

# What Do Great Businesses Do? That The Rest of Us Can Learn!

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Presented By: David L. Kemp, BMI



## Number of Troubled Banks Declines

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Failures	4	6	14	24	51	92	157
Troubled	<175	<200	<400	<500	800+	850	880

Source: BKD

## Performance Trends

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2007</u>
▶ # Charters	6,111	6,238	6,570	6,874	7,149	7,787
▶ Loan Growth	7.26%	7.02%	7.10%	4.15%	2.84%	9.76%
▶ Past Due	1.68%	1.78%	2.23%	2.53%	3.14%	2.20%
▶ Cost Staff \$	73,130	72,080	69,990	68,300	66,760	58,120
▶ Eff Ratio	69.3%	70.4%	71.3%	72.2%	71.6%	68.9%
▶ ROA	0.82%	0.80%	0.77%	0.73%	0.71%	0.80%

Source: BKD

## UBPR Analysis WA

- ▶ Washington State Averages 12/31/2017
  - 36 Banks
- ▶ National Peer: \$300M – \$1M
  - 1,219 Banks

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## UBPR Analysis WA

▶	<u>Your Bank</u>	<u>WA Average</u>	<u>National</u>
▶ <u>Average</u>			
▶ In Income		3.82	4.04
▶ In Expense		0.31	0.44
▶ NIM		3.97	3.81
▶ NII		0.63	0.72
▶ ROA		0.86	1.03
▶ ALLL		1.35	1.25
▶ Past Due/ Non accrual		0.41	0.66
▶ Tier 1 Capital		10.41	10.32
▶ Cash Dividends		35.42	40.02

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## UBPR Analysis WA

	<u>Your Bank</u>	<u>WA Average</u>	<u>National</u>
▶ <b><u>Average</u></b>			
▶ Loan Growth		9.52%	7.98%
▶ Personnel Expenses		1.79	1.60
▶ Occ Expenses		0.32	0.33
▶ Other Expenses		0.88	0.85
▶ Eff Ratio		68.9%	64.3%
▶ Avg Personnel Exp		\$87.78	\$78.74
▶ Assets Per FTE		5.42	5.27

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## UBPR Analysis WA

	<u>Your Bank</u>	<u>WA Average</u>	<u>National</u>
▶ <b><u>Average</u></b>			
▶ DDA		18.11	13.61
▶ MM Accts		22.74	17.80
▶ Other Savings		19.87	17.62
▶ TD @ Limits		11.87	17.98
▶ TD Above Limits		2.86	4.20

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## What Happened?

- ▶ The banking industry has gone through a period of survival, and now it enters a period of renewed focus on the **customer**.
- ▶
- ▶ **The question of the day?:**
- ▶ *“What products or services can we provide our Customers; that our Customers will perceive enough value that they will pay us enough \$\$, that we can provide our shareholders with an acceptable return on their investment”*
- ▶ *Don't let regulators run your Bank!!*

## Qualities of Winning Bank's

- ▶ *The best run Bank's in the country are also the top performing Bank's*, as Management and the Board provide clear strategic direction. Some of the shared qualities are:
- ▶ **1. A laser like Customer focus**
  - Defines its target customers & markets
  - Service always matters
- ▶ **2. A disciplined and aggressive credit culture**
  - Credit quality is a first consideration
- ▶ **3. A desire to be the Employer of choice**
  - Recruits talent at every level of the Bank
  - Compensation is designed to maximize bank performance

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## Winning Bank's

### ▶ 4. Innovation is encouraged

- Technology is not seen as the end-game but as a tool that is to be used
- Good ideas can come from anywhere within the company

### ▶ 5. The Board will exercise its independence

- The Board provides strategic direction
- The Board provides management with informal & formal feedback
- The Board will use outside resources when necessary
  - Auditors, Attorneys, Consultants

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## SERVICE

“You must meet and exceed the customers expectations”

### ▶ $SS = RS + STEC + STNC$

### ▶ Successful Sales =

▶ Retentive Sales ( keep your current clients) +

▶ Sales to Existing Customers ( cross selling) +

▶ Sales to New Customers ( referral networks)

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## KEYS TO RISK CONTROL

- ▶ 1. Know Your Borrower
  - Due diligence (analysis, **on-site visits**, financial info)
- ▶ 2. Hi Quality Trained Loan Officers
  - Judgment, Personality, Common Sense
- ▶ 3. Clear Loan Policy
  - Exception policy & procedures
  - Collections & foreclosure
  - Lending Authority – Renewed annually

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## Risk/Credit Controls

- ▶ Appoint a qualified Chief Credit Officer:
  - Look for Regulatory and/or Lending-Workout experience
  - Portfolio size of \$200M – \$250M
  - Reports to CEO
  - No compensation tied to loan volume
  - Integrate into Loan approval & structuring process
- ▶ Utilization of External Audits and Reviews
  - Shape and develop management responses
- ▶ Serves as Bank's primary interface with Regulators

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## Credit Culture

- ▶ Perform due diligence prior to funding
  - Set minimum loan package for loan committee presentations
  - Is this our type and/or size deal?
- ▶ Early identification of higher risk loans
  - Performance expectations are to raise hands early
  - Use group “autopsy” of charge-offs and higher risk loans
  - Use loan officer loan committee for teaching, (vetting deals)

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## Asset Quality is King!

- ▶ Asset Quality continues to be *the* defining issue for the banking industry.
  - Who do we want for customers/clients?
  - Is this type of deal within our wheelhouse?
  - Is our loan policy clear and up to date?
  - Do we have enough talent to do the job?
  - Can we work within the regulatory framework?
  - Is our credit culture disciplined?
  - Have we balanced Risk & Return?
  - Are we serving the financial needs of our community?

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## Talent Acquisition & Development

- ▶ Who do we hire?
  - Personality profiling
  - Leadership traits
    - Self starter
    - Strong communication skills
    - People skills
    - Intellectual curiosity
- ▶ Staff development
  - Mentoring high potential Team Members (Board)
  - Internal & External training, developmental assignments
  - Leadership training

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## Talent

- ▶ Identify, Recognize, Reward high performers
- ▶ Identify, Coach, Remove under performers
- ▶ Develop relationships with local Colleges & Universities
  - Internship programs

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