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THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

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COMPANY INTERVIEW

RONALD D. PAUL

Eagle Bancorp, Inc. (NASDAQ:EGBN)

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C O M P A N Y I N T E R V I E W

Eagle Bancorp, Inc. (NASDAQ:EGBN)

RONALD D. PAUL is President, Chief Executive Officer and Chairman of the board of directors of Eagle Bancorp, Inc. He has served as Chairman since May 2008, and prior to that time was Vice Chairman and Chief Executive Officer since the organization of the company since 1997. He also has served as Chairman of the board of directors of the bank since its organization. Since June 2006, he has served as Chief Executive Officer of the bank, and he served as Interim President of the bank from November 3, 2003 until January 26, 2004. Mr. Paul is President of Ronald D. Paul Companies, which is engaged in the business of real estate investment and management. He is active in private investments, including as Chairman of Bethesda Investments, Inc., a private venture capital fund. Mr. Paul was a Director of Allegiance Bank from 1990 until September 1997, and a Director of Allegiance Banc Corporation from 1990 until its acquisition by F&M, including serving as Vice Chairman of the board of directors from 1995. Mr. Paul is also active in various charitable organizations, including serving as Vice Chairman of the board of directors of the National Kidney Foundation from 1996 to 1997, and the Chairman from 2002 to 2003. In 2013, Mr. Paul was the recipient of the American Banker magazine Community Banker of the Year award, and in 2014 Mr. Paul was named Community Banker of the Year — East Region by the Independent Community Bankers of America. Previous honors include: Father of the Year, Entrepreneur of the Year, 2009; Washingtonian of the Year, 2010; and being inducted into the Washington Business Hall of Fame,2012. Mr. Paul and his wife recently created the Ron & Joy Paul Kidney Center at George Washington University.

SECTOR — BANKING

(BAJ605) TWST: Would you provide a brief overview of the bank?

Mr. Paul: The bank was started in 1998 and now has 21 locations in the Washington metropolitan area including Montgomery County, D.C. and Northern Virginia. We are about $7 billion in assets and totally commercially oriented, meaning it is not a retail bank. Most banks in the Washington metropolitan area are real estate-focused or driven, as we are. We have a very, very clean credit quality with our net interest margin in excess of 4%, and loan growth in excess of 13%. We are very much focused on relationships, and our whole driving concept is about the relationships in the Washington metropolitan area that we have developed.

TWST: In fiscal year 2015, you had $84.2 million in net income, which is a 55% increase from the year prior. Can you talk to us about what that income and growth rate are attributable to?

Mr. Paul: We did do an acquisition in 2014, which was a bank in Northern Virginia called Virginia Heritage Bank, so a certain percentage of income is from that, but we really are a spread income bank, which is something that we have been for as long as we have been around for — 18 years. We have about 10% of our income in noninterest income. We also have had very, very substantial loan growth, and our net interest margin becomes stronger and stronger, while our efficiency ratio is dropping extensively. We feel very good about where we came from and for the foreseeable future.

TWST: Can you talk about the loan mix as it stands currently and how it might be shifting or you might be altering it?

Mr. Paul: We are very comfortable with our asset allocation, which is that about 72% percent of our loans are for real estate and about 21% percent are for C&I, and then we have a little bit of a mixture of home equity lines and consumer lending. We really like and understand that position. We have been successful in that position and, because of the size that we are right now, we have an opportunity to continue to grow in larger-sized relationships because our legal lending limit has grown pretty extensively.

TWST: I'm looking at some of the reporting you did in 2015 to 2016, and it looks like you are making changes to the bank in the sense that you sold off an indirect consumer loan portfolio, and you started other lines of business like a new equipment leasing program and a multifamily lending division. Can you talk about some of the contractions in the business as well as the expansions?

Mr. Paul: All of the items that you mentioned are relatively insignificant to our overall growth. The indirect auto was a division that was existing in the Virginia Heritage Bank acquisition, so that was just something that we never wanted, and the business plan was always to sell that off. The multifamily side is really focused on FHA HUD, as we do a lot of multifamily and have continued to. It is really just an expansion to an existing product that we have, and now we could help the developers that have multifamily after they have renovated a building. And we are able to use ultimately the best type of financing out there for this, with that being the FHA HUD products.

TWST: This year *Mortgage Executive* magazine named you a bank that is in the top 1% of mortgage originators in the U.S. How did you get there and to what do you attribute that volume?

Mr. Paul: We started the division about eight years ago and have grown it organically. We love the division as it adds great income for us, but it is something that is very concentrated. Unlike a lot of mortgage companies whereby they have offices throughout the area or even throughout the country, ours is focused really in two areas. As interest rates go up and the mortgage business slows down, our operating expenses can be monitored and managed very quickly. It is really just the penetration within the market in that we are out there all the time and have a lot of real estate players in our existing portfolio, and they all have houses on the C&I side. It is just really having the right people, and it has worked.

"We are continuing to expand in the Northern Virginia market, and that is certainly one of our major focuses. We will be continuing to hire the proper lenders and operational people who can continue to focus on that, but really it is business as usual with a bigger focus on continuing to expand in the market."

TWST: Which metrics that you track matter most?

Mr. Paul: All of them. I would say that, certainly, the net interest margin, loan growth and efficiency ratio are the three components that we like. We are not a balance sheet-driven company, so we don't like to grow for the sake of growing. It is growing for the sake of increasing earnings per share so we are very sensitive to great loan growth, but it is because of profitable loan growth, not because it is just increasing the size of our balance sheet.

TWST: Can you give me an example of an achievement that you've made operationally in the last year?

Mr. Paul: We implemented something about a year ago called CDOs, Commercial Deposit Officers, and these are people who are very, very well-aware of the deposit product of the bank and can assist all of our lenders to provide customers with an expansive array of Treasury management services. It was a great opportunity because it lets our lenders lend and lets those who are very focused on the deposit side focus on that. We are not big branch people, so we have an average of about $215 million in deposits per branch, which is about twice that of our peers. Our peers have many, many more branches than we do. For us, it is about delivering the product to the customer as opposed to the customer coming out and having to go into branches. These CDOs have just been a tremendous opportunity for us to continue to work with the customers but not overlap with the lenders.

TWST: You are in a very competitive area. How are you able to market effectively from an operational standpoint?

Mr. Paul: Our entire philosophy is based on relationships. We don't do a tremendous amount of advertising. Our form of advertising is boots on the ground that can show our level of commitment to our customers, and it is not only about existing customers but also new customers. People hear of us and see our signs up all around the Washington metropolitan area. Our lenders are active in the market and understand the market. We always say that when people come in to meet with us, we start off with a blank piece of paper and want to hear what they have to say and what their needs are. Then it is our responsibility to figure out how to make it work. It is truly relationship-driven.

TWST: What are your strategic objectives for the next year? And as you are describing them, can you talk about any management or operational changes that might be taking place?

Mr. Paul: We are continuing to expand in the Northern Virginia market, and that is certainly one of our major focuses. We will be continuing to hire the proper lenders and operational people who can continue to focus on that, but really it is business as usual with a bigger focus on continuing to expand in the market. We are the largest community bank in the Washington metropolitan area with headquarters in the Washington metropolitan area, and we have approximately only 3% of the entire market. As you can imagine, with only 3% of the market, the opportunity for us to continue to expand is pretty extensive.

TWST: Longer term, how much are you going to focus on M&A opportunities and how much growth is going to be organic?

Mr. Paul: Our organic growth is really just a continuation of more boots on the ground, meaning more people being out there telling our story. The customers realize that we do have a story to tell. We are always getting opportunities from the big banks that have customers that don't feel the love from an 800 number. They want to be able to deal with a person. That is always an opportunity for us to expand upon.

As far as merger and acquisition, we have always taken the position that it would have to be immediately accretive in order for us to look at an acquisition, which is what we have done when we have done our previous acquisitions. I would tell you that the predominant focus that we have is just organic growth and doing it the way we have done it over the past 18 years, which is about customer service.

TWST: Can you give us some examples of your digitization or modernization efforts as a bank in the last two years?

Mr. Paul: We are absolutely focusing on the apps and all the products that people have. We are one of the first to do remote deposit and much of online banking. Again, with $215 million worth of deposits per branch, most of those people don't come into the branch; rather, it is services online so they can access their funds. We do things like use our wire room, which is open until 5:30, whereas most wire rooms are closed at four. We are giving the customers the experience they want.

TWST: You mentioned the acquisition that occurred not too long ago. How do you make sure as a CEO that you are managing that integration well? What are the keys to success?

Mr. Paul: I am an accountant by trade, so reports are just data that I am constantly looking at to see trends and understand exactly how those trends are compared to what they were expected to be when we did the initial determination of the acquisition.

TWST: Can you connect that to the idea of integrating the business?

Mr. Paul: We are not going to do an acquisition unless the business philosophy is very similar to what we have. We are going to look at an acquisition to continue to monitor the expansion of the customers from their previous bank. We are going to be looking at efficiency opportunities, whether they are closing or expanding branches or having the right people in the right seat on the bus. That is something that doesn't happen at day one; it is a process. It usually takes about six to eight months, which is what we found in the two acquisitions. We have been incredibly pleased with the efficiencies that these two acquisitions have given us.

TWST: What is surprising or underappreciated about Eagle Bancorp?

Mr. Paul: I think that there is a national view that banks in Washington are all tied to the federal government, and that is just not true. As an example, EagleBank was not hurt at all when we had sequestration. Sequestration really had no impact on us because most of the customers that we have really are not tied to the federal government.

The federal government has decreased its GRP as a contribution to the economy in Washington. So EagleBank and other banks in the Washington metropolitan area are not driven by the success of the federal government. It is certainly the backbone of it, but there are an awful lot of muscles around that bone to be able to grow exclusive of the federal government.

TWST: What trends are you monitoring most closely?

Mr. Paul: Millennials are a very big part of what we monitor. The growth that you have had in the metropolitan area translates to 15.7% of our employment in Washington being Millennials. It is the third-largest area in the country for Millennials. Again, being a real estate bank, we recognize that Millennials have a big impact on the type of real estate, whether it is multifamily or small-sized offices. So Millennials are clearly a very, very big part of what we manage and monitor within the real estate business.

TWST: How are you coping with or how do you manage, as CEO, the regulatory changes and the adaptation to regulations? Can you describe what that is like for you?

Mr. Paul: Obviously the regulatory world is probably the most changing aspect over the past 18 years. As you get bigger and bigger, regulations become more and more part of an overview on top of your growth, but you manage it by managing the right shop. You have to manage by doing what's right by constantly reviewing and analyzing and dicing all of the parts of your organization, whether it is BSA, online banking or lending. You just need to be on top of all the different parts of your business.

Obviously a big part of Eagle is the success that we have had in being able to raise capital whenever we needed to. Regulators like to see the growth in capital. We just got done raising $150 million in capital. We were originally planning on doing $75 million. In the first day that we were open for the capital raise we had $300 million of commitments. We were very pleased and proud of that and raised $150 million. So we always have excess capital, and that is a big part of satisfying the regulatory world.

TWST: If you could be an adviser formally to either the governor of the state or the federal government, given that there was an election that just happened, what advice would you give them about how to better regulate or oversee the banking industry?

Mr. Paul: We need to understand that banking is very different when you are a JPMorgan and Bank of America versus a community bank. Community banking, in my opinion, is the backbone of our economy, and we need to be sensitive to the regulatory world and the burden that we are putting on community banking, because we are the ones that are making the loans to the restaurants and the hardware stores. It is not the big banks that are doing that. So from a regulatory perspective, we have to understand that it's just not a one-size-fits-all world. If there was one change that I would make from a regulatory perspective, it would that.

One of the items that is being discussed is getting rid of the $10 billion threshold on "community banking" versus regional banking, because again, the expense associated with that once you get to $10 billion is incredibly, incredibly expensive. You are going to get banks that will slow down the loan growth as they get close to that $10 billion number.

TWST: What do you want a potential investor in Eagle Bancorp to know today?

Mr. Paul: We just see huge opportunity. Again, when you only have 3% of the market, we don't have to go out of this market or our wheelhouse to be able to continue to grow like we have been growing. So we are not looking to do anything differently other than business as usual and continuing to take market share mostly from the bigger guys, as 74% of the market is made up of the big national and regional banks, and we think that we can continue to take that market share.

TWST: Why do you feel so confident that you can take it?

Mr. Paul: Customer service, because whether you are a million-dollar borrower or $10 million borrower or a $500,000 borrower, we are the ones looking to give you that personal attention. I was on the phone over the weekend with customers, and I am constantly talking to customers. As Chairman of a community bank I have that accessibility, and that is just so important as the market continues to change.

We will have an economic hiccup. I don't know when it's going to be, but whenever you do have that economic hiccup, you want to have the relationship with your banker to be able to live through whatever that problem is, and that's something that we can do. We can give to our customers better than anybody else.

TWST: Is there anything else you wanted to mention that we haven't covered?

Mr. Paul: I cannot emphasize enough the burden that the regulatory world has been placing on us, and hopefully that will ease under the new administration. I have another business as I am a real estate investor, so I see what it's like in the real estate world and what is means to have those relationships with your banker. It is just so, so important. Many of us don't remember what it was like 10 years ago when we did live through some tough times, and that's a very key part to our economy. We need to make sure from a regulatory perspective that we don't put so much burden on the banks that they cannot continue to build those relationships with customers and have that flexibility.

TWST: You are saying to have that flexibility to have business occur more on their terms as opposed to what the regulators' terms are?

Mr. Paul: Yes. You can have a wonderful business made up of a long-term family that has been in the community, and it might not fit the box of the regulators, but it certainly fits the box of good lending. We just want to make sure that we don't shut off good lending because of regulations.

TWST: Thank you. (KJL)

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