of its first year of operation.

While de novos often spend their first few years focusing on attracting their first customers, Great Bear will open its doors with more than 3,000 as a result of a combination of the bank and AFC First Financial Corp., a specialty lender headed by Krajsa and Hayes that specializes in making loans for energy-efficient home improvement.

Krajsa said the combination is mutually beneficial to both lines of business. For one, it allows the energy lending business to expand more easily, Krajsa explained, telling SNL: "Right now [AFC First operates] in 11 different states and we have 11 different state licenses. The bank charter supersedes the licensing and allows us to geographically expand our footprint more readily."

Second, Krajsa said, it allows dealers who do business in multiple states to use standardized forms and procedures, streamlining the process.

From the banking perspective, AFC First's customers are all potential customers for other products and services. "Right now we have over 3,000 loans that we are serving for other parties. Those are 3,000 homeowners about which we know pretty much everything. When we take an energy loan out, we gather the credit information, we know who holds the mortgage, we know what the debt structure is and we know what their income structure is. We can then turn around and cross-sell into that database mortgage refinances where we have a real opportunity to save people money and we know that going in," Hayes told SNL.

The fact that the bank has already done business with these customers makes it more likely that they will be interested in other services, Hayes said. "We can call people back and say with authority, 'If you're interested, we can save you $200, $300, $400 a month on your debt payments, would you like to talk about it?' Now, the fact of the matter is they now have heat or air because of us, so they take the phone call, it's a very warm lead, and we have a tremendous opportunity for that conversion."

Another benefit from the inclusion of AFC First is the fee income generated by the business. This source of income makes the bank's success less tied to its margin spread. Krajsa explained: "We book loans and aggregate them, then physically sell the underlying assets to the [state] treasury department and retain servicing, so the underlying asset is off our balance sheet and we've locked in the ongoing servicing fee spread for the life of the loan. What happens is, outside of the spread dependent bank you've created a fee driven engine that allows us to maintain the customer."

The bank will serve the Lehigh Valley area, which sits approximately an hour north of Philadelphia and an hour-and-a-half west of New York City. Hayes and Krajsa see it is an attractive area for a new bank, with a steady stream of people moving into the area. Additionally, Hayes noted that upon completion of Harleysville National Corp.'s acquisition of East Penn Financial Corp., there will be no banks headquartered in Great Bear's proposed primary service area.

Hayes, who currently serves as president and COO of AFC First, is the proposed CEO of Great Bear, and Krajsa, current CEO of AFC First, is the proposed president of the bank.

Great Bear is hoping to reach its capital raising goal of $12 million by late October or early November, having raised approximately $8 million as of late September, and is aiming to open by the end of the year, or in early 2008.

"What we're putting together here is different," Hayes said. "The energy loan business is one that once people read through all our information, sit down and talk with us and learn about it, it all comes together very nicely." *i*