

# The Seven Secrets of Consistently High Performing Community Banks



**March 22, 2016**  
**Webinar**



# PRESENTERS

**Jeff Morris** joined Austin Associates' Financial Management Division in 1998. He is responsible for profitability analysis services and works with clients who utilize the firm's innovative software products, including its proprietary organization/product/customer profitability software and its loan and deposit pricing software. Jeff has over 35 years of experience in various financial management roles.



## Jeff Morris

Managing Director & Principal  
Financial Management Division

[jmorris@austinassociates.com](mailto:jmorris@austinassociates.com)

419-517-1775

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  - Loan & Relationship Pricing Systems
  - Balance Sheet Structuring
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# AGENDA

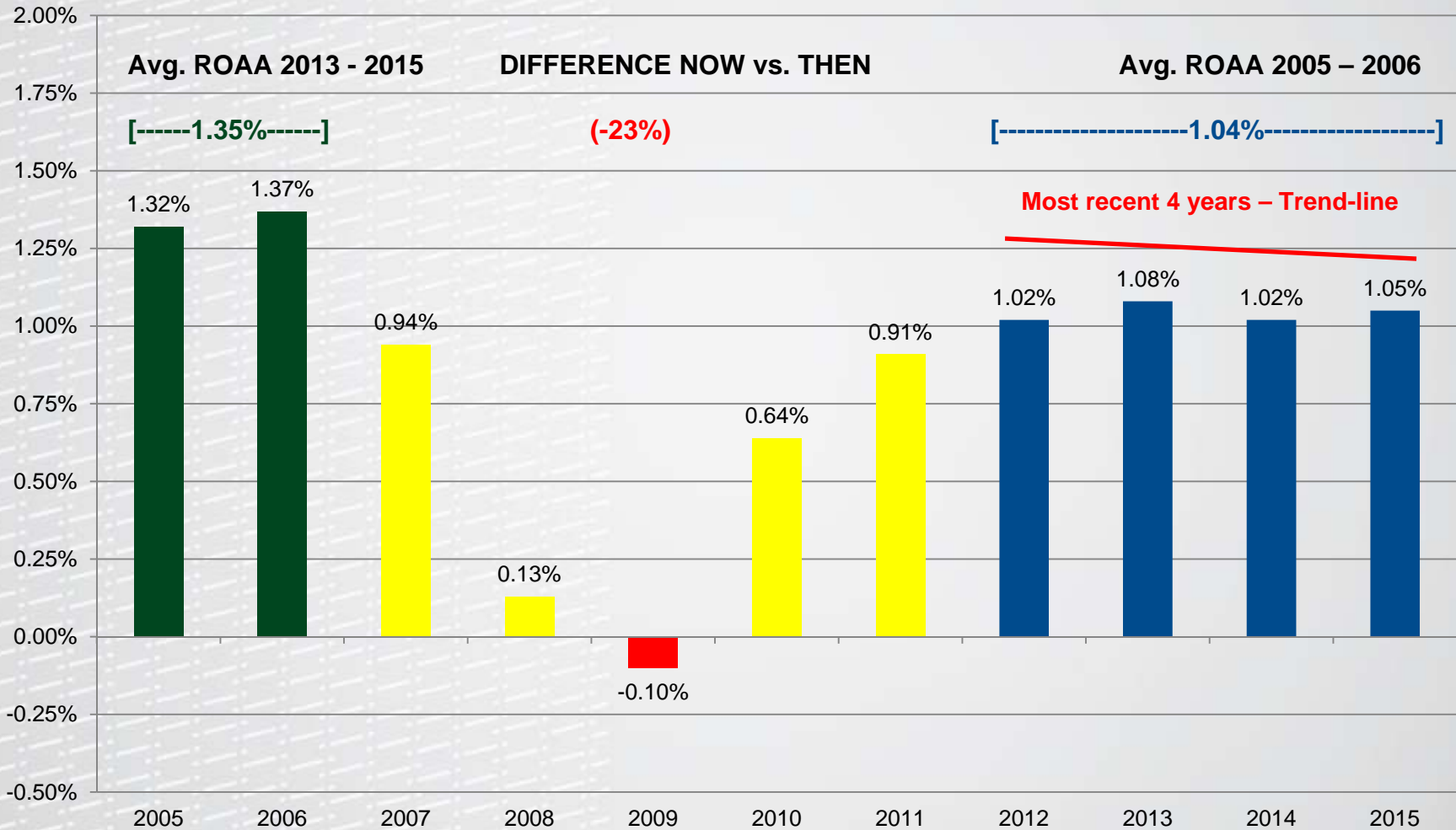
## Loan Growth Strategies for Highly-Competitive Markets

March 22, 2016

- Commercial Banking Industry Review – Long Term Trends
- Identification of Consistent High Performers
- The Seven Secrets
  - 1.
  - 2.
  - 3.
  - 4.
  - 5.
  - 6.
  - 7.
- Questions & Answers

# Long Term ROA History – Entire Industry

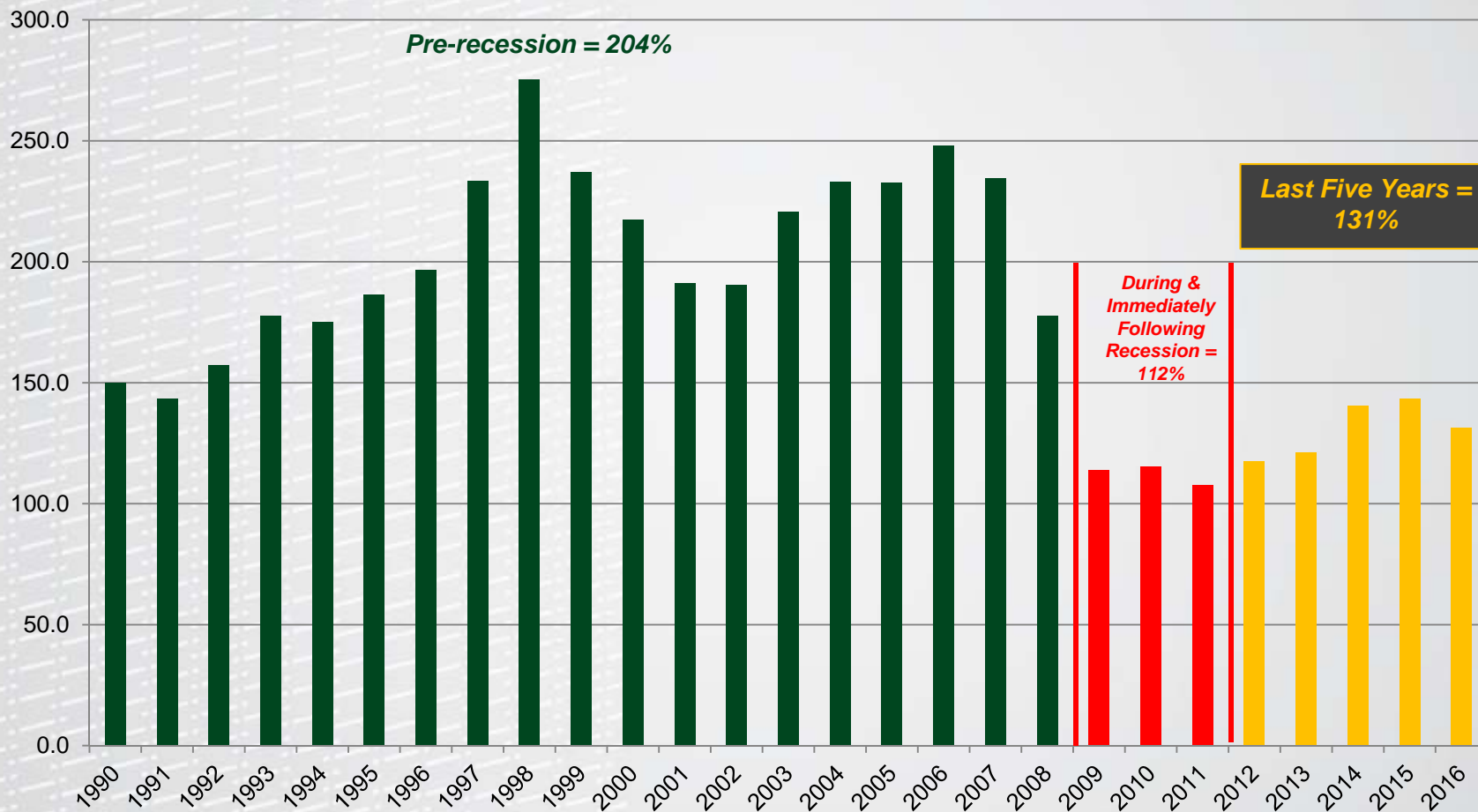
## Commercial Bank - ROAA History - ALL SIZES



Source: SNL

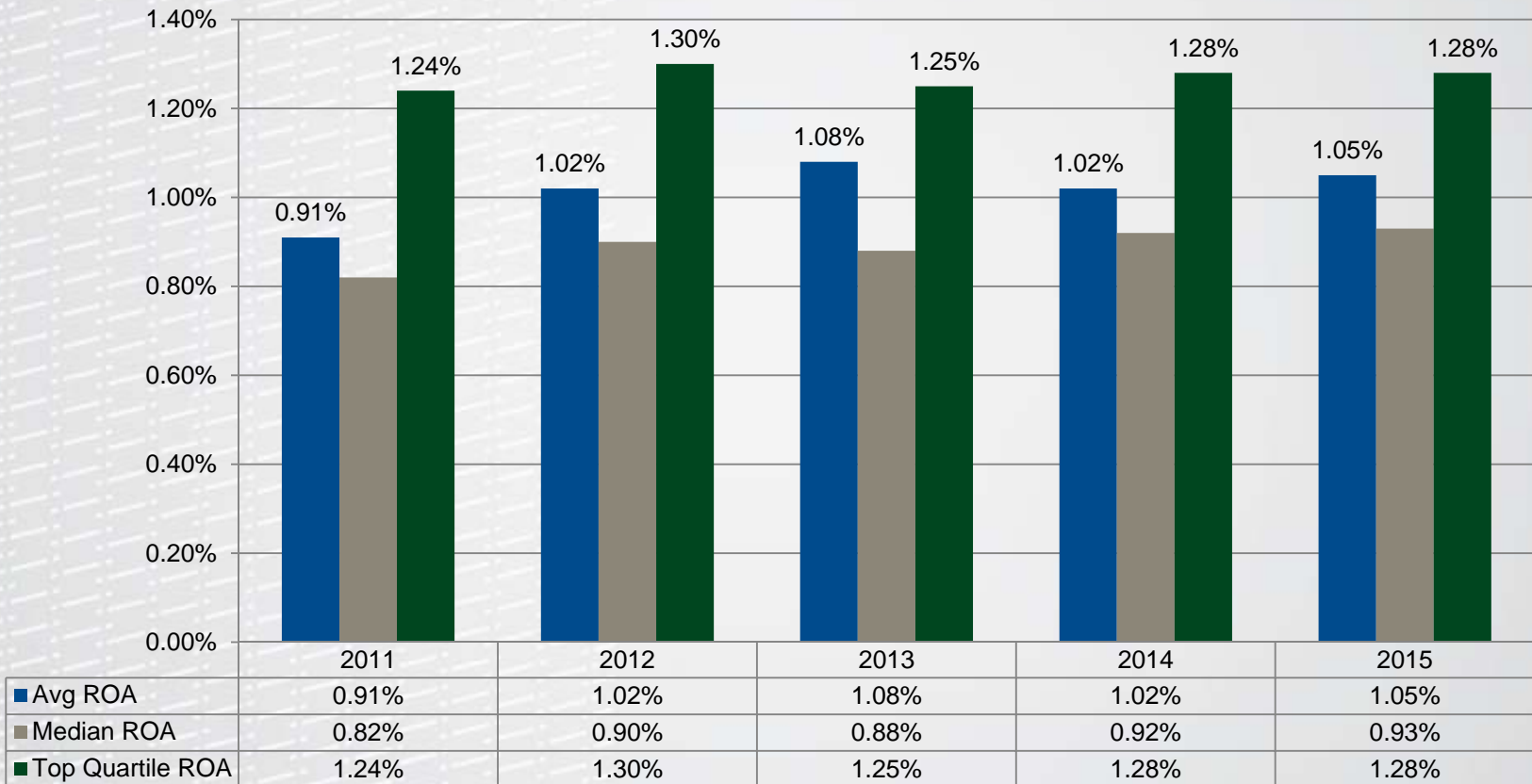
# Long Term Bank Valuation History

## Average Price to Tangible Book Value - Commercial Banks



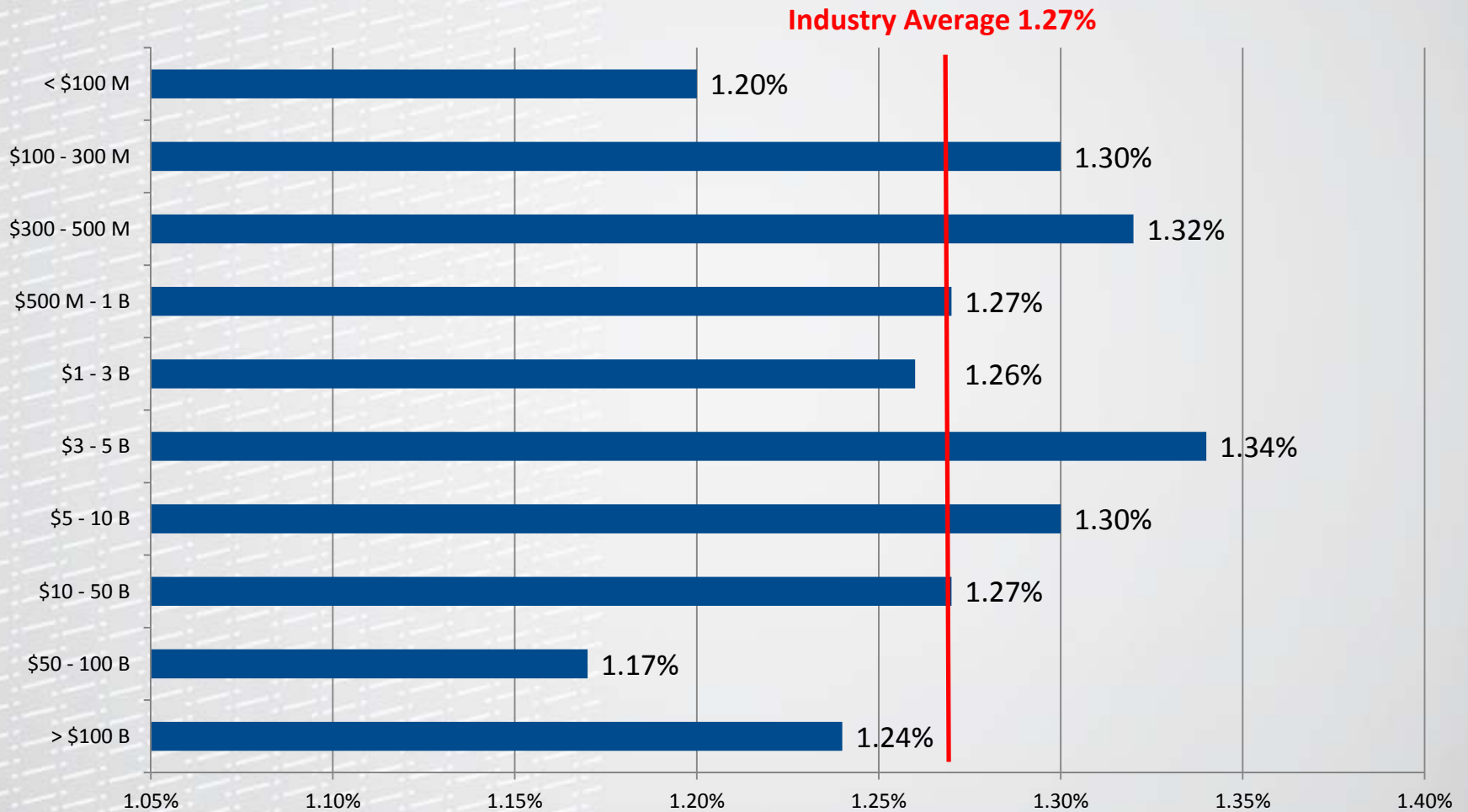
# Historical Average Performance

## Commercial Bank (All Sizes) ROA - Average Last Five Years



# Consistently High Performing – by Bank Size

## High Performance (Top Quartile) - Average 2011 - 2015



Source: SNL



# Consistently High Performing

## Definition -

**High Performance** = Top Quartile Performance

**Consistently** = Five out of Five Years in Top Quartile  
(2011 – 2015)

**Community Banks** = Total Assets of \$10 Billion or less

# Who are the Consistently High Performing Community Banks?

*256 Institutions\**

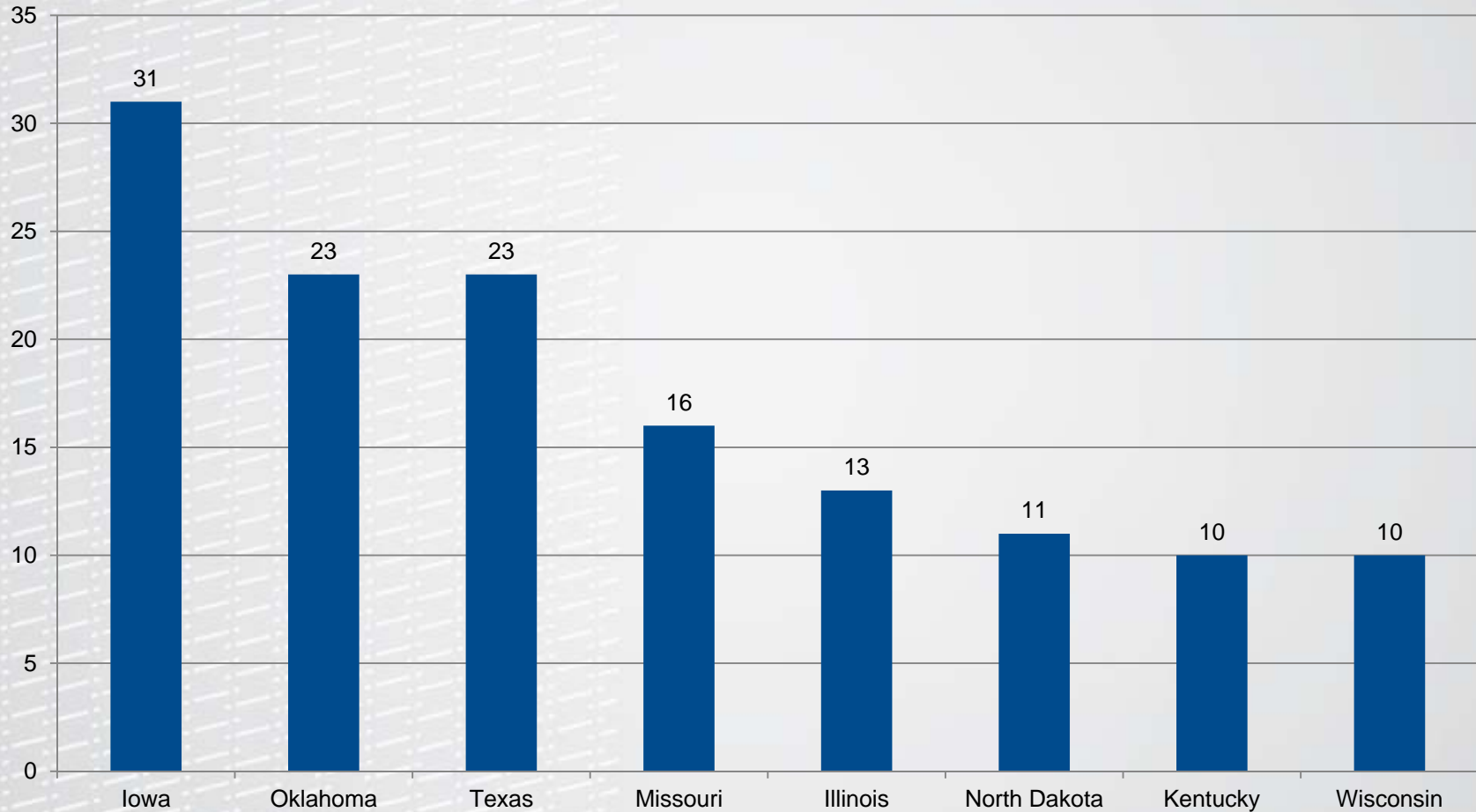
*(of 5,336 – or the Top 5%)*

<u>Size Class – Total Assets</u>	<u>Number</u>	<u>Percent of Total Bank</u>
\$5 – \$10 B	8	11%
\$3 – 5 B	2	3%
\$1 – 3 B	15	4%
\$500 M - \$1B	40	7%
\$300 – 500 M	38	5%
\$100 – 300 M	103	5%
< \$100 M	50	3%

\*Interestingly, approximately 62% of high performing banks are Subchapter S corporations – of course, all analyzed ROAs are on an after tax basis

# High Performing Banks by State

States with Large Numbers of High Performers



Source: SNL

# Who are the Consistently High Performing Community Banks?

## *Example Institutions*

<u>Total Assets</u>	<u>State</u>	<u>Institution Name</u>
\$5 – \$10 B	AR	Bank of the Ozarks
\$3 – 5 B	WV	City National Bank
\$1 – 3 B	KY	Stock Yards B&T
\$500 M - \$1B	UT	Bank of Utah
\$300 – 500 M	TX	First National, Albany
\$100 – 300 M	WI	Bank of Mauston
< \$100 M	ND	Commercial Bank of Mott

# Who are the Consistently High Performing Community Banks?

## *Example Institutions*

<u>Total Assets</u>	<u>Institution Name</u>	<u>5 yr Avg ROA</u>
\$5 – \$10 B	Bank of the Ozarks	2.29%
\$3 – 5 B	City National Bank	1.51%
\$1 – 3 B	Stock Yards B&T	1.44%
\$500 M - \$1B	Bank of Utah	1.54%
\$300 – 500 M	First National, Albany	1.48%
\$100 – 300 M	Bank of Mauston	1.43%
< \$100 M	Commercial Bank of Mott	1.41%

# Who are the Consistently High Performing Community Banks?

## *Example Institutions*

<u>Institution Name</u>	<u>Population*</u>	<u>Avg HH Income*</u>
Bank of the Ozarks	197,357	\$48,330
City National Bank	50,821	\$42,761
Stock Yards B&T	597,337	\$50,932
Bank of Utah	84,249	\$64,301
First National, Albany	2,032	\$52,302
Bank of Mauston	4,456	\$35,960
Commercial Bank of Mott	721	\$44,744

\* ...of primary headquarters city.

Source: SNL

# How do they Maintain Consistent High Performance?

Profitability Performance Measures						
	TOP 5 - HIGH PERFORMANCE INDICATORS					
	ROA	Loan Yields	Loans / Assets %	Comm'l Loans % of Total Loans	PFL to Total Income	Efficiency Ratio
Bank of the Ozarks	2.29%	5.62%	84%	84%	4.0%	40%
City National Bank of WV	1.51%	4.28%	77%	42%	3.9%	54%
Stock Yards B&T Co	1.44%	4.31%	72%	77%	11.9%	55%
Bank of Utah	1.54%	4.91%	77%	76%	10.5%	62%
First National Bank of Albany	1.48%	5.42%	50%	70%	6.4%	40%
Bank of Mauston	1.43%	5.55%	60%	68%	15.0%	45%
Commercial Bank of Mott	1.41%	4.89%	78%	93%	2.0%	44%
Importance Ranking			#2	#3		#1
Average Community Bank	0.84%	5.19%	65%	48%	6% - 17%	68%
"Hit" Ratio - # Better than Average	3/7		5/7	6/7	3/6	7/7

# Performance Differences – High Performing vs. Average

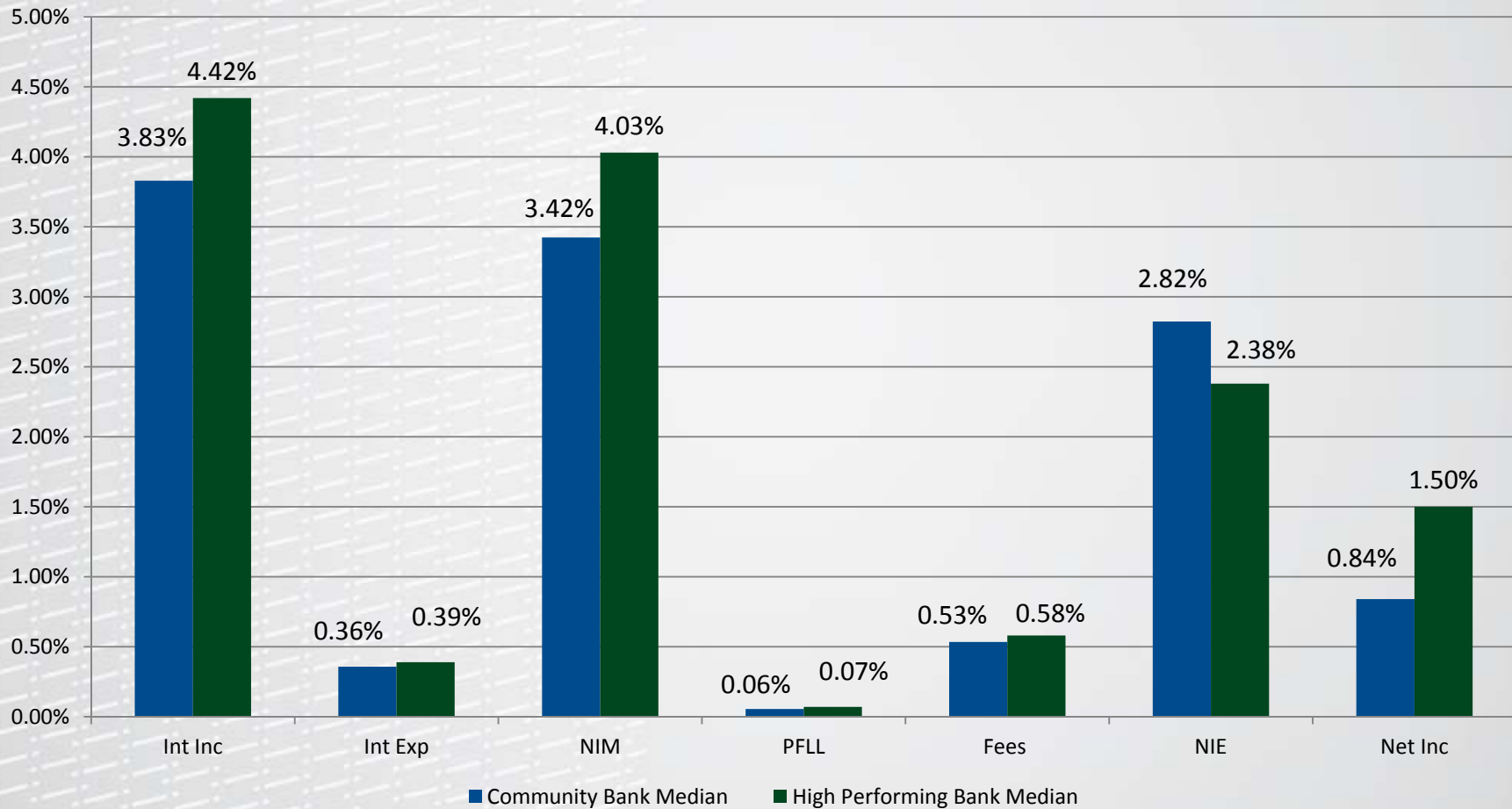
## Median ROA





# Performance Differences – High Performing vs. Average

## Income Statements - 2015



# About the Seven Secrets

- Common attributes exist, but are not absolutes
- There is more than one way to get there
- Driven by multiple strengths...No one-hit wonders
- Strategically fit the conditions of the market
- Exceptions are very rare, but a few exist

# The Seven Secrets



- Bank size...?
- What it's not
- Well priced loans
- Investment
- Offers fair value
- Diversification
- Efficiency

# ***Bank Size is Irrelevant***



- High Performing Banks Exist in All Asset Classes
- The “High Performance” Threshold for Community Banks exceeds that of Banks > \$50 Billion (1.28% vs 1.23%)
- 90% of all High Performing Community Banks are < \$1 Billion in Assets

## ***Low Cost of Funding & Low Credit Costs - Don't Currently Provide Strategic Advantage***

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- An ***absolute*** requirement – table stakes
- With relatively few exceptions, most community banks currently possess these characteristics
- This condition is unique to the current banking environment

# ***High Performance ≠ High Priced***

## ***(Loan Yields)***

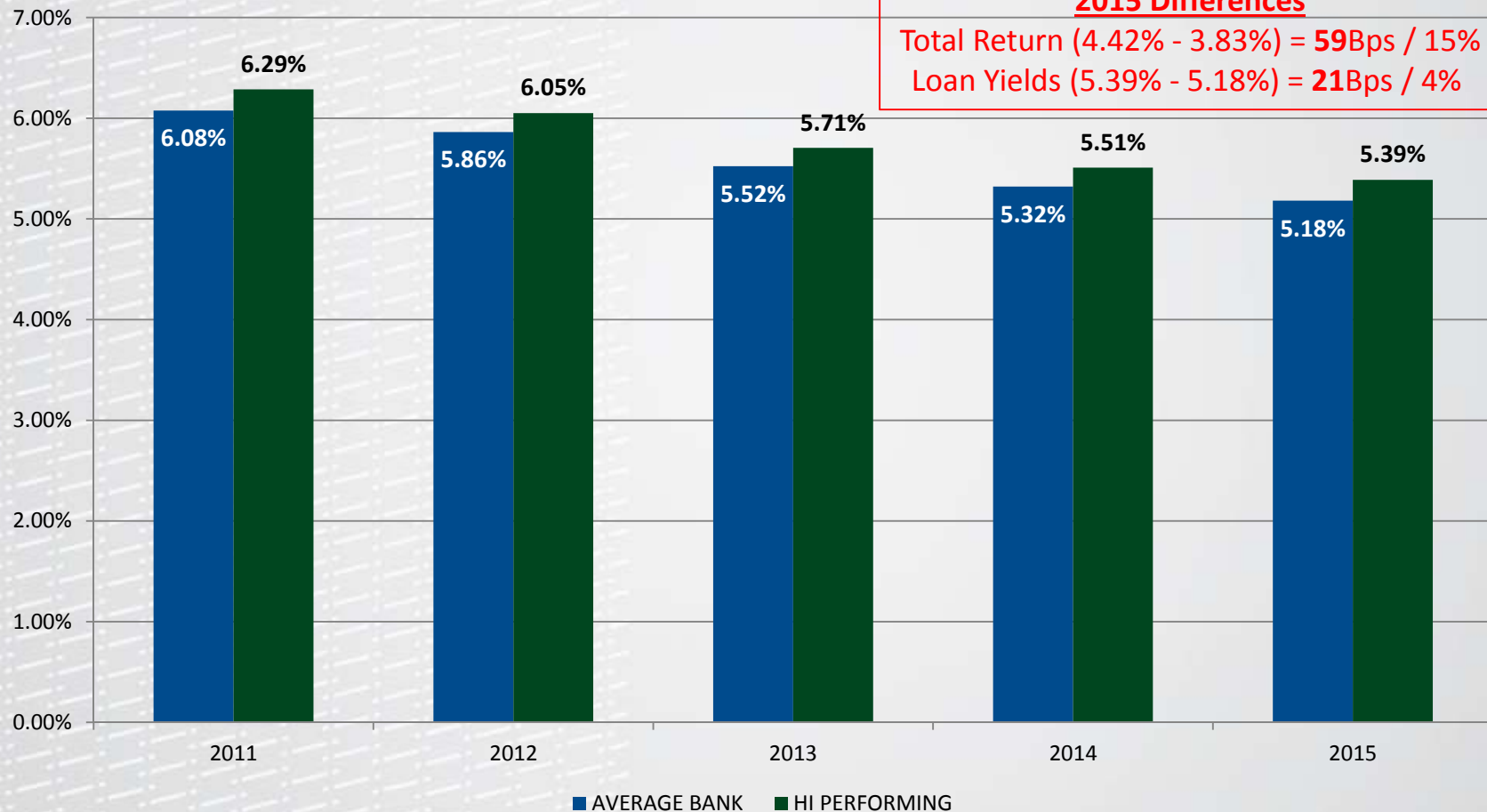


- High Performing Banks Do Have Higher than normal returns on total assets
- They also have higher yielding loans, but only slightly
- However, only a portion (about 1/3<sup>rd</sup>) of this is accounted for by charging higher prices on loans
- The difference between average and high performance ROA is currently 66 Bps – the difference in loan pricing makes up only about 21 Bps

# High Performance ≠ High Priced



## Loan Yields



# *The Importance of Being Fully Invested*



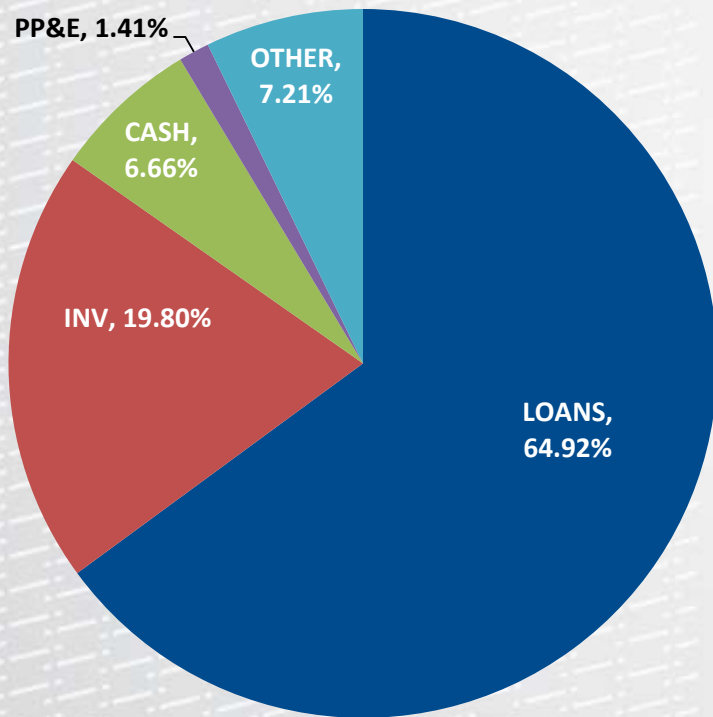
- Many examples exist of High Performing banks with below average yields (Stock Yards, City National)
- This “shortcoming” may be offset in a number of ways – typically by strengths in efficiency or loan mix
- The most frequent offset to lower yields comes in greater investment (i.e. a higher loan / asset ratio) creating a positive mix variance



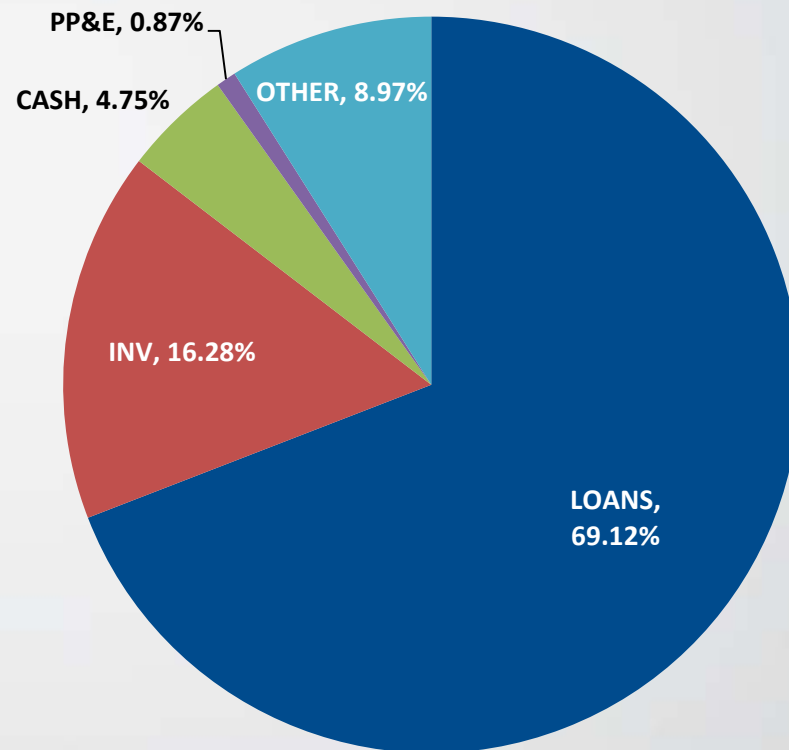
# Being Fully Invested

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### Average Community Bank



### High Performing Community Bank



# ***High Performance ≠ High Priced*** ***(Fees Charged)***

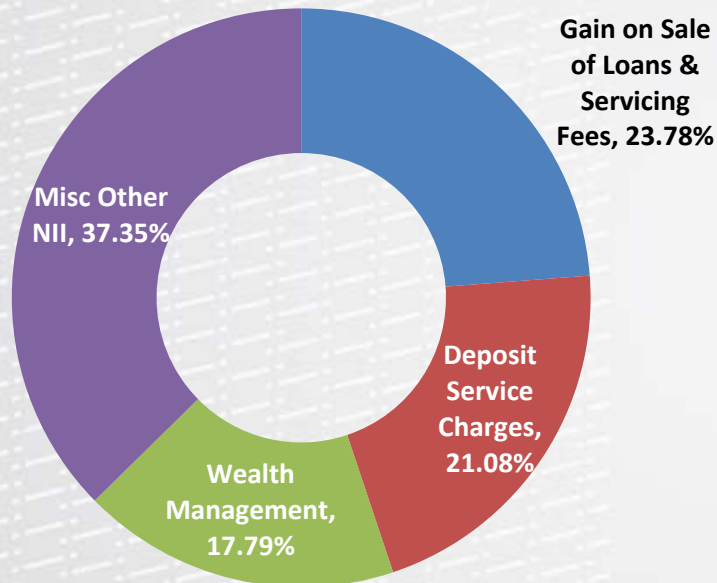
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- High Performing Banks Have Considerably Lower Deposit Service Charges, but
- They have 35% more Mortgage Loan Income (Gains on Loan Sales & Servicing Fees)
- They also have considerably more (+44%) Wealth Management Income

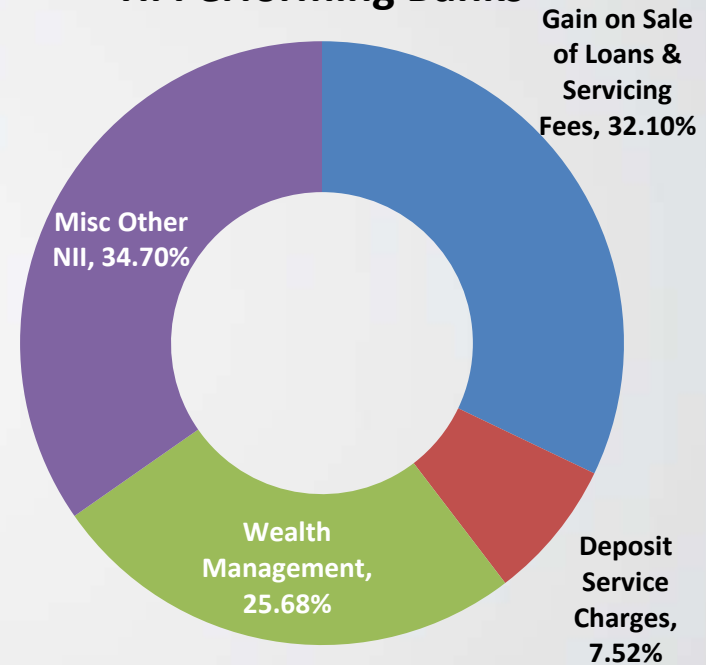
# High Performance ≠ High Priced (Fees Charged)

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**Avg Community Bank**



**Hi Performing Banks**



1.05%	Fees as a % of Assets	2.64%
\$1.05 M	Average Deposit Fees / Bank	\$1.264 M
\$473 M	Average Bank Size	\$636 M

# Loan Portfolio Diversification

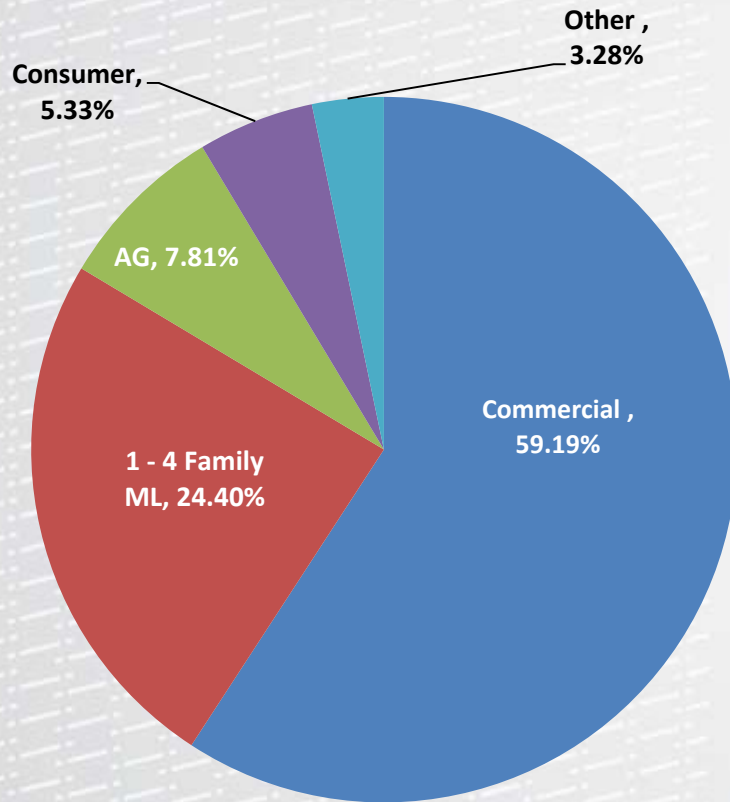
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- In some cases – higher performing banks achieve this result by holding more commercial loans
- However, the loan portfolios of higher performing banks **overall** are slightly more diversified, with
  - 6.5% **lower** commercial loan balances
  - 4.6% **more** consumer loans
  - 2.4% **more** AG loans

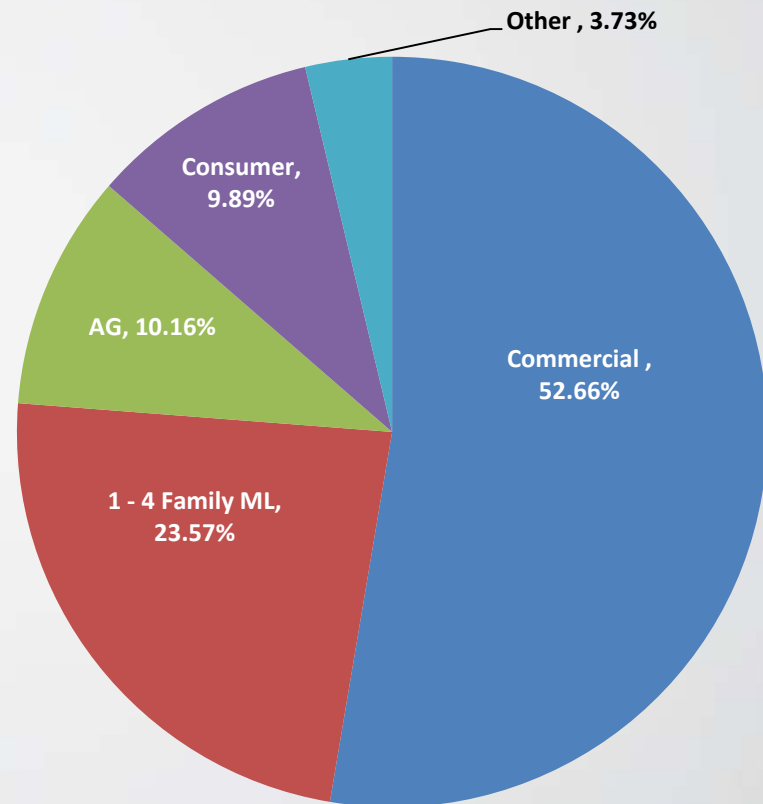
# Loan Portfolio Diversification

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### Average Community Bank



### Hi Performing Community Bank



# Only for the Efficient

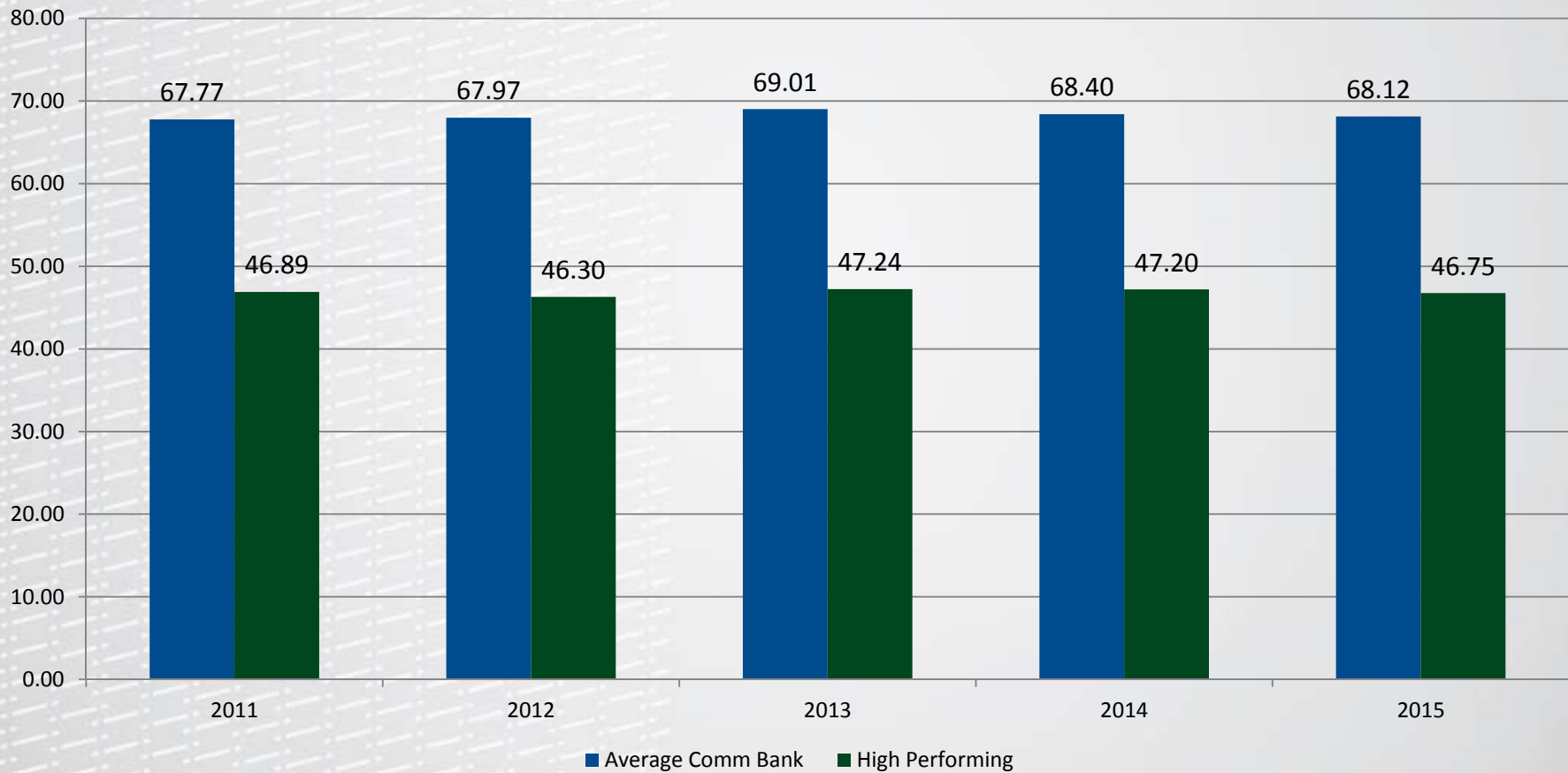


- High performing banks have excellent ***Efficiency Ratios*** – roughly 30% lower than the average community bank
  - Assets per Employee are 25% greater
  - Each element of NIE are 15 – 30% lower
  - Total Revenue / Employee is 47% higher
  - Median assets / branch is 35% larger

# High Efficiency is a Requirement



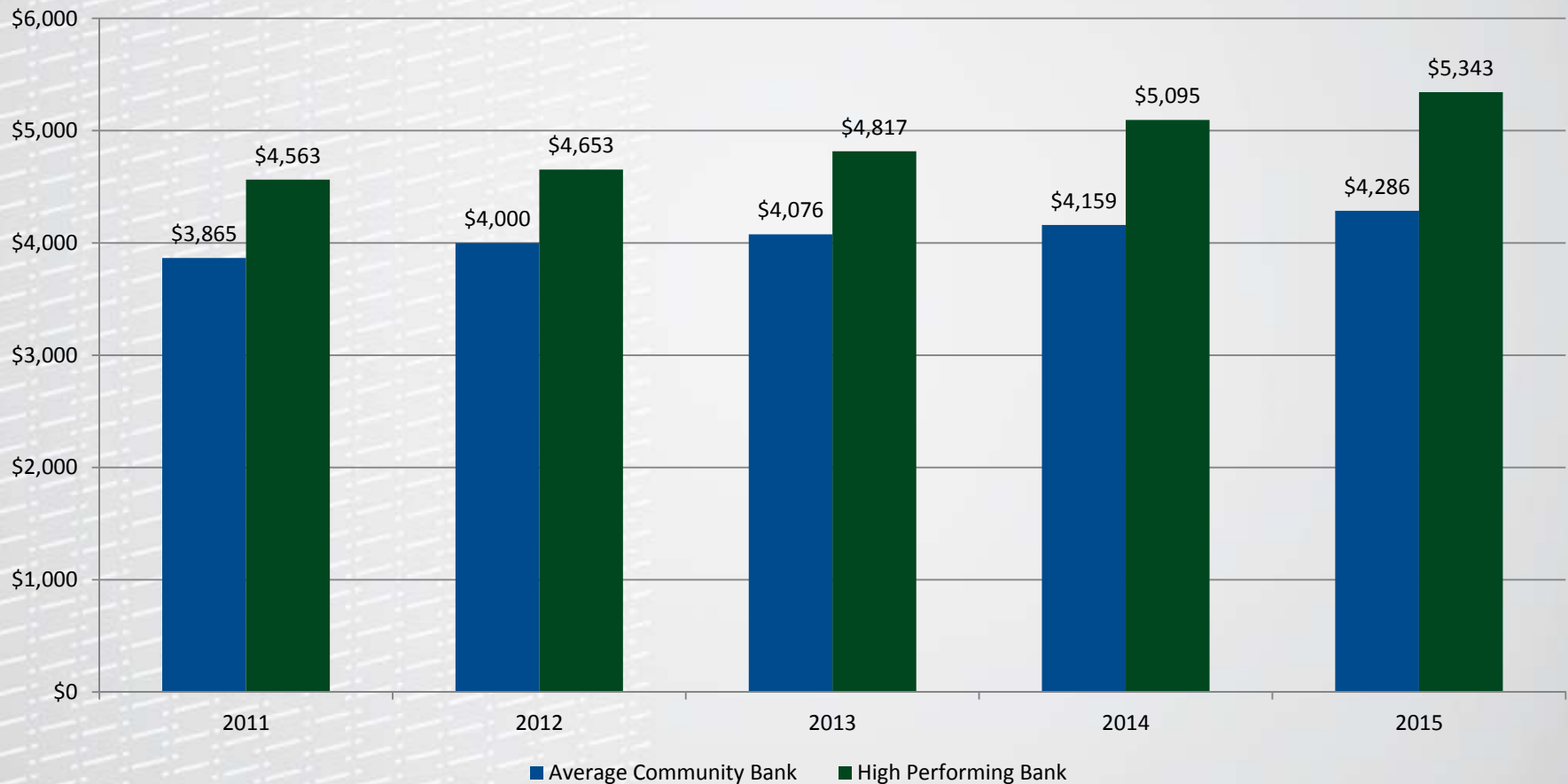
## Median Efficiency Ratios



# High Efficiency is a Requirement



## Median Assets per Employee

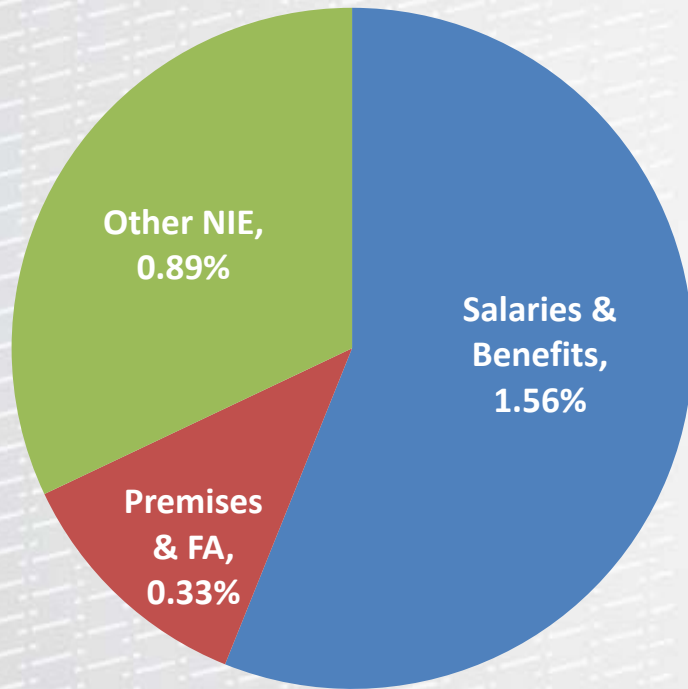




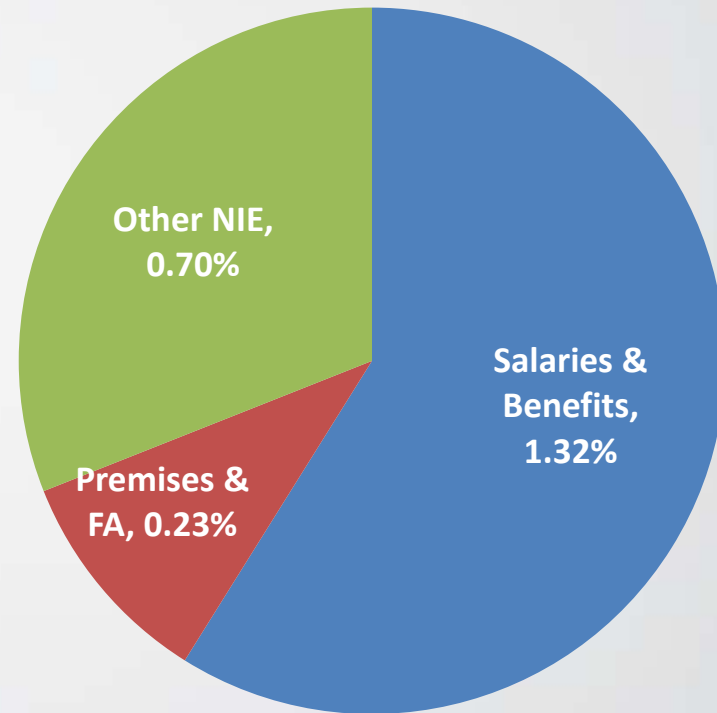
# Operating Expense / Average Assets



Average Community Bank



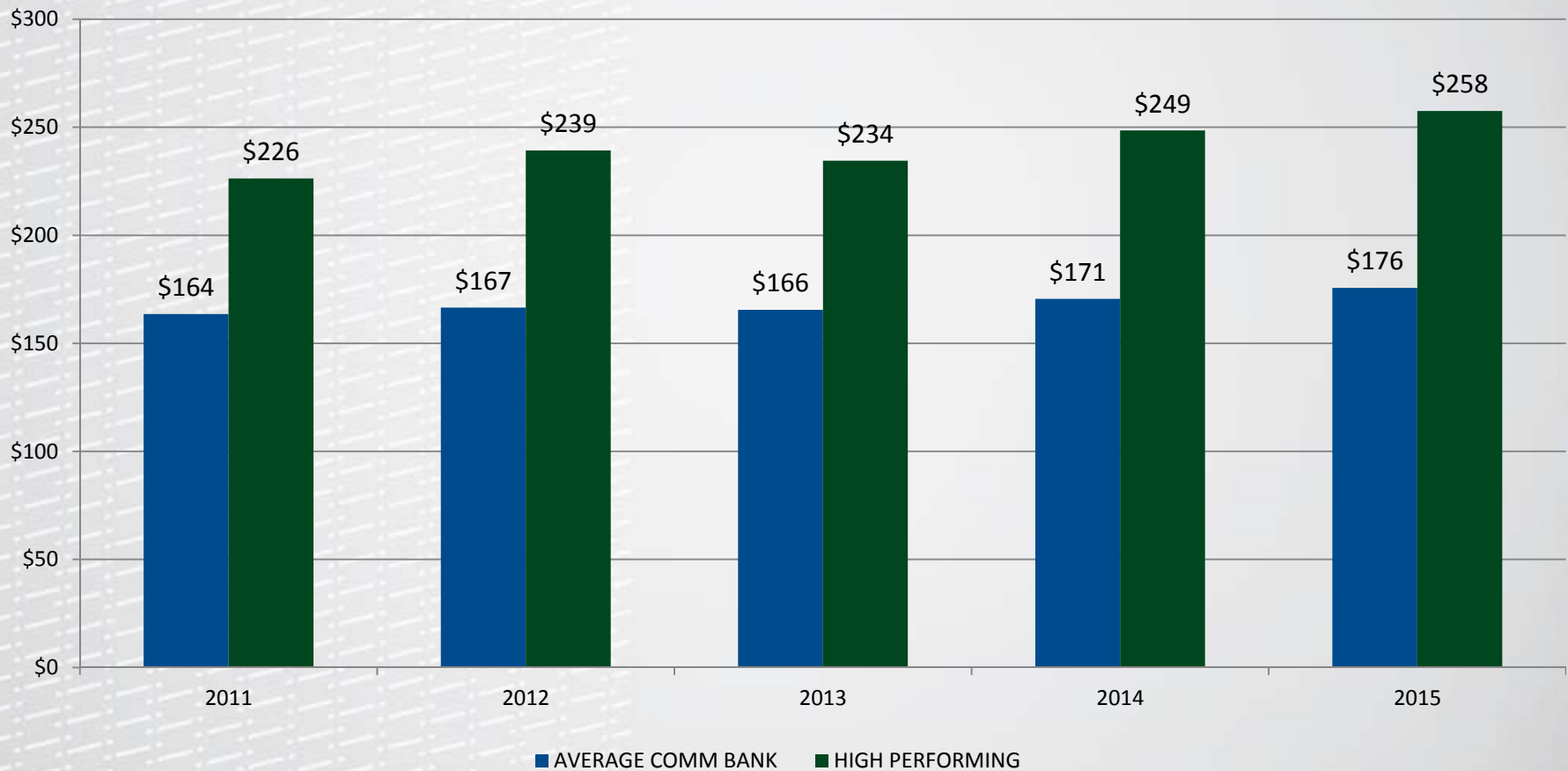
High Performing Community Bank



# High Efficiency is a Requirement



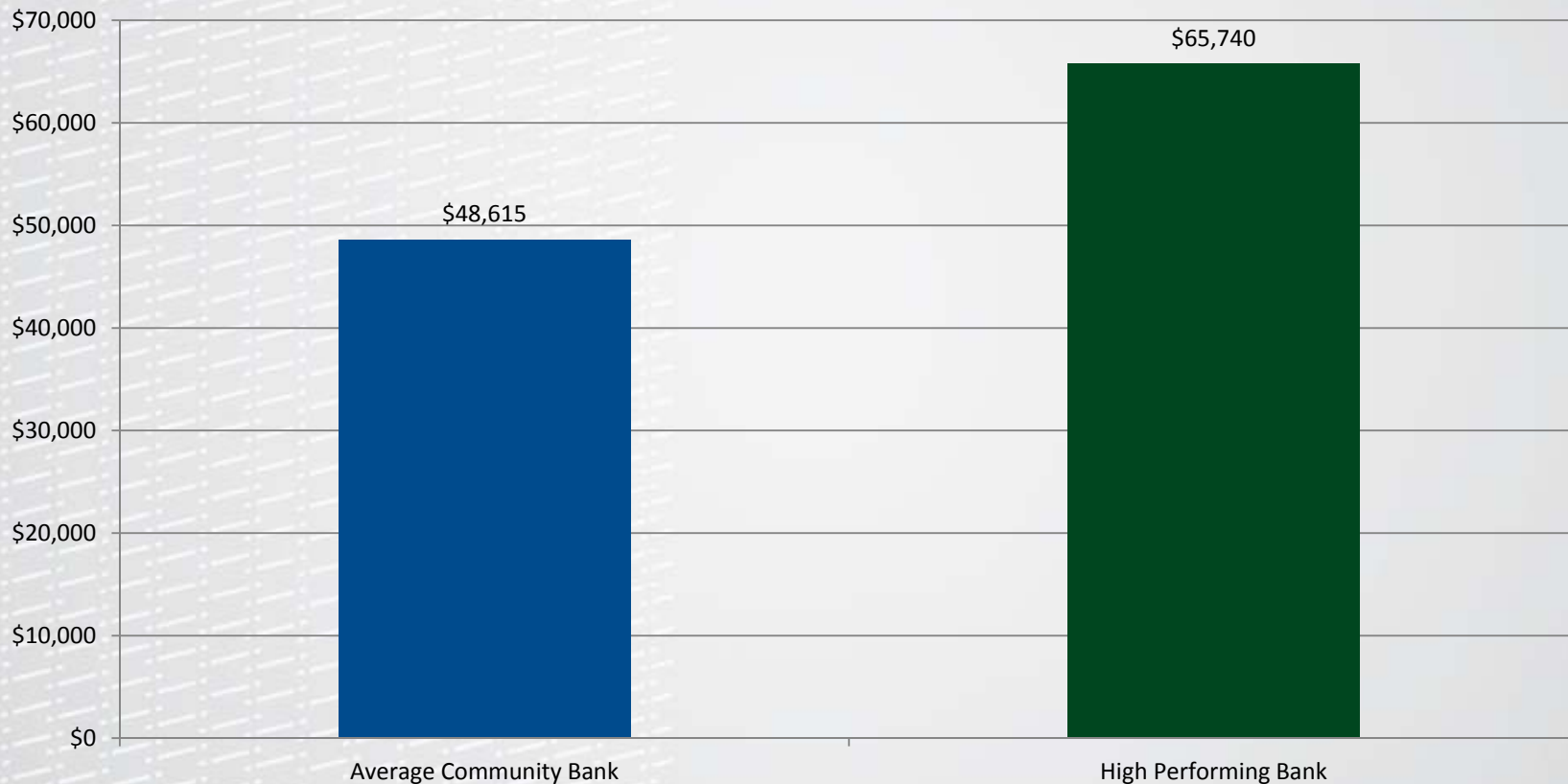
## Median Total Revenue per Employee (\$000)



# High Efficiency is a Requirement



### Median Assets per Branch



## ***Loan Growth***

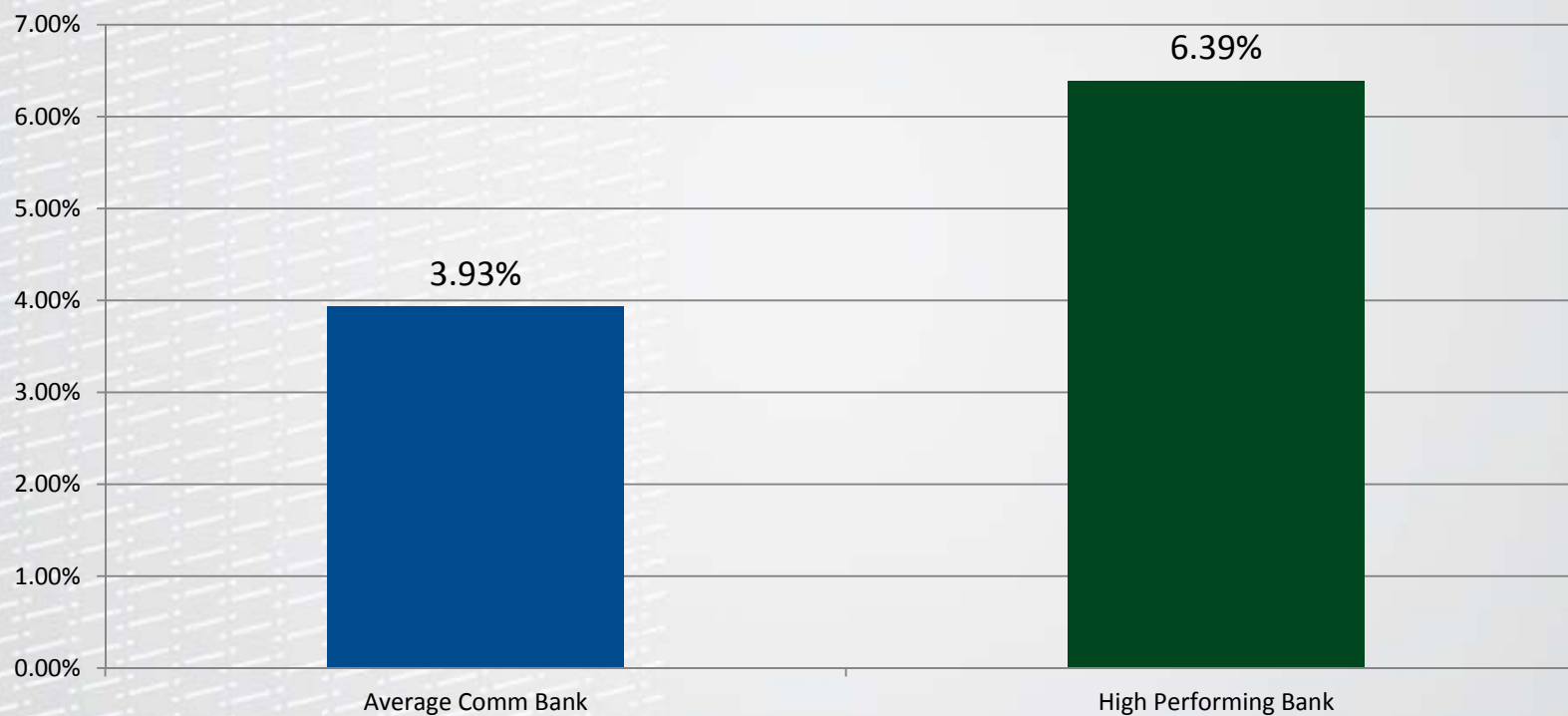


- High Performing Banks have been growing at a rate slightly more than 1 ½ times the rate of the Average Community Bank
- The Average Community Bank has experienced stable growth of about 4% per year
- High Performing Banks growth, including acquisitions, have averaged 6.4% over the past 5 years

# Loan Growth



## Median Loan Growth Rates (CAGR) (2011 – 2015)



# Recommendations



- Evaluate your bank for each of the performance indicators included in the Seven Secrets
- Determine which few performance indicators would be most appropriate (essential) for your bank to improve
- Add these improvement goals to your strategic / annual budget plans

**Questions ?**

**THANK YOU FOR ATTENDING TODAY'S WEBINAR!**

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April 20, 2016

- Capital Planning

June 28, 2016

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# CONTACTS

We appreciate hearing from you.

If you have questions or comments, regarding today's Webinar, or if you would like to see any of your bank's current customer relationships modeled, please feel free to contact us at any time.

To receive a personalized demonstration of the Austin Profitability System - simply contact Jeff to arrange a date and time for your demonstration.

To receive a personalized demonstration of LoanPricingPRO® - simply contact Andy to arrange a date and time for your demonstration.

## Jeff Morris

Managing Director & Principal  
Financial Management & Consulting

[jmorris@austinassociates.com](mailto:jmorris@austinassociates.com)

419-517-1775

## Andy Morgan

Managing Director & Principal  
Financial Management & Consulting

[amorgan@austinassociates.com](mailto:amorgan@austinassociates.com)

419-517-1777