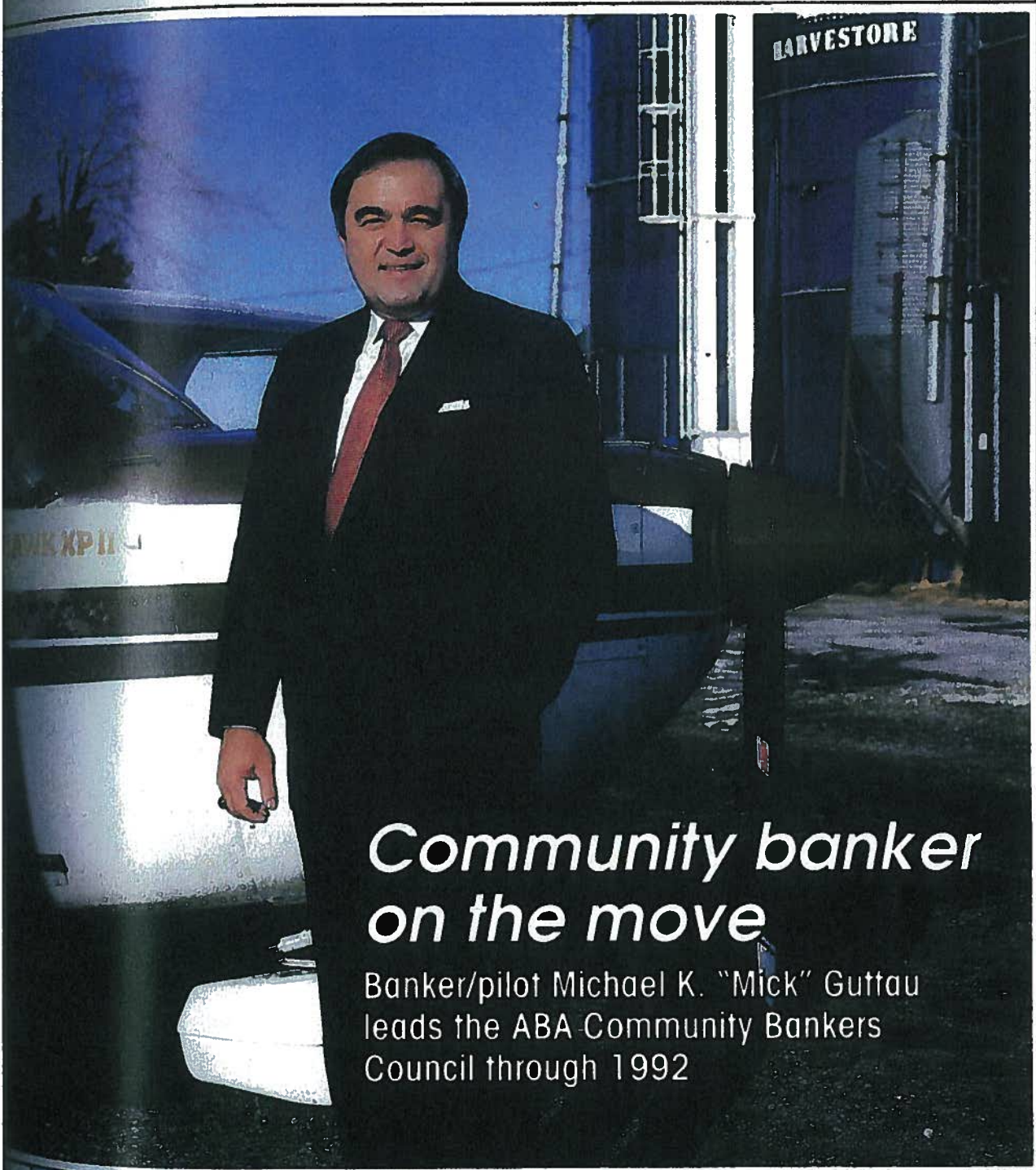


ABA

Banking Journal

February 1992



Community banker on the move

Banker/pilot Michael K. "Mick" Guttau leads the ABA Community Bankers Council through 1992

"I'm an examiner. That's what I've always been"
—William Taylor, FDIC chairman p. 33

**Ready for interest
rate risk rules? p. 60**

He wanted a challenge, and he got one



Among Mick Guttau's challenges is more housing for Treynor, Iowa. Aided by a special tax provision, his bank and developer Roland Haggard got this 30-lot subdivision.

Farming, not banking, was what Mick Guttau wanted to do, until he became a bank president. Then banking got a lot more interesting.

Mick Guttau bought his bank because he didn't like working there. Bored with his job as cashier at Treynor State Bank, he was about to leave for a job in nearby Omaha when the bank's owner asked Guttau if he'd like to buy the \$8 million-assets bank and run it himself. (The bank is situated in Treynor, Iowa, a town of about 1,000 people 20 minutes east of Omaha, Neb.)

Guttau at the time was 31, living in a mobile home with his wife and two small children, and had a net worth of roughly \$40,000.

He thought the odds against success in such a deal were high. Yet, with the help of a loan backed by a mortgage on his family's farm, Michael K. Guttau (rhymes with "Utah") bought the bank

and has been president and chairman ever since.

That was in 1977, and the former Vietnam War helicopter pilot, now 45, hasn't been bored.

In addition to running the \$23 million-assets bank, Guttau last October took on the added responsibility of representing his peers as chairman of ABA's Community Bankers Council.

Guttau's success as a banker is noteworthy considering he really wanted to be a farmer. His father, Detlef, operated a family farm northeast of Treynor that has been run by Guttaus since 1877. When Mick Guttau, the youngest of three children, attended Iowa State University under the federal Reserve Officers Training Corps program, it was as an agricultural major.

While at Iowa State, he met fellow student Judith Ann Frazier, daughter of a farmer in Griswold, near Treynor. They married in 1968. When Guttau graduated in 1969, he finished his military training and shipped out to Vietnam for a year's service as a pilot of a Cobra attack helicopter. He flew combat missions nearly every day and held several command positions during his service. When he left active service in 1972, his decorations included two Distinguished Flying Crosses.

The couple settled in Treynor, intending to buy a farm of their own when the right opportunity came up. In the meantime, while trying out hog farming with his brother, Guttau took a trainee's position at Treynor State Bank. A short while later, he took an additional job as a

By Steve Cocheo, executive editor

part-time consultant with the Southwest Iowa Farm Business Association.

Several years passed, and Guttau's dream of becoming a farmer continued to be thwarted. Each time an opportunity arose, it fell through at the eleventh hour. **Running the show.** Guttau's lack of interest in the bank job added to his frustration. "I just wasn't challenged," he says. The day-to-day job was filled with routine, "and I just wasn't prepared for life to be that routine."

That's when the bank's owner made his extraordinary offer.

"It all just felt right," Judy recalls. Interest rates happened to be at a low point then, making the acquisition more affordable. And the top job seemed to be one that all of Guttau's previous experience—Army command, farm consulting, farming, and banking—would contribute to.

In driver's seat. During his active military service, one of Guttau's more memorable missions took his team into Laos. The goal was to attack a key enemy supply point to establish a landing zone for troop helicopters.

Being shot at was no surprise, but the enemy's welcome that day was warmer than usual. The site was critical enough that heavy anti-aircraft guns had been moved in. As the team flew in, flak burst around them, "like in a World War II movie," Guttau recalls.

"It was a pretty tense day," Guttau says with understatement. But he feels he has faced the financial equivalent many times since.

One of his first priorities was the bank's loan-to-deposit ratio, high at 93%. Guttau explains that loan demand, particularly for cattle feeding operations, had been strong, and old management took much of what came in.

But Guttau regarded such a high ratio as imprudent. At the same time, he noted that the \$8 million bank had passed on \$3.3 million in overlines to its correspondent. He felt Treynor State Bank should be enjoying more of that business. So the bank set out to raise more deposits to work the ratio down to an operating range of 70% to 75%. It did, and it has remained there pretty steadily since, says Guttau.

There were also credit problems to be addressed. Guttau knew that some bad credit had rushed in along with the good during the boom in the '70s. But he was still somewhat surprised at the scathing exam FDIC rendered a few months after

the acquisition had been completed.

"I refer to it as 'cleaning our plow,'" he says.

Bank director Marlyn Eitmann, an executive with Omaha-based Union Pacific Railroad, elaborates on the period by recalling a command visit he made before the state regulators.

"We had to let them beat up on us," says Eitmann. "They're not real friendly when you're having problems."

Guttau says it took three years to clean up the problems and reduce the loan ratio. In the process the bank outgrew its quarters and moved to a new structure in 1983. Right about then, the ag crisis hit. **In and out of crisis.** The ag recession of the mid-1980s was a rough time, but Guttau resolved to avoid moving anyone off their farm.

Solutions were varied, but Guttau looks back on the experience with some pride, reflecting that, though the bank had its write-offs, only one borrower filed for bankruptcy. In the end, most people were able to stay on their farms.

The bank made its own adjustments. Since Guttau bought the bank, it had

about 10% per year. In the last five years, the bank has not had to make any additions to its loan loss reserves. In its last exam, only four loans were past due, and in the last five years, it has not been necessary to make a provision for loan losses.

City advantage. Part of what helped the bank and Treynor to weather the ag crisis better than others was their proximity to Omaha. Omaha companies provided jobs for troubled farmers and other Treynor residents during the crisis.

Also, being close to the city meant the bank could provide mortgages and consumer loans to other people employed in Omaha, which gave the bank additional sources of income.

Today, Guttau reports the local farm economy is strong and overall loan demand continues at a relatively healthy pace, though it is off a bit due to recession concerns. Guttau expected to finish 1991 with an ROA of 1.1% and hopes to match that in 1992.

While having Omaha as a neighbor has its pluses, it also presents a challenge. Guttau's bank must stay on the leading edge of products and services to compete with Omaha's institutions, as well as with tough competitors from Council Bluffs, Iowa, just to the west.

Name a product and chances are Treynor State Bank is offering it or has looked into it. Annuities, discount stock brokerage, and access to automated teller machine networks are available. Last spring the bank began issuing its own MasterCard and Visa cards through a subsidiary of the Iowa Bankers Association.

Community banks often boast of providing better service than their larger brethren. But Guttau doesn't take this edge for granted. Under a four-year old "Performance Guarantee" program, all employees, including tellers, are empowered to reward customers with crisp new \$5 bills if the bank is caught in an error. Guttau says this helps point up weak spots, gets customer problems fixed, and enables the bank to send customers who arrive annoyed on their way, satisfied and with a little bonus.

Community housing goals. As a bedroom community, housing is one of the keys to Treynor's future growth. Among several community posts, Guttau is a founder and president and director of the Treynor Community Development Corp. One of the community strengths the group promotes is the ability to enjoy a



Photo by Roger Barnes

Banker Mick Guttau chats with customer Jo Martin of Treynor Hardware. Both compete with mall-based rivals.

been enjoying a 15% compound rate of asset growth. Management decided to freeze the bank at \$17 million until the storm and its aftereffects had passed, in order to continue servicing the takeover debt.

The brakes were released a few years ago, and the bank has been growing

small town atmosphere within easy driving distance of an urban center.

Guttau breaks the housing issue into two parts: creating new housing opportunities for maturing families in Treynor, and creating affordable housing for people just starting out.

A particularly strong example of this two-part strategy is a 30-lot subdivision going up on some former farmland.

Working in concert with the town council, Treynor State Bank utilized a special feature of the Iowa tax code to have the unincorporated area around Treynor designated as an urban revitalization district. Then the bank provided 40% of the funds to improve the land to the point where homes could be custom-built on the sites.

Nominally, the city is responsible for the loan, but the actual source of repayment is somewhat unique. The bank will be paid from property tax revenues obtained within the revitalization zone that exceed what the city was already receiving. It will receive this incremental amount until the debt is paid off.

Demand for the homes is strong. Five months after the planning first started, all the lots were spoken for.

Guttau is pleased with the progress. However, he worries that someday Treynor's agricultural heritage and its hopes for increased housing will collide. He reflects that other agricultural communities have seen clashes between farmers and new residents. Homeowners don't particularly appreciate the side effects of farms, such as the smell of hog manure. Yet the farmers were there first.

Husband/wife team. A legacy of Mick Guttau's days in Army aviation is his love of flying. He co-owns a Cessna Hawk XP II, a four-seat, single-engine plane. Sometimes he and Judy use the plane to fly to ABA functions. When conditions permit, she spells Mick on the dual controls.

This is actually an extension of how Judy Guttau helps out on the ground as well. She is not only a stockholder and director, but also serves as the bank's marketing and auditing officer.

"He and Judy are really a team," says Neil Milner, executive vice-president and CEO of the Iowa Bankers Association.

Indeed, the couple has a good working relationship, which Guttau characterizes this way: "I get the crazy ideas and she has to carry them out."

Guttau is almost surprised when

asked how a married couple manage to work together. "The chemistry just seems to be right. We haven't had to concentrate on that," he says. "Judy always makes her feelings and opinions known, but if in the end I go the other way, she understands that's the nature of my position."

Judy seems equally surprised when asked the same question. In addition to the bank, the couple also owns an insur-



Treynor State's husband/wife team: Mick Guttau is CEO, Judy is a director and marketer.

Photo by Roger Barnes

ance agency and are part owners of a travel agency, both housed in the bank's building.

"We both give and take," she says. "One of us does have to have the last word—and I'm the one." (The last word, she says, is "Yes, sir.")

More seriously, she explains that she is a detail person by nature, whereas Mick is more the conceptualizer. "So I implement things," she explains. For example, she runs the bank's "Statesman's Club," a senior citizen program that features group travel and other benefits.

Because Judy and Mick often travel together to ABA functions, Mick relies on several key employees to run the bank during his absences, and to a large degree even when he's there. He has given his managers authority to make decisions and expects them to use it, whether he is there or not. As a result, he says, "When I go to Washington, I don't call in." Employees know where he can be

reached, but he says it has hardly ever been necessary for his out-of-town duties to be interrupted.

Council goals. Guttau's term as Community Bankers Council chairman began in October, so he was deeply involved in the final, frenetic stages of the passage of the 1991 banking law. The council's early November visitation to Capitol Hill is widely credited as being a key to the defeat of a regressive compromise bill.

The law that emerged—the FDIC Improvement Act—left Guttau disappointed. He was glad to see such last minute negatives as credit card caps drop out, but regrets that additional products and services for banks met the same end.

"In spite of their minimal impact on Treynor State Bank, those powers will be good for other banks and for the economy as a whole," says Guttau. "I'll continue to work for them."

Guttau thinks smaller banks that consider new powers unimportant to their interests are short-sighted. "I've never seen any of our correspondent banks develop a product they didn't try to spin off to smaller banks like ours," he says. Actually, he says, quite a few community bankers agree with him.

On other fronts, Guttau has additional goals for his term:

The first is to improve and increase communications about and by the council to community bankers. Among his efforts is a monthly column he's writing for *ABA Bankers Weekly*.

Guttau also hopes to tap the potential of ABA's American Financial Skylink, the association's satellite education network. His bank has the distinction of being the first to sign up outside of Kentucky, where the network was launched. Guttau also wants to expand ABA product offerings for community bankers.

Community on a grand scale. Since the fall of the Berlin Wall, Guttau has had a dream that's much in keeping with being a community banker: to help formerly communist economies launch community banks. Small banks, he believes, can help build small businesses. These small firms in turn could help those economies turn around.

With so many responsibilities at home, Guttau may have to put off helping Eastern European countries for a time. But he's hosted visitors from those countries and says, "I'm going to stay in touch with some of those guys, to see if we can be of help someday." □