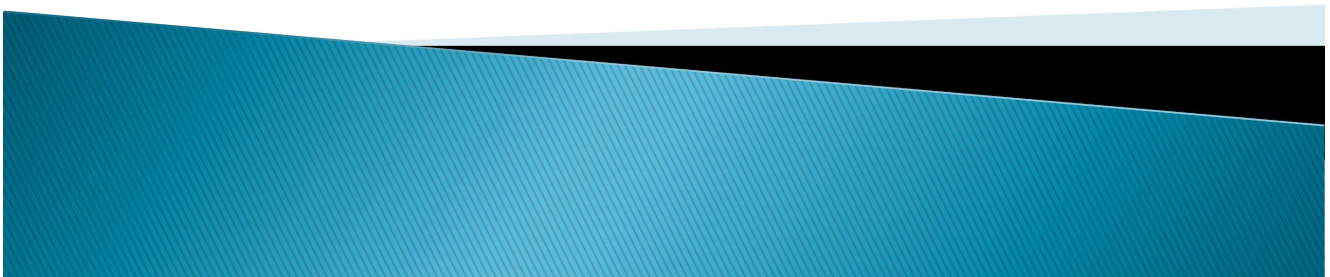


Pricing & Structuring Loans for Profitability

Virginia Bankers Association
August 24th, 2021
Presented By: David L. Kemp, BMI



State at a Glance, VA

	VA	National
▶ Population (7/19)	8,535,519	328,239,523
▶ Change (2010)	6.7%	6.3%
▶ Median Household Inc.	\$74,222	\$60,293
▶ Per Capita Inc.	\$39,278	\$32,621
▶ Median Home Value	\$273,100	\$204,060
▶ Home Ownership Rate	66.3%	63.3%
▶ High School Grads	89.7%	87.7%
▶ College Grads or Higher	38.8%	31.5%

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UBPR Analysis VA

OK State Averages 6/30/21

Number of banks:

- 63 – 2021
 - 64 – 2020
 - 66 – 2019
 - 69 – 2018
- ▶ National Peer: \$1B – \$3B
- 498 Banks

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UBPR Analysis VA

	<u>Your Bank</u>	<u>National</u>	<u>VA Average</u>
▶ In Income		3.45	3.49
▶ In Expense		0.29	0.31
▶ NIM		3.32	3.36
▶ NII		0.86	0.75
▶ ROA		1.31	1.02
▶ ALLL		1.30	1.19
▶ Past Due/ Non AC		0.57	0.45
▶ Tier 1 Capital		9.54	10.49

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UBPR Analysis VA

	<u>Your Bank</u>	<u>National</u>	<u>VA Average</u>
▶ Loan Growth		1.81%	1.14%
▶ Personnel Expenses		1.39	1.52
▶ Occ Expenses		0.27	0.27
▶ Other Expenses		0.71	0.93
▶ Eff Ratio		59.4%	68.37%
▶ Avg Personnel Exp		\$101.70	\$94.87
▶ Assets Per FTE		7.93	6.60

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UBPR Analysis VA

▶	<u>Your Bank</u>	<u>National</u>	<u>VA Average</u>
▶ DDA		16.73	19.47
▶ MM Accts		23.42	16.74
▶ Other Savings		19.43	17.48
▶ TD @ Limits		10.81	14.71
▶ TD Above Limits		3.77	4.36

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Risk Management, COVID 19

- ▶ The full economic impact of the current pandemic **was** not known at this time, but the impact is expected to be significant. Banks will need to proactively engage their customers in an effort to mitigate the impact of the downturn. Early identification of borrowers at risk will be key to successfully managing this risk. The **Board** and **Management** need to communicate one clear message;
- ▶ **“We Will Work With You”**

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Introduction

- ▶ A clear narrative has come through; from reading Reports of Examination (ROE);
 - “Bank’s must improve their Credit Administration and Loan Portfolio management practices”
- ▶ The most common items cited:
 - Outdate financial information
 - Limited collateral evaluations
 - Appraisals
 - Stress testing
 - Inconsistent risk rating
 - ALLL calculations
 - Board MIS

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Credit Culture

- ▶ Preapproval documents routinely collected
 - Understanding the mutuality of relationships
 - Systems for timely requesting of information
 - Company tax returns
 - Company financials
 - Personal financials
 - Personal financial statements
- ▶ Deal desirability
 - RAAC Statement
 - Risk Asset Acceptance Criteria
 - Targeted Industries & Professions

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Credit Culture

- ▶ Perform due diligence prior to funding
 - Set minimum loan package for loan committee presentations
 - Define “stacking order” for loan files
- ▶ Early identification of higher risk loans
 - Develop PC based risk rating worksheets
 - Performance expectations are to raise hands early
 - Use group “autopsy” of charge-offs and higher risk loans
 - Use loan officer loan committee for teaching

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Introduction

- ▶ *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:
 - ▶ A laser like Customer focus
 - Defines its target customers & markets
 - Service always matters
 - ▶ A disciplined and aggressive credit culture
 - Credit quality is a first consideration
 - ▶ 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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Introduction

- ▶ 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
- ▶ 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
- ▶ “Winning” is defined as Increasing shareholder value

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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**. Bank's must adhere to the basic principals of credit quality:
 - ▶ 1. Who are these people?
 - Due diligence
 - ▶ 2. What are they going to do with the money?
 - Does policy allow this type of loan?
 - ▶ 3. How are they going to repay the loan?
 - Cash Flow, Asset Conversion, Global CF, DTI

UBPR

PROFITABILITY IS GOOD, BUT MAY BE SOME OPPORTUNITIES FOR IMPROVEMENT IN THE AREAS OF NON-INTEREST INCOME AND NET INTEREST MARGIN. PARTICULARLY AS COMPARED TO SD BANKS.
% OF AVERAGE ASSETS

6/30/2014

	BANK	NAT'L	SD	REG
NIM #	3.67	3.75	4.42	3.80
NON II	0.72	0.74	1.14	0.79
NON IE	2.45	2.87	2.86	2.63
ROA	1.36	0.99	1.51	1.34

% OF AVERAGE EARNING ASSETS

UBPR

LIBERAL PRICING IS EVIDENT IN ALL LENDING CATEGORIES AND IS CONSIDERABLY LOWER THAN SOUTH DAKOTA PEER BANKS .

YIELD ON LOANS

6/30/2014

	BANK	NAT'L	SD	REG
TOTAL LOANS	4.77	5.16	7.11	5.19
1 - 4	4.76	5.09	5.32	5.13
AGRICULTURAL	4.25	5.24	4.89	4.69
COM'L & IND	4.88	5.28	5.72	5.24
INDIVIDUAL	5.83	6.62	6.98	6.44
CREDIT CARD	6.56	8.84	16.47	10.60