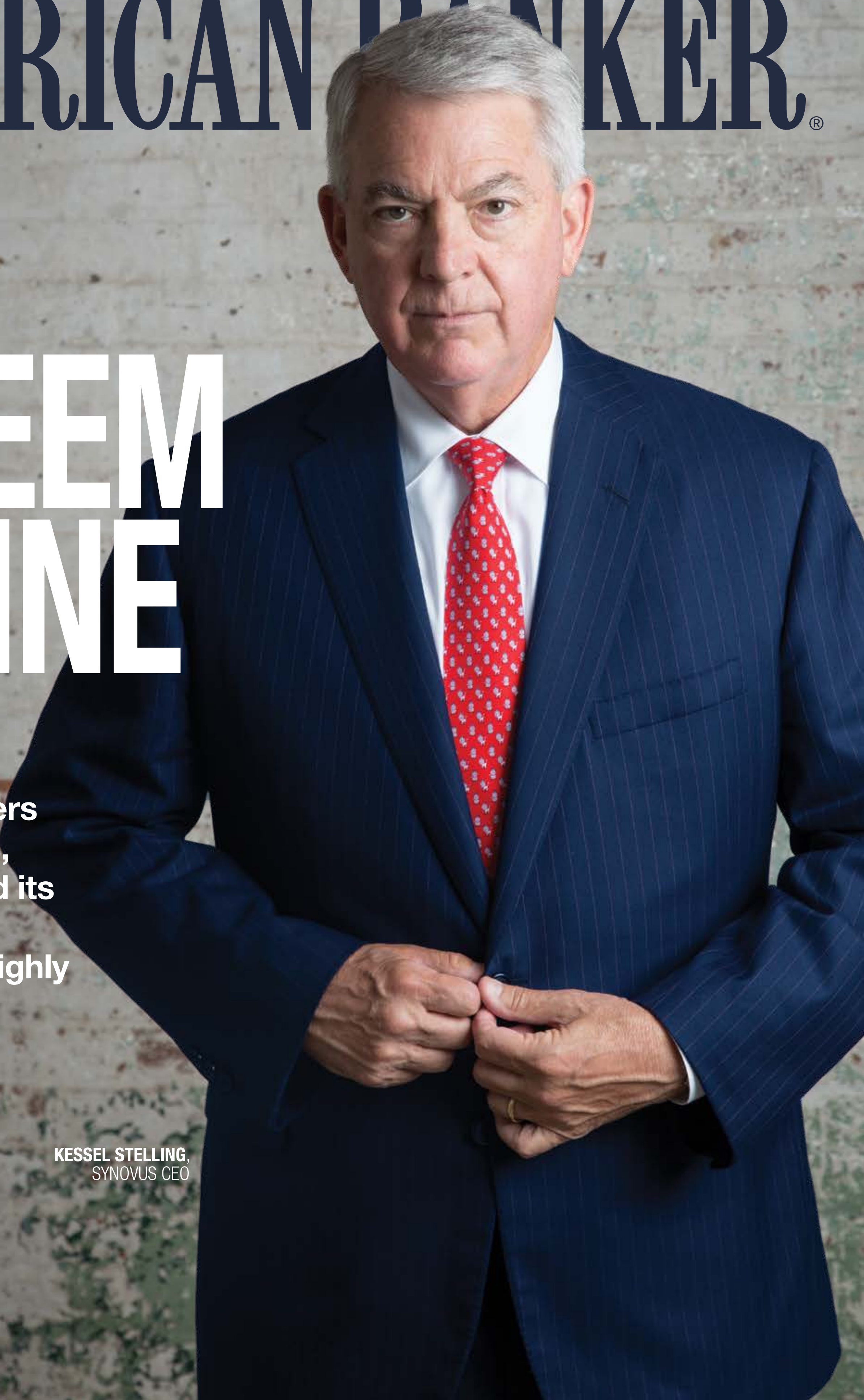
ANNUAL SURVEY OF BANK REPUTATIONS


# AMERICAN BANKER®

July 2016
americanbanker.com

# ESTEEM ENGINE

By strengthening ties with customers and communities, Synovus regained its status as one of banking's most highly regarded brands

**KESSEL STELLING,**
SYNOVUS CEO

Synovus Financial struggled along with its customers during the financial crisis. Now that it's healthy again, it credits the strong ties it built with those customers, and the involvement of its executives in the communities they serve, with helping restore its status as one of banking's most reputable brands.

# REPUTATION REBOOT

By **Alan Kline**

Photography by **Ryan Gibson**

**FOR MOST OF HIS BANKING CAREER,** Synovus Financial Chairman and Chief Executive Kessel Stelling believed that borrowers who failed to pay their debts were "bad people" who should be written off by banks.

"It's kind of how you were raised in this business," Stelling said. "If you lost money on someone, you never did business with them again, period."

Then the financial crisis struck and Stelling's views began to change. While he still had little sympathy for borrowers who had the means to repay and chose not to, he wanted to help those who fell behind on payments because they had lost their jobs or their businesses went bust.

Even with investors and regulators pressuring the Columbus, Ga.-based company to quickly dispose of problem loans, Synovus chose to be patient with delinquent borrowers who were making an effort to pay their debts. Stelling also vowed then that when the crisis was over and the economy – and Synovus – returned to health, the company would be there for down-and-out customers.

"I saw people lose their life savings, their businesses, their homes," Stelling said. "I saw good people get hurt and still try as hard

From left, Gloria Banks, chief compliance officer; Kessel Stelling, chairman and chief executive officer; and Liz Dukes Wolverton, chief strategy officer as they could to honor their obligations. We want to lend to people with good credit, but we have to look at the circumstances and be willing to give people a second chance."

There were sound business reasons for trying to work through problem loans rather than unloading them for pennies on the dollar.

Chris Marinac, a managing principal and head of research at FIG Partners in Atlanta, said that many banks "gave away value" when they quickly sold off troubled loans following the 2008 real estate crash. The decision to be more patient with borrowers may have hurt Synovus in the short term – the company lost roughly $3 billion over a three-year stretch and was one of the last regionals to repay the Troubled Asset Relief Program – but looked smart years later when real estate values rebounded and Synovus was able to move assets off its books at higher prices, Marinac said.

Mostly, though, Synovus' decision to wait was about doing right by customers. "We had a fiduciary responsibility to look out for our shareholders, but we were also trying to treat borrowers with dignity and respect," Stelling said. "We weren't trying to get the last nickel out of every deal."

For decades, Synovus had prided itself on its culture of service to its customers and communities, and Stelling's view was that the company would ultimately "be judged by how it treated people during the crisis."

## THE IMPORTANCE OF GENERATING GOODWILL

It would be a stretch to suggest that the $29 billion-asset Synovus is healthy again because of its compassion. Two capital raises, the consolidation of its 30 separate charters, a de-emphasis on real estate lending and a painful but necessary round of layoffs all helped Synovus get through the crisis and emerge a stronger, more diverse company.

But the bonds it maintained with its customers and communities played no small part in the recovery, said Liz Dukes Wolverton, Synovus' chief strategy officer.

Many of its bankers have been with the company or predecessor banks for two or three decades and, during the dark days, they worked overtime strengthening relationships, resolving problem credits and assuring long-time customers that Synovus was a bank they could trust, she said.

"There was a lot written, pretty accurately, about our financial condition," Wolverton said. "If we didn't have that local connectivity and presence in the community, it would have been very easy for a lot of people to walk away from Synovus."

Those outreach efforts during the crisis – and since – have gone a long way toward helping Synovus regain its status as one of the banking industry's most reputable brands.

In the annual American Banker/Reputation Institute Survey of Bank Reputations, Synovus came in at No. 2 on the overall ranking this year, based on how well it rates with both customers and noncustomers.

Among existing customers, it was part of a select group of banks to receive an "excellent" score – above 80 on a 100-point scale – for two years running. Perhaps even more tellingly, Synovus vaulted to the No. 1 position among noncustomers, up from No. 10 last year.

Stelling suspects that the improved standing with noncustomers is a result of its bankers' high visibility in the communities they serve throughout Georgia, Florida, Alabama, Tennessee and South Carolina. Synovus makes it part of the job description for local market executives to chair nonprofits and economic development organizations – not merely serve on their boards – and Stelling said that type of leadership resonates with customers and noncustomers alike.

It resonates in Statesboro, Ga., for example, where one of Synovus' market CEOs, Darron Burnette, co-chairs a downtown revitalization effort that has put Statesboro in the running for a national award that comes with a $3 million cash prize.

It resonates in Cobb County, Ga., where another market CEO, Rob Garcia, chairs an economic development agency that was the driving force behind luring Major League Baseball's Braves from downtown Atlanta to the northern suburbs. (The Braves will begin playing in the new Cobb County stadium next year.)

And it resonates in tiny Tallapaloosa, Ga., where a local branch manager helped raise $20,000 to feed the hungry.

"People who don't bank with us, they see what we are doing, they read the articles, they hear the messaging at the local church about what we're doing to address hunger," Garcia said. "All that translates into goodwill."

## CRISIS CLEANUP

Stelling has been the public face of Synovus since mid-2010, when he replaced Richard Anthony as CEO just three months after being tapped to become Anthony's top deputy. It was supposed to be an interim gig, but when Anthony, who was suffering from a rare blood disorder, was unable to return, the board removed the "interim" tag and named Stelling full-time CEO in late 2010. (He added the chairman title soon after.)

It was a rapid ascent for Stelling, who less than a year earlier was responsible for running just one of Synovus' subsidiary banks, the $4.7 billion-asset Bank of North Georgia. With his promotion, he was suddenly in charge of a publicly traded, top-50 bank holding company that happened to be dealing with unprecedented losses on soured real estate loans in an area hit especially hard by the financial crisis.

At times he felt overwhelmed, and the investment community noticed; after one earnings call early in his tenure as CEO, one analyst wrote in a research note that Stelling seemed "like a deer in the headlights."

"I read that and said, 'Wow, I can never let that happen again,' " Stelling recalled in a recent interview.

With Synovus losing more than $200 million a quarter and its stock price trading at under $3, Stelling's primary job at the time was reassuring investors, customers and employees that the company would survive – and engaging in what he calls "guerilla warfare" to make sure that it actually did.

Key to that effort was the June 2010 merging of Synovus' roughly 30 banks in five states into a single charter under the legal name of Synovus Bank. The company retained many of its local brand names, but for regulatory purposes its bank was a single entity overseen by two regulators – one each at the federal and state levels. Prior to the collapsing of the charters, Synovus reported to three federal regulators and five state regulators. "Because the charters were separate, any regulator on any given day could ask for more capital," Stelling said.

Synovus had just raised close to $1 billion in fresh capital through a stock sale and collapsing the charters "was critical to us managing through in a way that was fair to our shareholders," he added. "It certainly allowed us to manage capital more efficiently."

Far more painful for Stelling was the decision in early 2011 to shutter roughly 30 branches and eliminate close to 1,000 jobs. The cuts were viewed by local media outlets as being inconsistent with the culture of the company – Synovus' onetime tag line "culture of the heart" was all about putting employees first.

"That was a very difficult time, but the way we had to look at it was that by cutting 1,000 jobs we were saving 5,000," Stelling said.

The outlook for Synovus started brightening after that. With asset quality slowly improving, the company returned to profitability in mid-2011 and a year later it was able to recapture its deferred-tax asset. By July 2013, it was healthy enough to redeem the nearly $1 billion it had received from Tarp, and to the delight of investors, it announced a $250 million stock repurchase in fall 2014, followed by another $300 million repurchase announcement in late 2015.

All the while, Synovus was becoming a more diverse company, reducing its reliance on real estate and construction lending and moving into new areas of commercial lending, including health care, equipment financing and Small Business Administration loans. Today, only about 7.2% of its loans are in construction and land development, down from almost 17% six years ago, and its ratio of commercial and industrial loans to total loans has increased to 16.6% from 11.5% in that same period, according to Federal Deposit Insurance Corp. data.

Synovus also has made significant strides in boosting fee income, largely by recruiting teams of investment advisers and wealth managers from rival firms.

FIG's Marinac said that Stelling deserves much of the credit for Synovus' turnaround. While it's true that Stelling bore some blame for the company's problems in the first place – the subsidiary he previously ran had some of the worst loan troubles among all of Synovus' bank units – Marinac said he proved to be the perfect leader during the crisis.

***"Kessel came in at a time when they needed someone to rally them and that's the role he played. He had a game plan and grabbed his team by the shirt collar and said 'We can do this,' and they did," Marinac says.***

"Kessel came in at a time when they needed someone to rally them and that's the role he played," Marinac said. "He had a game plan and grabbed his team by the shirt collar and said 'We can do this,' and they did."

Stelling, for his part, said he probably gets more credit than he deserves for guiding the company through the crisis and not enough blame for his role in the events that got it into trouble. Nonetheless, he is grateful that the board put its trust in insiders like him to fix the problems rather than bring in people from outside who were unfamiliar with the culture.

He's grateful, too, that he's no longer spending the bulk of his time with regulators. "They were just doing their jobs, but talking to them all the time wasn't fun," he said. "Now I'm out telling our story to investors. That's fun. And I'm telling the story to people I'm recruiting. That's a lot of fun, too."

## SWEATING THE DETAILS

There's no question, though, that the experience of the crisis changed Stelling and his view of what a bank should be.

He has become a bigger believer in financial education and, to that end, Synovus has teamed up with Operation Hope to offer financial literacy training for adults in Atlanta and Columbus, Ga., and financial education for students in Birmingham, Ala. The company also is partnering with Operation Hope on an affordable-lending program under which it is offering low- or no-down-payment loans to qualified homebuyers in and around Atlanta.

John Bryant, Operation Hope's CEO, said that he used to view Synovus as being "provincial," but found in working with its leaders – particularly Stelling – that they are very progressive.

"As soon as the bank got out of its financial difficulties, I got a call immediately, saying, 'We're through the darkness and we want to work with you,' " Bryant said. "It wasn't tokenism; it was a serious commitment [involving] serious dollars."

Bryant noted that he deals mostly with top-level executives, including Stelling and General Counsel Allan Kamensky, rather than community reinvestment people in the lower ranks. "I've met with most of the people in the C-suite more than once," he said.

That type of engagement at the top is unique for a company of its size, according to Gloria Banks, who is Synovus' chief compliance officer and oversees its community reinvestment initiatives. Shortly after joining Synovus in 2012, Banks created a Community Reinvestment Act and Fair-Lending Council to make sure the company "was doing all the things we needed to be doing" for its communities.

"And on that council," she said, "there are at least five executive vice presidents or higher, right off of Kessel's management team, as well as market CEOs. It's very rare to see people at that level actively engaged in CRA and fair lending."

Stelling himself seems to sweat the details. He personally reads every customer complaint that comes through the company database, and as Synovus got ready to launch a major advertising campaign two years ago (with its "Bank of Here" tag line), he would sometimes irk his marketing team by tweaking scripts and rejecting certain actors. His communications team said Stelling is also expert at catching typos in news releases that have already gone through several proofs. "To me every word is important because it's an extension of the company," Stelling said. "I feel that way about everything Synovus does."

## A CULTURE OF INVOLVEMENT

As with many banks, high-ranking executives are expected to be very active in their communities. At Synovus, it's an expectation that predates Stelling, who joined the company in 2006 when it bought a bank he ran and merged it into the Bank of North Georgia.

"We don't dictate to our people which organizations they support, but we do expect them to be leaders in their community," Stelling said.

Darron Burnette, the CEO of Synovus' Sea Island Bank in Statesboro, is doing his part by serving as co-chair of community revitalization effort that involves sprucing up a tired, one-mile stretch between the bank's downtown headquarters and the campus of Georgia Southern University. His bank also is heavily involved in the effort, offering low-interest loans to business owners or developers looking to set up shop on the strip.

Things are going so well – several retail businesses and roughly 80 new residential units have moved into the neighborhood in the last 18 months – that Statesboro has entered a first-of-its-kind contest called "America's Best Communities." More than 300 communities entered the contest, sponsored by Frontier Communications, the Dish Network, the Weather Channel and CoBank, when it kicked off last year, and after the most recent round of judging in April, there are eight left, including Statesboro. The winner, to be announced in New York next spring, will receive $3 million to put toward its revitalization.

Burnette said the America's Best Communities initiative is a huge source of pride in Statesboro. Though the bank's involvement has helped it attract new customers, what's more important to him is the help the bank is giving to its hometown. "We are making a difference not by going into our bank every day, but by being engaged in activities that are vital to keeping an area thriving," he said.

The connection Synovus has with its communities is a big reason why so many small banks have opted to sell to the company over the last two or three decades, said Stelling, who once made that very decision himself. He had many suitors when he was shopping Riverside Bank more than a decade ago, but opted to team with Synovus because it was the most community-oriented.

"I almost sold Riverside to a company I wouldn't have worked for, but I got cold feet," Stelling said. "How do you sell your company and your employees to a company you wouldn't work for?"

Now that Synovus is healthy again, Stelling said he has fielded numerous calls over the last two years from small banks gauging his interest in buying them. Synovus has plenty of capital for acquisitions, but Stelling said he won't strike a deal "just to get our name in the headlines."

"I've had enough headlines over the last five years and most of them weren't good," he said. "If we do a deal, it has to make good financial sense for Synovus. We're going to be very disciplined."

Marinac, the bank analyst, said there's no need to rush. "Synovus has a nice footprint, a good healthy balance sheet, a lot of capital to buy back stock, and strong market share in a lot of different areas of the Southeast," he said. "This is a company that doesn't have to do anything." □