

The son of a Korean bank president, Sung Won Sohn, Ph.D., always wanted to run a bank. And now he is. After 31 years in the industry, the last seven spent as EVP and chief economic officer of Wells Fargo Banks, Dr. Sohn became president and CEO of Hanmi Bank in January 2005. This bank, headquartered in the Koreatown section of Los Angeles, was the opportunity the internationally renowned economist had been waiting for. From his office overlooking the Hollywood Hills, Dr. Sohn discussed his plans to grow the \$3.5 billion Hanmi Bank into a regional institution by expanding in ethnic markets throughout the country.

Dr. Sung Won Sohn Knows His Customers; They're Like Family at Hanmi Bank

RMAJ: *The Wall Street Journal ranked you first in its annual U.S. economic-forecasting survey. You've attributed your success to your willingness to supplement your econometric model with first-hand information gleaned from regular contact with Hanmi Bank customers. Can you discuss the type of information you seek from customers and how you use it to make your predictions?*

Sohn: As a banker, I need to see my customers, not only to get to know them, but also because we lend them money. Knowing them helps me determine the credit quality of the loans we make to them. The forecasting includes two approaches—a top-down approach and a bottom-up approach. With the top-down approach we use econometric models and federal government data, as well as a variety of publicly available information. And we buy some information from economic consulting firms to get the overall broad picture.

That's what most economists do, but I go one step further. I spend a lot of time talking to our customers because I want to understand the dynamics of their businesses. How do they make money? Why do people buy from them? What are they doing to enhance quality, productivity, and their market share?

I also try to understand what's happening with their sales and whether their sales are cyclical. When the economy goes up and down, do their sales go up and down? Selling automobiles today tends to be more cyclical than it once was. Some customers' sales are not too affected by economic cycles. Understanding what kind of business they are in is important.

When I gather customer information, I begin with the top-down approach, and then I gather information from the bottom up and put it together. It helps me have a better economic forecast. When you talk to your own customers, you can find out



By John Baier and Kathleen M. Beans

what's happening on the ground today, whereas government data, whether it's retail sales or the consumer price index, indicates what was happening a couple of months ago.

RMAJ: You took an unusual path from bank economist to bank CEO. In what ways did your experience at Wells Fargo prepare you for your new role?

Sohn: My experience at Wells Fargo was very helpful. Wells Fargo is a collection of small community banks. The head of each Wells Fargo office is not a branch manager; he or she is the president. Each office operates like a community bank with a down-to-earth touch. Over the years I made a point of understanding not only the bank's customers but also my own customers, the bank officers who paid my bills. I went to at least half a dozen lending schools, not because I was trying to become a lender, but because I wanted to understand what our lenders

needed so I could service them better.

My father was in the banking business in Korea. In Korea, the bank president was given a house, which was literally attached to the bank. I grew up playing in and around the bank. We used to make paper airplanes from the bank's documents. Even though I was an economist for 31 years, my intention always was to go into the banking business. And frankly, over the last 30 years, somehow the opportunity never came. And so Hanmi Bank was the opportunity that I had been looking for, to become a real banker, not an economist for a bank.

RMAJ: It has been reported that Hanmi Bank courted you for 15 years before you finally decided to come aboard. What was it that finally helped you make that decision?

Sohn: Even though Wells Fargo is a collection of community banks, it is a sophisticated institution with many products and services. I wanted to join an



institution where I could bring products and services from a large bank, as well as productivity and customer service. Growth at the banks in Koreatown [a section of Los Angeles along Wilshire Boulevard, where both Hanmi and its competitors are located] was primarily based on commercial real estate, and that worked very well for a long time. But I think the bloom is off the rose on real estate, and in the future we will have to do more than real estate lending. Hanmi is at a point now where we can make the transition to become a bank that offers business customers a variety of products and services. Real estate will continue to be very important, but we can do a better job with products and services.

When they first asked me to come here 15 years ago, Hanmi was a \$300 million bank, and now it's a \$3.5 billion bank. It needs the kind of products and services that mainstream banks offer. One of the products that I've already brought in is cash management services. Until I came here I didn't realize there were banks that did not offer it. Some customers had left Korean community banks and gone to national banks because they needed cash management services. I also have brought in asset-based lending—lending based on accounts receivables and

inventory, and so on.

Another reason I waited before joining Hanmi was because, 10 years ago, even five years ago, I was learning a lot and having a lot of fun. Wells Fargo was growing rapidly, and it was exciting to be on the winning team.

RMAJ: *How important has cross-selling products been to your earnings growth?*

Sohn: So far it has probably not been that large. But I'm counting on cross-selling to be an important source of income—and not only interest income but also fee income. For example, since I've been talking about cross-selling, life insurance sales have more than doubled. In the past, we made real estate loans but forgot to ask for deposits. Now I insist that our lenders ask for deposits. If there's a good explanation for why a customer can't give us deposits, we still make the loan, but the important thing is that we ask for the deposits and work hard to get them.

One of the branch managers recently said, "You know what? I asked for the deposit and I actually got it." When the Korean bank was so dependent on real estate, cross-selling had not been so important. But in the future, as we are introducing new prod-

ucts, cross-selling is going to be very important.

RMAJ: *Speaking of commercial real estate, the regulators have been concerned about commercial real estate concentrations, particularly at community banks. You mentioned that you've been trying to increase your non-real-estate lending. Have those efforts reduced the percentage of commercial real estate in your portfolio?*

Sohn: All Southern California banks are heavily dependent on real estate, and we are no exception. But relative to other ethnic banks, we are a lot less dependent on it. Our real estate portfolio in relation to our tier-one capital, and our percentage of real estate loans, is much lower than that of our competitors, the other Korean banks and the Chinese banks.

Knowing how to manage your real estate portfolio is key. Hanmi has very competent people doing that. In fact, we have been praised by the regulators. How do we do it? We use all the standard reports—from the concentration reports to the pricing information to studying our concentrations in terms of geography, of the industry, and so on. We also have what I call a "mosaic." For example, we have divided Orange County into mosaics. In each mosaic we know how many hotel and motel loans we have, how many car washes we have. We know how many of these loans we want to do in a certain area. As a result, we diversify across not only the products, but also the types of businesses and sizes of businesses. We have done a very good job of spreading the risk, and that's why we have been praised by the regulators.

RMAJ: *When you came on board at Hanmi Bank, it was reported that your plans were to quadruple the bank's earnings through acquisitions and internal growth. Can you discuss your expansion plans, including opening in new markets? What's the philosophy there?*

Sohn: Well, it was really not a plan; it was my hope and desire. I could not plan before I came here without knowing what the facts were at the time and what they are today. However, mergers and acquisitions, and expanding in the Asian market and then expanding beyond Southern California, are part of my long-term plan. It's not a plan in the sense that we are going to detail the strategy to execute it. In the Korean community there are too many banks, so it's ripe for some consolidation. I don't know whether that will happen two years or three years from now.

As you know, the number of mainstream banks has been shrinking nationally through consolidation and M&As, primarily to take advantage of the economies of scale. But that has not been the case in the Korean community. On the contrary, the number of banks has been expanding.

I don't have a detailed strategy for expansion, but I'm hoping for a consolidation within the Korean community. That said, we hope to add more branches this year, anywhere from a couple of branches to as many as four a year. We also have been adding loan production offices. When I first got here, we had one loan production office in Seattle. In the past year we've added loan production offices in the Bay area, Chicago, Virginia [outside of Washington,

The ethnic community is the growing part of the American population—whether it's Hispanic, as many of our customers are, or Asian. Banks catering to ethnic markets tend to grow faster than other banks.

D.C.], and Atlanta. We're planning to add loan production offices in probably a half-dozen cities, including Denver, Houston, and some cities in Florida.

The competition within the Korean community here in Southern California is so keen that it's very difficult to grow. There are over 100 branches in the Korean community right now. We need to grow beyond the Korean community, and Hanmi Bank is very well set up to do that because, for at least the past couple of years, about half of our new loans have been to non-Koreans. So we are already operating beyond the Korean market.

RMAJ: *How do you attract non-Korean customers?*

Sohn: Primarily by hiring local ethnic business development officers. We are not targeting the mainstream markets so much as the ethnic markets in San Francisco, Florida, Chicago, and Southern California. We do a lot of business with Iranians and with people from India and China. We also do business with the Vietnamese and other ethnic groups.

RMAJ: *How do you view the role of banks that cater specifically to a particular ethnic group or a number of ethnic groups? What role does niche*

banking play within the financial services industry?

Sohn: The ethnic community is the growing part of the American population—whether it's Hispanic, as many of our customers are, or Asian. Banks catering to ethnic markets tend to grow faster than other banks.

Why do they bank with us? Partly because we speak their native language. When we deal with Korean customers, we talk to them in Korean. When we talk to people from Tehran, we talk to them in Farsi. We don't have Korean or Anglo staff trying to market in the Indian or the Iranian communities. It's important that our staff understands the culture and the language of the community, and the best way to do that is to hire staff from that community.

Quite often, ethnic customers have more needs than the typical customer at a mainstream bank. Aside from the language issue, they may not be as familiar with the way we do business or with government rules and regulations such as the Bank Secrecy Act. They have needs beyond simply borrowing and depositing money. We do a very good job of handling all of their needs. We offer value-added service.



RMAJ: *How do you maintain customers through the second and third generations, which are assimilated in U.S. culture?*

Sohn: That is obviously a challenge. Customers who arrive as immigrants are often scared by the unfamiliar culture, but the second generation may decide to use mainstream banks. As a business bank, Hanmi has an easier time retaining second- and third-generation customers because those customers most likely inherited their businesses from their parents. With those customers, we are maintaining an ongoing relationship.

RMAJ: *Is trust a factor in attracting the customer initially and in retaining future generations?*

Sohn: Yes. For example, before students come from Korea to study in the United States, we can offer them checking accounts and credit cards. Then, when they arrive here, they can immediately start writing checks and using credit cards. Also, Korea is a wealthy country, and when Koreans come here, they need Korean-speaking professionals, such as real estate brokers, lawyers, and accountants. And we can introduce them to people they can trust. Basically, we try to facilitate the transition of funds

from Korea to the United States.

RMAJ: *Given the differences of the ethnic communities and their needs, does the bank take a different approach to credit analysis or evaluation of a loan opportunity compared to mainstream lending institutions?*

Sohn: Many larger mainstream banks use a cookie-cutter approach. They have more rules and procedures. At a smaller bank like ours, we know the customer very well. A lot of our loans are backed by real estate, but we also do character loans, meaning that we know you very well; we've been watching you for the last two or three years. Our covenants are sometimes a little more flexible than they would be at mainstream banks. We obviously wouldn't offer those to someone we don't know. For us, customers are almost like family. If there's a marriage in the family or a death in the family, chances are we will know about it. This involvement and concern are expected in ethnic cultures—the Asian culture, the Indian culture, the Iranian culture. It's more than a banking relationship; it's a personal relationship.

RMAJ: *There's a lot of discussion in our industry about enterprise risk management. What does enterprise risk management mean to you, and*

what is Hanmi Bank's approach to enterprise risk management?

Sohn: There are many aspects to enterprise risk management. First of all, we make sure that everything we do conforms to the regulations. For example, we hired someone to be responsible for SOX 404 compliance. But we want to go beyond what is required by the regulations to protect our reputation, which is very important. I can't think of anything more precious than our reputation. Even though we become like family to our customers, we make it very clear what things we should be doing and what things we should not be doing. It is all designed to protect our reputation and also their reputations.

We look at every part of the bank in trying to understand the risks we face. For example, if we do foreign exchange and send wires back and forth to China or Korea, what kind of risks do we face? In addition, we assess some of the potential risks that we could face. Those aren't always obvious.

RMAJ: *When you became president, you brought in new management resources. What particular skills were you looking for, and what other resources do you need to take the bank to the next level?*

Sohn: When I was with Wells Fargo, I used to come to Southern California periodically and talk to customers. I asked Korean customers why they banked at Wells Fargo instead of the Korean banks. The answer at the time was that Korean banks didn't offer the products and services they needed. So when I came here, I knew I could add value by bring-

ing in new products and services. It's not rocket science; it's just a matter of bringing them here and implementing them.

To accomplish that goal, we have utilized our existing staff and also brought in people from the outside. We hired people from Wells Fargo and Bank of the West because they understand the products and services. Wells Fargo is known for excellent customer service, so I hired a couple of people from Wells Fargo to develop the service culture.

The senior management team consists of three main pieces. Number one, obviously, are the people who grew up in the Korean community here who understand our Korean customers. Number two are the people from outside who could bring in new products, such as asset-based lending. Number three is the customer service group. I've learned a lot from Wells Fargo and I still think Wells Fargo has the best service, so I'm trying to duplicate that. Everybody knows the importance of a customer-service strategy, but the question is, do you know how to execute it?

RMAJ: Although Hanmi Bank is more of a business bank than a consumer one, do you have a view on the regulators' proposed guidance on nontraditional mortgages?

Sohn: Yes. Although Hanmi Bank is not a consumer bank, we do some home mortgages, which we sell to secondary markets. So we underwrite based on specifications of the people who buy our mortgages. They are all conforming. However, I worry about the exotic risky mortgages. The economy has been good, but I think

there will be some turbulence in the future. Both banks and their customers are taking a lot of risks through nonconforming mortgages. When the interest rates go higher, and when the economy turns sour, there will be more pain and suffering as a result of these nonconforming mortgages.

RMAJ: How has RMA membership benefited Hanmi Bank?

Sohn: It is the best organization when it comes to credit. And in the banking business there's nothing more important than having good credit quality. RMA is a good source of risk management information. It provides all the necessary training and services bankers need, as well as networking opportunities. RMA is a great organization, and the industry has benefited a great deal from it.

RMAJ: You gave some talks about the economy locally. Do you do that to promote the bank's presence or also because you're still an economist at heart who enjoys talking about economics?

Sohn: Well, there are two reasons. First of all, we have good information, so we want to share that with the community—the idea being that what's good for the community is good for the bank. It's a win/win situation. It also helps our name recognition and branding, which are so important. Hanmi's not very well known, but since I've come here, I've been in *The Wall Street Journal*, *Los Angeles Times*, *USA Today*, and other publications. Every time my name shows up, the Hanmi name comes with it. So it has really helped with name recognition. We want people to know that

Hanmi is a good bank. We still call ourselves a community bank, but my hope is that we will graduate from a community bank into a regional bank.

RMAJ: We've talked quite a bit about competition, and looking up and down Wilshire Boulevard at the other banks along the street that are in your same niche market, how would you say Hanmi Bank competes? Are there any particular competitive advantages that the bank has—other than the ones we've talked about?

Sohn: Size is important, and because we have the size, we can offer more products and services. In the ethnic community, size in and of itself is an advantage. People like to bank with the largest bank, and we are the largest bank in the Korean community. But size can take you only so far. You must have the products and services customers want. We do have better products and services than our competitors.

RMAJ: Your contract with Hanmi is for six years. What will you do when it's up?

Sohn: Typically, a Korean bank offers a three-year contract, but I wanted a six-year contract so I could make the long-term investments in the bank that I believed were necessary. I don't see myself ever retiring, so when the contract is up, who knows what may come afterwards?

Contact John Baier by e-mail at jbaier@mahq.org.

Contact Kathleen M. Beans by e-mail at kbeans@mahq.org.