



*Strategic Planning:
Meeting the Specific Challenges and
Opportunities for
Minority Depository Institutions*

July 15, 2015

James M. Calhoun, National Bank Examiner



Strategic Planning – Challenges and Opportunities

- **Strategic Planning: Defined**
 - Why Is It Necessary For You And The Industry
 - What Is Strategic Planning – Really
- **Strategic Planning: Environmental Clarity**
 - Environment And Proximity Factors
- **Strategic Planning: Frameworks**
 - Key Attributes Of A Good Strategic Plan
 - Common Pitfalls
 - Process Challenges And Key Mechanics
- **Strategic Planning: Risks and Other Considerations**
 - Supervisory Priorities To Consider

Industry ..Metamorphosis or Relinquishment?



"If we think back over the last 30 years , we can probably count on a single hand the examples of bold strategic differentiation in banking. Mellon's exit from retail banking, ING's high yield direct banking model, USAAs military focus, and City National's focus on entertainment and legal professions. "

Jim Burson, Senior Director, Cornerstone Advisors

"As recently as 1990, community banks has a 79 percent market share in consumer lending. Today, that share has dropped to just 8 [percent]."

Brian Graham, CEO Alliance Partners

"If Coca-Cola can be disrupted, so can your bank. Banking is even more vulnerable to disruption than these once impregnable purveyors. **The industry is being pummeled by the same forces of technological change and shifting consumer preferences** as well as regulations that redefine banking in often uneconomical ways and limit the sectors ability to quickly adapt to shifting environments."

Karen Shaw Petrou, Managing Partner, Federal Financial Analytics

"The world needs banking but it doesn't necessarily need bankers."

Microsoft Founder Bill Gates – Speech, early 1990s

Payments Systems...Going...Going ...



- American Express (e.serve)
- Google Wallet
- Pay Pal
- Dwolla
- 2Checkout
- Skrill
- WePay
- Visa (v.me)
- Intuit
- Samurai
- Authorize.net
- Worldpay
- Eway
- Icpay
- Braintree

Historical Bank Services....Slip Sliding Away...



American Express (credit cards, Bluebird prepaid cards, **small business loans**)

Discover Card (credit cards)

Pay Pal (payments, **small business loans**)

Lending Club, Lending Tree (**loans**)

Kickstarter (**capital through crowdfunding**)

Simple (service focused bank)

Bitcom (currency)

Mint (personal financial management services)

Wealthfront, Betterment, FutureAdvisor (online "robo" investment advisors)

Apple Pay (payment services)

Amazon (payments, **small business loans**)

Google and Square (mobile funds disbursement and some deposit gathering)

So Why Do You Need to Plan Strategically?



“The purpose of strategy isn’t to figure out what to do (there will be right and wrong things to do and companies will and should make mistakes), ***but to convince you to act.***”

Frans Johansson, Author, *The Medici Effect*

“Nonbanks have become a powerful force operating in the plain light of day. They now pose a clear danger to the business models of banks large and small. Objective analysis of the factors that give nonbanks an edge is thus a vital priority for traditional financial institutions' strategic planning.”

Karen Shaw Petrou, Managing Partner, Federal Financial Analytics

“If you don't drive your business, you will be driven out of business.”

B.C. Forbes

Strategic Planning is...



- True strategy is about positioning choices (branding), bets and making hard choices about the *unknown, uncertain and uncontrollable*.
- Planning reduces some uncertainty about the future and rationalizes the bet.
- Strategic **thinking**, assessing, planning, execution and measurement is about increasing the odds of success on your position or bet.
- Actions and execution that are not picture perfect or to the exact dollar.
- If you are *entirely* comfortable with your strategy, then you may not have a truly *strategic* plan. Some aspect of it should make you uncomfortable, apprehensive.

Strategic Planning is not...



- A long range plan - the major assumption is that current knowledge about future conditions is *sufficiently reliable* and *the environment* is assumed to be *predictable*.
- A tactical plan - task oriented and describe how specific activities are achieved in short time horizon (1-2 years).
- Financial plan - accounting focused, explicit, comparative
 - annual, quantitative, assuming high environmental stability or
 - financial representation of expected strategic outcomes
- Solely deliberative or iterative. (The world is moving fast!)
- **Nostalgia... Complacency...Service...Regulatory intervention.**

Strategic Planning Is Very Important For You...



- MDIs actually have something “distinguishable” from the plethora of similar products and services that exist:
 - Serving the historically underserved in your communities.
 - Mentoring, counseling, financial management, social support, integration into American society, etc.
- As MDIs, you must:
 - Determine if the original mission is still relevant for you and your customers.
 - Decide if you are still committed to that original mission.
 - Determine how you will make your bank will *financially* and *operationally* relevant in order to continue to meet that mission.

Change Agents the Past 25 years.....



- Expansion of the Internet, Check 21 (added).
- Technology driven (and accelerating) pace of change.
- Value proposition shifts.
- Expectations about returns on capital.
- Shifting economic drivers (global interdependence, service).
- Generational shifts in customer base & expectations.
- Non bank competition and market disruptors
Payments. Lending. Wealth Management. Tech.
- The evolution of compliance and redefinition of banking – Dodd Frank, CFPB.
- Low interest rates – unprecedented level and longevity, entire balance sheet resets (added)

External Environmental Factors.....



"Aftershock" Bubbles

- *Real estate (uneven markets recovered unevenly, some overhang)*
- *Discretionary spending (continued recovery)*
- *Stock market (recovered but for how long)*
- *Private Debt (\$1+ trillion in student loans)*
- **Dollar** (value is now tied to multiple bubbles economy)
- **Government debt** (interest costs when rates rise – who pays ?)
 - \$8.5 Trillion 1/2006, \$17 Trillion 1/2014 , **\$18.3 Trillion** 7/2015
- *Question: should we add **auto-financing** to this list?*

"Aftershock" by Cindy Spitzer, David & Robert Wiedemer

Internal (Proximity) Specific Factors.....



- Long Period of Term Low Rates, NIM Compression
- **Continual Need to Manage Impact of Rising Interest Rates ****
- **Overhead Costs: People/Facilities/Efficiency ***
- Excess Liquidity, Funding Composition
- Inability to Achieve Sustainable Loan Growth
- Credit and other concentrations
- Risk Management, Compliance Costs
- Outsourcing, Vendor Reliance and Management
- ***Capital and/or Operational Constraints***
- ***Expertise to Execute, Expertise to Compete***
- ***Board and Management Bench Strength***

Some MDI Specific Challenges



- Historical customer base limited (numbers).
- Customers lack significant deposits and/or wealth (working poor).
- Customer financial literacy not as strong; weak money management.
- Bank is revenue challenged, fee opportunity diminished.
- Inability to attract and pay for strong bank talent.
- Personnel costs associated with additional roles as counselors, mentors, and community intermediaries.
- Geographic concentration in highly competitive markets.
- **Any other challenges? (added)**
 - Cultural differences in customer base (added)
 - Lack of scale
 - Attracting directors

Overhead Expense Breakdown – NBs and FTs



OVERHEAD EXPENSE BREAKDOWN

(As a percent of average assets)

As of 2013 Q4

Bank Type/Size	Personnel	Occupancy	Other	Total
Minority Owned	1.72	0.44	1.10	3.26
Less Than \$100 Million	1.61	0.35	1.07	3.03
More Than \$1 Billion	1.49	0.35	1.00	2.84

Minority Bank Earnings by Asset Size – NBs and FTs



Snapshot of Minority Owned Banks and Thrifts

- As of 2013 Q4 -

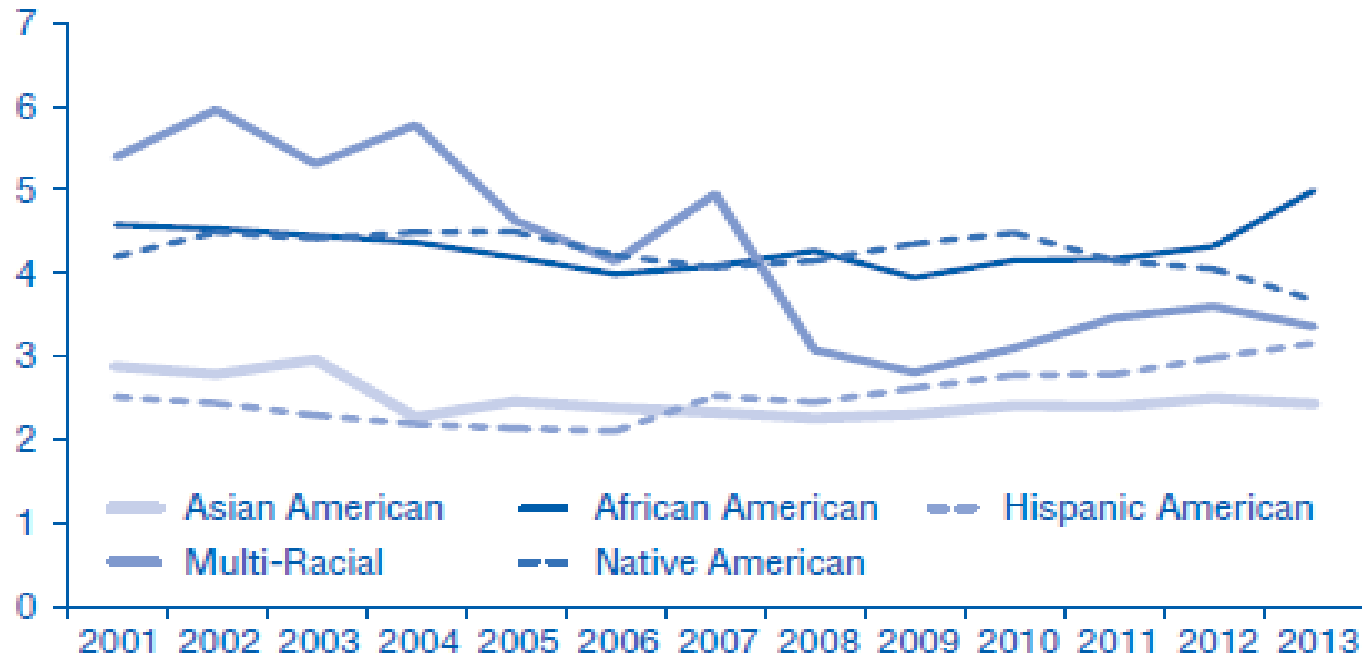
Asset Size	<\$50Mil	\$50-\$100Mil	\$100-\$250Mil	\$250-\$500Mil	\$500Mil-\$1Bil	>\$1Billion	All
# Institutions	3	10	18	12	6	4	53
INT INC (TE) / AA	3.35	3.75	4.18	3.87	3.90	4.07	3.96
INT EXP / AA	0.31	0.34	0.44	0.56	0.57	0.62	0.47
NET INT INC (TE) / AA	3.18	3.57	3.56	3.38	3.26	3.30	3.40
NONINT INC / AA	1.92	0.89	0.64	0.55	0.56	0.80	0.67
NONINT EXP / AA	5.17	3.71	3.39	3.08	3.32	2.95	3.30
PROVISION LN&LS LOSSES / AA	0.00	0.00	0.01	0.03	0.06	0.03	0.00
REAL GAINS (LOSSES) ON SECURITIES / AA	0.00	0.00	0.00	0.00	0.00	0.01	0.00
RETURN ON AA	0.81	0.59	0.71	0.58	0.66	0.74	0.65

FDIC 2014 Study: Minority Depository Institutions: Structure, Performance, and Social Impact



Overhead Expenses Vary Widely Across Minority Status Groups

Annual Weighted Average Noninterest Expense as a Percent of Average Assets



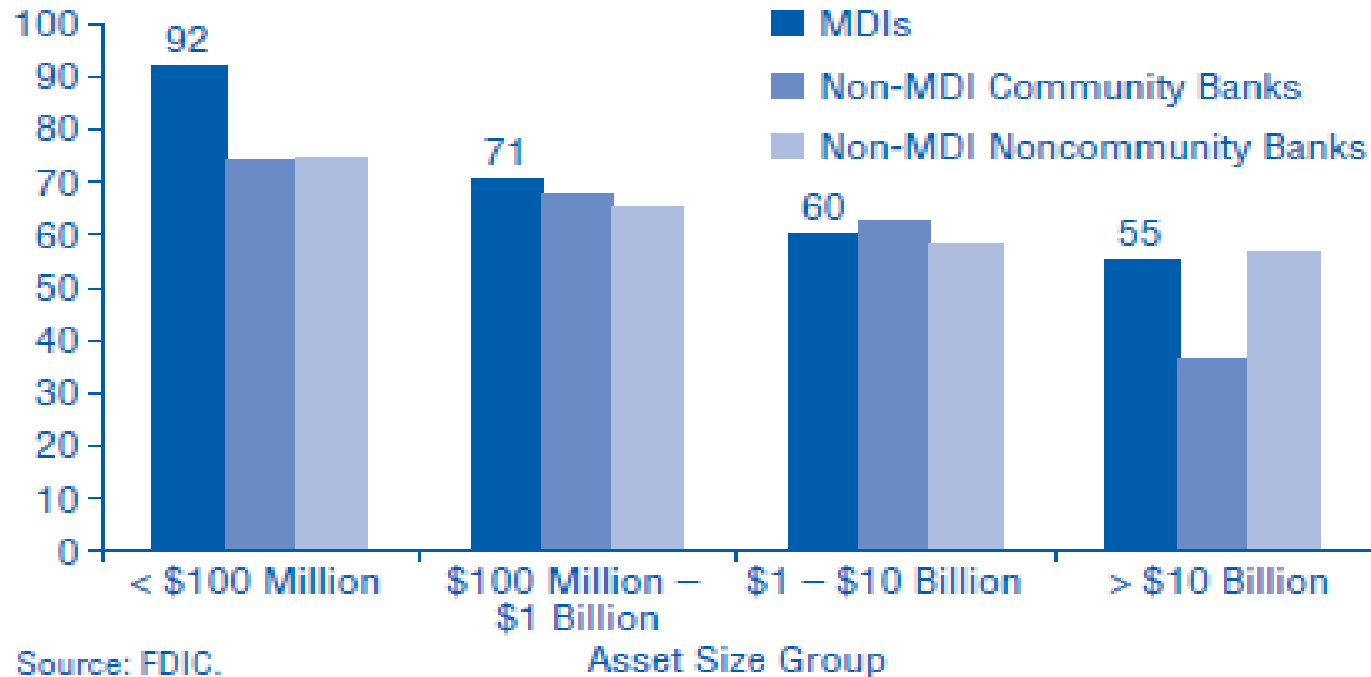
Source: FDIC.

FDIC 2014 Study: Minority Depository Institutions: Structure, Performance, and Social Impact



The Smallest MDIs, in Particular, Stand Out in Terms of Elevated Efficiency Ratios

Weighted Average Efficiency Ratio for Group, 2001–2013
(Percent)



How Good Banks Get Better



Planning, Planning, Planning	Strategic planning: focus on the basics	Discipline – stay with what you know
Know more: your bank, market and people		Risk management: good communications and enhanced controls
Superior talent – new people or internal development	Willingness to adapt to changing conditions	Execute, Execute, Execute

INFORMATION SOURCES:

Bankers Participating in OCC's 2008 Strategic Challenges Outreach Forums

Strategic Planning



- “ A chaotic external world requires *internal* cohesion and flexibility”.
“Strategy for Sustainability” by Adam Werbach
- “ Failing to Plan is Planning to Fail”
OCC Strategic Planning Presentation Circa 1998
- “ Insanity: doing the same thing over and over and expecting different results.”
Albert Einstein
- “In order to achieve personalized customer connections in a digital age, [small] banks must determine their identities and business models.
Paul Schaus, President and CEO of CCG Catalyst

A Good Strategic Plan



- Reflects values and culture of the organization through a mission and vision statement
- Is truly strategic (hard decisions made)
- A description of the company's long term goals and objectives
- Defines the plans and criteria for achieving success
- Inspires change and revision in product, services, markets and execution
- Assists everyone in daily decision making tactical operations

Finer Points of a Good Strategic Plan



- Establishes your unique and *differentiating* value proposition vs your competitors. Begin with the “end” in mind.
- ü Aligns the organization’s activities with its particular environment.
- Executed through operations that provide different and tailored value to its customers.
- ü Identifies clear tradeoffs and *clarifies what not to do and why*.
- Focuses and matches activities and resource to activities that fit together and reinforces each other (synergy).
- Drives continual improvement within the organization and moves it towards its long term goals.

Strategic Planning Process Output: Simply Stated



- What do we want to be? (definition, vision, reason to exist)
- Where are we now? (assessment, where could we be)
- Where do we want to go? (decision, brand, promise to customer)
- How do we get there? (business model, strategy, costs)
- Who is going to do what? (execution)
- How are we doing? (measurement against objectives and priorities)
- What do we need to adjust? (re-assessment)

Strategic Consideration: Corporate Mindset



What is your corporate mindset?

- “We can’t do it - we have never done it before”.
- “We haven’t *seen* any community banks do it”.
- “We are too different”.
- “Banks I know who’ve tried it, failed”.
- “Let’s figure out if it’s prudent and profitable, then decide if we want to do it.
- **Circa 2015: Are you ready to act BOLDLY ?**

What Else Determines Market Success?



MDIs in strong markets have different results **New York, NY**

- A top-performing MDI area – though not as strong as San Francisco. 6th highest population growth, 4th highest income and education levels.
- Area is 26 percent African-American and 13 percent Asian-American.
- Five MDIs are in this area, with wide-ranging outcomes. For example, two of the MDIs have among the most negative loan growth among all MDIs. ROAA ranges from 0.17 to 1.14 and NIM from 2.97 to 4.65.

Strategic and Tactical Considerations:



- How can you improve revenue or reduce overhead?
- Are you offering the right products and services?
- What do you do best and are you maximizing those attributes?
- **Do you know where and how you are making/losing money?**
What does your data-mining disclose?
- What value do your marginal products add?
- **Do you have the right people with the right skills in place to execute your plan?** How much will it cost and am I willing to pay for their skills for the long term benefit of the bank?
- Are there different ways for you to leverage your existing bank talent to build revenue or even foot/web traffic?
- **How are changes in STaR (society, technology, resources) affecting your customer base?**
- Do you target different customers or is there a way to make my existing client base better customers or both?
- **Can you afford to take that calculated risk? Can you afford not to?**



Different Types of Analytical Methodologies

More common approaches

- **SWOT Analysis**
- **Financial Ratios and Statement Analysis**
- **Competitor analysis**
- **Scenario Analysis (i.e. IRR, Contingency Planning)**

Other approaches

- **Driving Forces Analysis**
- **Five Forces Industry Analysis**
- **Issues Analysis (anticipatory, public policy influences)**
- **Product Life Cycle Analysis**
- **BCG Growth/Share Portfolio Matrix**
- **Macroenvironmental (STEEP/PEST)**
- **Value Chain Analysis**
- **Win/Loss Analysis**
- **Premortem Analysis**
- **Structured Self – Critique**
- **Devil's Advocacy**
- **"What If" Analysis**
- **High Impact/Low Probability Analysis**
- **Delphi Method**

Strategic Considerations: “Eyes Wide Open”



Critically re-evaluate your bank's business model :

- Corporate structure
- Funding practices, non traditional, non-maturity deposit analysis
- Product offerings
- Customer base: (economic profile, diversity, service levels, responsiveness, relationship, trends)
- Internal business operations and practices
- Overhead – fixed cost structure
- Market Image/Perceptions/Social media comments
- Capital capacity and stockholder expectations
- Risk management practices
- Employee engagement
- *Role or obligation to the community you serve*
- People, people, people
- *Yes – even “Tone at the top”*

Balance Scorecard Approach - Useful



- Can be synergistic with Enterprise Risk Management programs because:
 - You have to address the inherent risk in any new product or service
- Consider establishing goals and objectives in four key overarching areas instead of departments:
 - Financial
 - Customers and Stakeholders
 - Internal Business Processes
 - People or Organizational Capacity

Strategic Options



“The respective strengths of each industry are why I predict more and more marriages between fintech companies and banks. Traditional banks can bring much needed scale, resources and institutional clout to the table for young fintech companies — not to mention customers, lots of customers. The finance industry could replicate the technology that's already out there, but they would be better served by partnering with tech companies and bringing those innovations up to scale.”

René Lacerte, CEO, Bill.com

“Insanity is doing the same thing over and over and expecting different results.”

Albert Einstein

Industry Disruption or Evolution...



TD Bank's partnership deal with Moven.

§ TD, which does not offer personal financial management tools, plans to incorporate the young technology company's money management services into its existing mobile app in the coming months in its Canadian markets.

Small Banks Increasingly Partnering With Online Lenders.

§ The Wall Street Journal reports that the recent partnership of Lending Club and community bank BankNewport demonstrates the change seen as community banks work to regain some market share for unsecured loans.

§ BancAlliance has partnered with Lending Club to gain access to consumer finance "due to its scale and quality of its business."

Industry Disruption or Evolution...



Payment Systems Providers Offering Small Business Loans

- § Within the last three years, PayPal, Amazon, Square and American Express have all begun offering credit to their existing business customers. The payment firms are taking advantage of a favorable short-term credit environment.
- § The other advantage is that you have to process transactions on the lender's network, **the providers have access to all the sales data, and can collect payments instantly.**

Increasing Fee Income by Serving Small Businesses Holistically

- § Lead Bank, Garden City, Mo. survived the stock market crash, the Depression and the Great Recession. But merely surviving is not enough. The bank had significant problem loans and operating losses. **The aim of the \$132MM bank was to stay relevant.** The bank decided to differentiate itself with a bold new approach [at least for them] to small business banking. It is offering an array of fee based services – strategic planning, capital raising, bookkeeping along with loans and deposits. **The goal is to transition from the lender role to an advisor role with lending and deposits coming as a result of the advisory work.**

Market Disruption or Evolution...



- § “First National Bank, South Africa’s third-largest bank by assets, began offering cellphone service to its direct-deposit accountholders last month.
- § Customers who buy the *bank-branded SIM cards* for their phones can sign on to a single FNB site for their financial and mobile accounts.
- § There they can pay their phone bills, buy data service packages, and activate international roaming. FNB resells the airtime from Cell C, a mobile operator.
- § The offering aims to give customers another *disincentive to leave* FNB, beyond the usual hassles of changing banks (such as updating direct deposits). “The more we link them to other products we have, the more that helps with stickiness.”
- § “Prospects for an FNB-style offering in the U.S. may be slim for the time being. U.S. banks may engage in activities that are incidental to the business of banking. **But attorneys** who specialize in financial regulation *say that regulators would probably not allow banks* to sell SIM cards or smartphones. ”
- Has anyone ask the regulators yet?

Nine Steps to Strategic Success + 1*



- See the Change. Be Bold. Respond to the Challenge *
- Lead with engagement
- Build on previous good work and strategic thinking
- Use agreed upon terms throughout
- Involve employees broadly
- Commitment to the long haul
- Plan for and manage change
- Reward desired behavior change
- Maintain momentum
- Driving Forces Analysis- Revisit Based on Volatility

Source: Analysis without Paralysis
By: Babette Bensoussan, Craig Fleisher

Strategic Plan Monitoring



Determine Key Metrics: Measure what matters !

- Plan implementation (tactical and operation targets)
- Profitability targets, market share, return on capital, cost management and other management reports.
- Risk control unit assessments
- Bank committee decisions
- Customer satisfaction and value surveys
- Employee engagement, surveys
- Executive engagement
- Change management assessments
- Periodic assumption re-evaluation
- Evaluate strategic issues – redirect, adjust

Source: "Analysis without Paralysis"
By: Babette Bensoussan, Craig Fleisher

Common Traps to Avoid



- Forgetting that strategic decisions focus on the “uncertain and uncontrollable”
- Cost based thinking. Applying familiar, *comfortable* cost-side approaches to revenue planning as if both are equal.
 - ü **Company control costs, customers control revenue.**
- Expecting strategic goals to achieve the accuracy and predictive results of cost planning.
- Capabilities are important but don’t compel customers to your doorstep.
 - **A superior value proposition to your target group will.**
- Confusing deliberative or “fast follower” frameworks as strategic in a *rapidly* changing environment.
 - ü Ignoring what your planning process reveals about your company.

Common Traps to Avoid (continued)



ü Relying on no information, bad information, limited or weak analysis (knowledge based companies in particular).

- Short term thinking. [Added: Fear]
- Not considering “change management” initiatives.
- Being unrealistic about your ability to plan or actually implement.
- Missing the risk management requirements.

ü No or inadequate progress measurement and reporting.

- No accountability.

Common Traps to Avoid (continued)



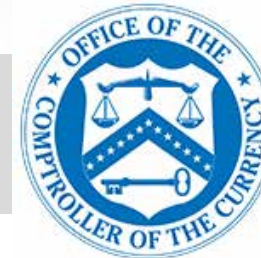
- ü Not ensuring that you staff understands your strategic direction and poor external communications
- ü Leadership indifference; managerial complacency. Planning for planning sake. “No fire in the belly leads to a slow death”
 - Executive hypocrisy
 - If leaders fail to walk the talk, no one else will
 - Corporate isolation
 - Internal and external disconnects
 - Staff apathy, disengaged

Strategic Considerations



Supervisory Considerations for Community Banks

OCC's National Risk Committee Risk Priorities For Community Banks



TOP SPECIFIC THREATS	MAJOR RISK AREAS	RANKING
Strategic Vulnerability	Strategic	1*
Commercial Credit Underwriting	Credit	2
Cyber-threats, 3 rd party vendor management, risk governance framework	Operational	3
Compliance - BSA/AML	Compliance /Reputation	4
Impact of Rising Interest Rates Risk	Interest Rate/Credit/Liquidity	5
* Top 5 Since 2011		

Interest Rate Risk Management (IRR)



IRR needs to be a strategic consideration -

- Sustained low rates and uncertain turnaround timeline
- Margins and earnings are below historical norms
- Asset tenors are moving longer, more quantity.
- More optionality, weaker credit quality
- Higher non-maturity deposit balances from surge deposits
- Uncertainty surrounding non-maturity deposit behaviors
- Past IRR model assumptions still relevant?
 - With the shift in customer demand for more sophisticated technology and price sensitivity, is modeling the behavior of the Baby Boomers consistent with the behaviors of Gen X and Y?
 - Reliance on historical assumptions or customer behaviors may lead to flawed input output and decision making.

IRR Management Considerations



IRR Model Considerations

- Static and dynamic modeling are both valuable.
- Up to +400 basis point increase in interest rates.
- Flattening and twisting of the yield curve.
- Assumptions should reflect bank profile and should generally avoid reliance on industry estimates.
- EAR measurements should include a “static”, no growth balance sheet – Baseline IRR profile.
- Consider 24-month simulation to better capture embedded options risk.
- What does it take to make the bank “adequately capitalized”?

IRR Management Considerations (continued)



Non-Maturity Deposit Assumptions (beta and decay rates)

- Ensure sufficient observation period to capture significant rate changes.
- **Segmentation analysis by account type.**
- Deposit assumptions should be modeled for different rate environments and stressed to identify the potential impact of depositor stability.
- Consider deposit liabilities reverting to historical mix.

IRR Management Considerations (continued)



IRR Board Limits

- A standard set of stress scenarios (e.g. +/- 300 bp) should include Board approved risk limits.
- Limits could be set for parallel and non- parallel rate shifts.
- Individual assumptions should be stressed, since prior history may not reflect what will actually happen in the new norm.
- Risk limits should protect earnings and equity.
- EVE Limits should be sensitivity based, versus limits on post- shock levels.
- Exposures outside limits should be reviewed for potential action.
- Compare and research modeled exposure and limits to the peer benchmarks (however, we don't expect our banks to unnecessarily gravitate to the median).

Strategic Considerations: New Product, New Services or New Delivery Channels



- Due diligence: Upside/downside
 - Understand the risks, particularly third party.
 - Key risk management functions participate.
 - Expertise to ensure appropriate execution and management.
 - Realistic plans and appropriate resources.
 - Prudent limits (earnings, capital, reputation at risk).
- ü Establish controls prior to launch, test controls during the early part of actual launch.
- ü Well defined “exit” strategy.

Operational (IT) Risk Challenges



- Increased outsourcing to supervised and unsupervised technology service providers. New entrants difficult to identify and bring into supervisory umbrella
- Need robust internal vendor management programs (if you partner for innovation, you have to actively manage 3rd party risk)
- Get some form of control or awareness of subcontracted vendors and their compliance with industry standards
- Manage evolutionary, increasing and costly cybersecurity threats
- Business continuity planning trade-offs
 - How much can you lose being offline before it hurts?
 - How much can you pay for the preparedness?

DECIDE – EXECUTE – MANAGE - MONITOR



- Develop and approve a strategic plan. Be Bold !
- Establish specific, *measurable* goals. Be S.M.A.R.T.
Specific-Measurable- Attainable- Responsible Parties-Time Specific
- Stay knowledgeable of your market, customers and internal environment.
- Develop, set and enforce risk tolerances.
- Provide a framework for policies.
- Ensure capital planning remains robust.
- Review quarterly/update annually.

How Good Banks Get Into Trouble



Ineffective Risk Management Systems	Weak Internal Controls	Lax Accountability
Uncontrolled Growth	Entering new area without proper controls, expertise, and financial analysis	Significant Deviations from Strategic Plans
Noncompliance with Policies or Procedures	Outsourcing Key Functions to Firms That Do Not Possess the Appropriate Expertise	Insider Fraud and Abuse

Strategic Process Support



- Wide range of consultants
- Wealth of literature
- Information on legal and corporate precedents
- Your own employees
- www.free-power-point-templates.com
- Your respective regulator



QUESTIONS?

Key Sources



- Strategy for Sustainability: A Business Manifesto -- by Adam Werbach
- Strategic Planning for Dummies – by Erica Olsen
- Analysis Without Paralysis – 12 Tools to Make Better Strategic Decisions – by Babette E. Bensoussan, Craig Fleisher
- Critical Thinking for Strategic Intelligence- by Katherine Pherson, Randolph Pherson
- American Banker Daily, BankThink
- Bank Director Publication
- BAI Banking Strategies
- Aftershock - by Cindy Spitzer, David & Robert Wiedemer
- 10 Faces of Innovation – by Tom Kelley
- Balanced Scorecard for Dummies
- Bauerle’s Bank Notes - by James F Bauerle, Keevican, Weiss Bauerle & Hirsch, LLC
- FDIC.org



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APPENDIX

Strategic Considerations: Bank Success Drivers



- Managing credit and operational risks.
- Finding a niche/value proposition.
- Competing with sound, reasonable bankers
- [Improving processes](#) - bigger factor than simply employing new technology.
- Managing increasing regulatory burden and costs.
 - RMA Risk Management Conference - 2005

Added circa 2015:

- Competing with sound, reasonable bankers and non-banks
- Partnering for technical innovation, operation support, cost reduction

How Strategically Orientated Are You?



Average Bank	Strong Bank
Day to Day Managing	Future focus
Seat of the pants decisions	Strategically timed decisions
Inward looking	Outward looking
Product oriented	User/Customer Oriented
Activities oriented	Results Oriented
Emphasis on "How to..."	Emphasis on "What if...."
Late follower	Adapts quickly
Primarily Reactive	Primarily Proactive

Re-Invention - Operation Hope... Part I



Crisis and Opportunity

- Operation Hope's main benefactor, E-Trade Financial, sharply reduced its funding as part of an overall cost-cutting plan. The decision instantly jeopardized the future of the 11 Hope Centers around the country where Operation Hope did its most meaningful work.
- Rather than search for another corporate backer that would keep the Hope Centers afloat, Bryant saw an opportunity to reimagine the way Operation Hope provided its services.
- The Hope Centers were expensive to maintain even with the corporate support and Bryant wanted to move to a new model with smaller centers in more cities.
- Another problem with the centers is that they are largely located in low-income neighborhoods, so they aren't really on the radar of middle-income families who could also use help managing their finances — especially in the wake of the financial crisis. Bryant's revised business plan addressed the need for both another source of money and better reach.

Re-Invention - Operation Hope... Part II



Crisis and Opportunity

- His idea: ditch the Hope Centers and replace them with smaller offices housed inside bank branches. Operation Hope had operated such a center in a Bank of the West branch in Oakland, Calif., since 2004 and the arrangement had been a good one in that it drove more customers to the bank.
- More than half the 20,000 consumers who had completed financial literacy training had substantially raised their credit scores, many became Bank of the West account holders and nearly 10% became borrowers, says Jenny Flores, the bank's head of community affairs and social responsibility. That's an especially powerful selling point now, when branch traffic is way down and competition for new customers is fierce.
- "We have tangible numbers showing that people coming in are becoming [more viable bank customers] and they are choosing to do business with us," says Flores.

SunTrust has Hope Inside centers in branches in Atlanta, Memphis and Washington, D.C., and it recently committed \$1 million to open several more centers over the next two years. In announcing the grant, SunTrust said that counselors inside its branches have helped roughly 1,700 individuals avoid foreclosure, fix credit problems or prepare to buy homes or start businesses. "The work of Operation Hope is everything we stand for as a company," Rogers says.

Strategic Possibilities.....



FORD TEAMS UP WITH CAR-SHARING TECH COMPANY.

Ford announced a partnership with Getaround, a company with a mobile app that allows city residents to rent out their cars hourly.

Late last week in San Francisco, a 2005 Honda Civic was available for \$7 per hour on Getaround, while a 2007 Porsche Cayman was going for \$23 per hour. Murphy said that Tesla owners are generating \$2,000 or more a month. "Basically any vehicle you want, if you're willing to share it, can pay for itself," he said.

P2P car sharing could affect auto financing in two ways: allowing consumers with lower credit to buy a car, and enabling consumers to buy cars that are more expensive than they normally could afford. It could also reduce the number of cars sold. **From a banker's historical perspective, it could impact collateral values from accelerated deterioration and or accidents.**

But does anyone see any strategic opportunity?

Does Market Area Determine Success?



MDI in weaker market has strong financial results. **Calico Rock, AR**

- Lowest-performing MDI area. Last on income and education levels, with the highest median age and a declining population.
- Area is 9 percent African-American.
- Loan growth in this MDI is 3.29, ROAA is 6th highest among MDIs at 1.44, and NIM is 5th highest at 4.76. Losses are at 0 percent and tier 1 leverage is high at 32.61.

Does Market Area Determine Success?



MDI is benefited by a strong market **Suwanee, GA**

- Top-performing MDI market area. Highest population growth rate, education levels, median household income, and 5th lowest unemployment rate.
- Area is 18 percent Asian-American and 11 percent African-American.
- The MDI has above-median NIM for MDIs at 0.92, 6th highest net interest margin at 4.73 and positive loan growth. Net charge-offs are elevated at 1.07.

Strategic Considerations to Objectives



ONE CONSULTANT'S TOP 10

- Attract new customers
- Extend liabilities
- Restructure bond portfolios
- Grow wealth management
- Expand remote deposit capture
- Expand branch network (or reduce it)
- Hire new talent (retain/train existing staff)
- Renegotiate vendor contracts
- Clean up your loan process (upgrade technology)
- Convert time deposits to core accounts

American Banker: 10 Big Ideas for Banking in 2015



- [Get Radical in Looking for Revenue](#)
This isn't about making risky loans; it's about being willing to try a whole new strategy. Be proactive about the business transformation ahead.
- [Increase Fee Income by Serving Small Businesses Holistically](#)
Tailoring services to meet small-business owners' needs — from bookkeeping to strategic planning — can pay off in increased fee income now and new loans later.
- [Embrace the New R&D](#)
The research and development process needs to undergo radical change. To remain relevant in the digital age, banks large and small are creating innovation labs, conducting quick beta tests of products early in the development stage and partnering with fintech startups.
- [Build Financial Education Into Your Business Plan](#)
A commitment to financial literacy training can help turn unbanked, cash-strapped consumers into profitable, bankable customers.
- [Look Into Renewable Energy](#)
New York's state-funded Green Bank is helping to finance solar farms and other alternative energy projects that traditional lenders aren't quite ready or willing to fund on their own. Commercial banks can get not only enhanced credit support from the
- [Deal with the Brain Drain](#)
With the mass exit of Baby Boomers looming, make sure succession planning goes far deeper than the C-suite.
- [Create a Single Office to Manage Regulatory Risk](#)
Centralizing reporting and response functions can help banks better spot compliance shortcomings. It's also a good way to foster trust with regulators.
- [Share Data to Thwart Hackers and Address Other Big Challenges](#)
Call it the year of co-opetition. By better sharing data with one another, banks can fine-tune their analysis of credit risk, track money laundering threats and strengthen defenses against cyberattacks.
- [Get the Customer Behavior You Want](#)
A new round of experimentation is applying findings from behavioral economics to the financial lives of poor Americans.
- [Rethink Identity So Personal Data Can Stay Personal](#)
Here's one idea for minimizing the damage from major data breaches: let consumers, not banks or retailers, manage their personal information.

What is an Examiner's Primary Interests



Effectiveness of management and the Board in achieving the bank's strategic game plan (position or bet) without compromising the:

- Adherence to safe and sound banking practices.
- Adherence to the law.
- Fair access to credit.
- Solvency and viability of the bank.

The bank's financial results, reputation as well as administrative, reporting and oversight process should make the above transparent.



*Strategic Planning:
Meeting the Specific Challenges and
Opportunities for
Minority Depository Institutions*

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