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What Works

Green for Green: An innovative bank supports environmentally friendly business

By Carolyn Said

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Green for Green

An innovative bank supports environmentally friendly businesses *by Carolyn Said*



A partnership between San Francisco's New Resource Bank and San Jose's SunPower takes the bite out of paying for solar panels. The bank attracts eco-conscious customers.

PETER LIU STARTED HIS working life as an engineer at the oil giant Chevron Corp., where he designed petrochemical plants. The experience turned him into an avid environmentalist. Several years later, it also led him to co-found New Resource Bank, which calls itself the nation's first "green" commercial bank. The bank opened in the fall of 2006 in San Francisco, and not only offers standard banking services, but also boasts in-depth knowledge of green industries. This knowledge will allow the bank to do a better job of assessing risk and underwriting loans to these businesses, says Liu, New Resource's co-chairman.

Soft-spoken and diplomatic, Liu carefully describes how his first job raised his awareness of environmental issues. "When I first came out of college [the University of California, Berkeley], I had no interest in the environment," he says. "I'm from an immigrant family [from Taiwan] so my first job was a very practical one for a chemical engineer/materials science engineer major."

During his two-and-a-half-year stint at Chevron, Liu saw that different state regulations meant there were big discrepancies in cleanliness between various plants. "Refineries here in California are very

clean, very safe," he says. "Then you have refineries in the Gulf Coast area owned by the same company that are somewhat different. Highway 10 here in California goes across some pretty great neighborhoods, including Orange County. Highway 10 on the Gulf Coast is an area that's called Cancer Alley. From Texas to Louisiana, it's a corridor with the highest concentration of refineries and chemical processing plants" – and also high cancer rates.

Liu left Chevron to work for the California Air Resources Board, where he helped write regulations to put the California Clean Air Act into practice. He went on to earn a master's in public policy at Princeton University's Woodrow Wilson School of Public and International Affairs, then worked on energy sector transactions and other projects at Chase Manhattan Bank and Credit Suisse First Boston in New York City. Returning to California, he immersed himself in efforts to promote business and the environment. When the state of California decided to get into green investing through its two large pension funds, he advised it on "green wave" projects.

Through these various experiences, Liu recognized the need for a bank that serves businesses developing clean technologies, entrepreneurs specializing in ecologically friendly industries, and consumers concerned about the environment. Combining his banking and environmental skills, Liu partnered with co-founder Daniel Yohannes to launch New Resource Bank. Yohannes was previously vice chairman at U.S. Bank, the nation's seventh largest bank.

Building the Bank

Liu drew inspiration for New Resource Bank from two banks that had successfully pursued niche markets. One is Silicon Valley Bank in Santa Clara, Calif., which prospered by focusing on local technology and bioscience businesses. The other is the Netherlands' Triodos Bank, which finances projects with social and environmental benefits. Roger Smith, a former CEO of Silicon Valley Bank, came aboard as a New Resource founding investor, as did Triodos.

In March 2005, these two, along with 24 other early stage investors, each put up \$50,000 to \$100,000, for a total of \$1.65 million in seed capital. New Resource used the money to put together an exhaustive application to regulators, to hire initial

GROWING GREEN INSTITUTIONS

- Borrow successful strategies from un-green competitors
- Build credibility by hiring experienced managers and directors
- Offer a suite of values-based products



management, and to design and build the bank's first office. "That was truly at-risk capital," Liu said. "If regulators had not approved our application, that money would have been spent with nothing to show for it." The bank's novel focus turned out to be a selling point. Both state and federal regulators reacted positively to the bank's business plan and granted their approval by April 2006.

The next step was to raise capital. Liu says the premise sold itself, helping to attract the needed funds. "The idea [of a green bank] is one that many people identify with as powerful and timely," he says. In the end, New Resource had to turn away money. It drew \$35 million in investments but had to give back \$10 million because regulators required that it adhere to its original business plan. New Resource accepted \$24.75 million from 240 founding shareholders, largely individuals who put in from \$10,000 to \$1 million. That capital gives the bank the potential to grow to \$300 million in assets because it's allowed a 12-1 ratio between equity and assets.

"I've done a lot of financing in 20 years," says Bob Epstein, one of the original 26 investors, "and I've never seen [a new venture] that had this many people interested." Epstein is co-founder of Sybase, an \$800 million software company, and Environmental Entrepreneurs, an environmental advocacy group composed of businesspeople.

The other investors are a who's who of business and environmental experts, including the former president of the Organic Trade Association and the founders or co-founders of Lotus Development, Brightmail, Ofoto, SunPower Corp., W.R. Hambrecht, and Mendocino Wine Co.

With money in hand, the bank next created its technology infrastructure – a massive undertaking. "[Processing payments], whether through ATM, check, payroll, or purchases, has to be secure and compliant with regulations," says Liu. "It puts banks under a tremendous burden of compliance."

Capturing Customers

By fall 2006, the bank was ready to open. New Resource outfitted its San Francisco storefront with energy-efficient systems, carpets made from recycled materials, and furniture fashioned from sustainably harvested wood. The founders marked the official opening not by cutting a ribbon, but by snipping a fragrant garland of ferns and herbs – a small symbol of the ways they hope to be different from other banks.

As of January 2007, the bank had 250 depositors who hailed from all over the country and even Europe. Liu says that many customers came because they liked the idea that their money will support green businesses. One of these is Dave Kent, co-founder and co-owner of Berkeley Mills, a cus-

tom furniture maker that built tables for the bank's reception area. Kent opened a business account at New Resource Bank for his 55-person company. The bank's mission is "true to my heart," says Kent. "I'm excited to be included in the circle of people supporting them."

In another sign that the bank's mission is resonating with the community, New Resource secured a business partnership with solar power giant SunPower of San Jose, Calif. SunPower selected the bank as its preferred lender for residential customers. Installing solar panels on homes costs from \$20,000 to \$40,000. Homeowners can get financing from New Resource that matches their monthly payments to the amount they save on their electricity bill, making the pricey installations more affordable. With California offering incentives for solar installations, and with Americans more concerned about the environment, Liu expects the SunPower agreement to generate tens of millions of dollars in loans over the next couple of years.

Another distinguishing feature of New Resource Bank is its community rewards Visa card, which generates 3 to 5 cents in donations for community nonprofits each time it is used. The first nonprofit to receive funds is Marin Organic, an organization that promotes sustainable agriculture in Marin County, north of San Francisco.

The bank also offers the standard array of consumer services – including deposits, CDs and lending, online bill payment, and fund/wire transfers – and standard business services – including deposits, lending, real estate development loans, payroll services, and payment and collection services.

It's still early to gauge the bank's success, although Liu says it's running 10 percent ahead of projections. Like many new banks, it expects to turn a profit in its second year.

Experts say green technology is a market poised for explosive growth. Venture capitalists poured \$2.29 billion into clean technology in the first nine months of 2006 – more than double the \$1.1 billion from the same period in 2005 – according to the Cleantech Venture Network. And that doesn't even account for other target markets such as sustainable agriculture and organics.

The growing desire of consumers and businesses to vote with their pocketbooks could also contribute to the future success of New Resource Bank. "Banking is tough," says Joe Morford, a banking analyst with RBC Capital Markets in San Francisco. "Everyone can make loans and everyone can offer checking accounts. You need to stand out and give customers a reason to come in the door. It seems like the [environmental] community might be more willing to give their business to someone who shares similar values." □