

Commercial Loan Pricing – The Year in Review 2014

**January 27, 2015
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, with over 35 years experience in various financial management roles.

Andy Morgan- joined the firm in 2001. He is responsible for development and support of the firm's proprietary software offered through the Financial Management Division. He has designed software applications for loan pricing, deposit pricing, customer information systems, organization/ customer/product profitability, and other financial reporting systems designed exclusively for the community banking industry.

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AUSTIN ASSOCIATES, LLC

Financial Management Consultants for Community Bankers

- Community bank advisors for more than 40 years
- Specialized consulting and advisory services
 - Asset / Liability Management
 - Profitability Analysis & Improvement
 - Loan & Relationship Pricing Systems
 - Balance Sheet Structuring
 - Regulatory Compliance
- Current owners are consultants/managers
- Over 200 bank/thrift clients in 2014 in 26 states



Commercial Loan Pricing Webinar Series

Austin Associates

Prior Webinars

- Nov '14 - Commercial Loan Pricing Strategies
- Feb '14 – Compete with Regional Banks
- Mar '13 – Pricing Highly Volatile CRE Loans (Basel III)
- May '12 – Increasing Profitability in a Slow Growth Environment

Upcoming Webinars

- June '15 – Making Profitability Systems Work for the Bank
- Sept '15 – LoanPricingPRO™

AGENDA

Loan Pricing Webinar

January 27, 2015

- Industry Trends
 - Community Banks(<\$3B) vs. Regionals(\$20B-\$100B)
 - Community Bank Portfolio Trends
- Commercial Loan Pricing Trends
- 2015 Budgeted Projections
- Community Bank ROE vs. Loan ROE Trends
- 2015 Loan Pricing Strategies

INDUSTRY TRENDS

Community Banks

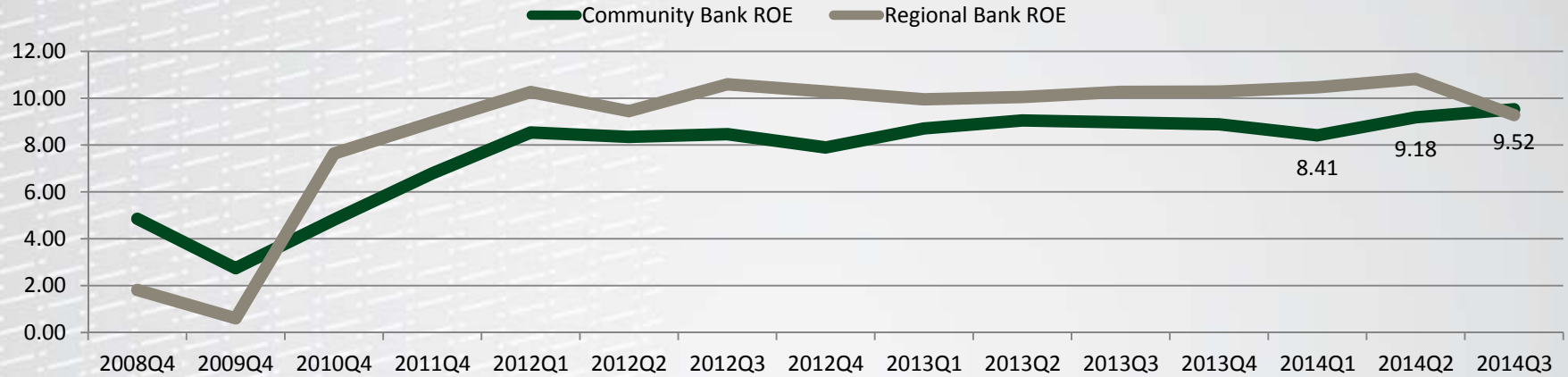
- Asset Size: <\$3B
- Number of Banks: 4,488
- Average Size: ~\$450M
- Average Equity: ~\$51M
 - 2013 ROE: 8.90%
 - 2014 ROE: 9.04%

Regional Banks

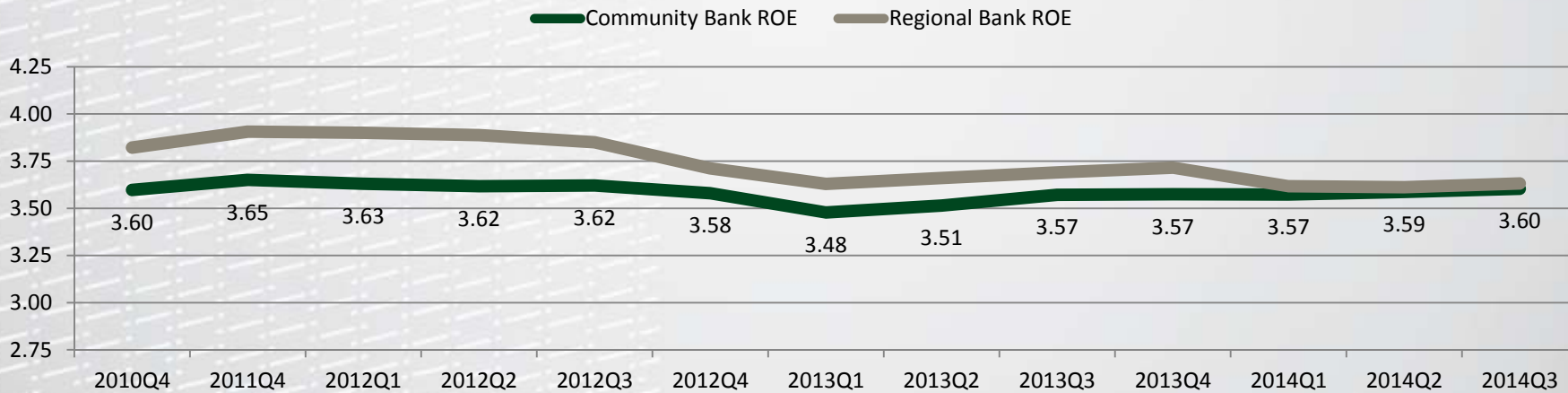
- Asset Size: \$10-\$100B
- Number of Banks: 44
- Average Size: ~\$48B
- Average Equity: ~\$6B
 - 2013 ROE: 10.14%
 - 2014 ROE: 10.19%

INDUSTRY TRENDS

Return on Equity



Yield/Cost Spread



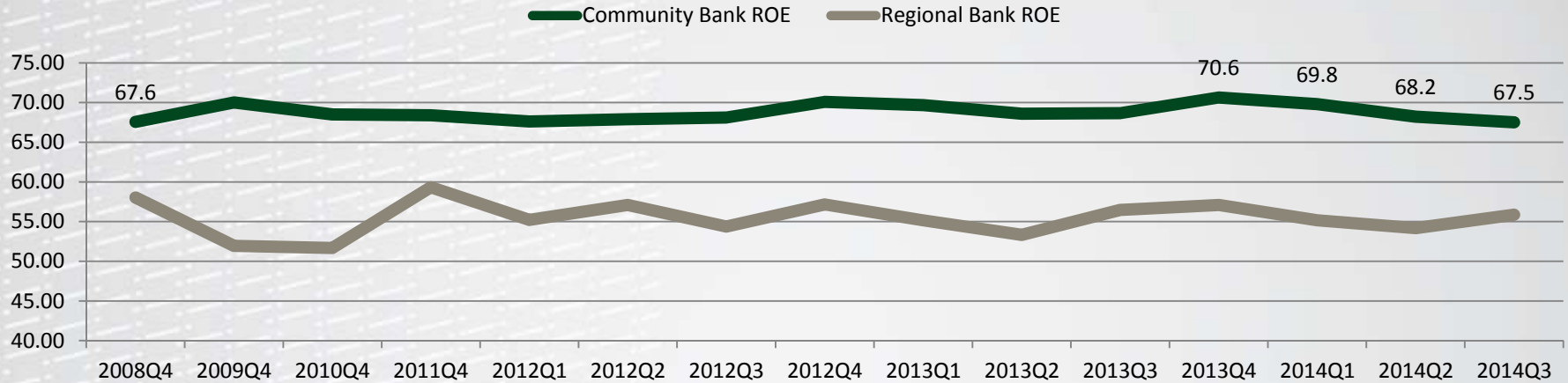
INDUSTRY TRENDS

Loan Yields

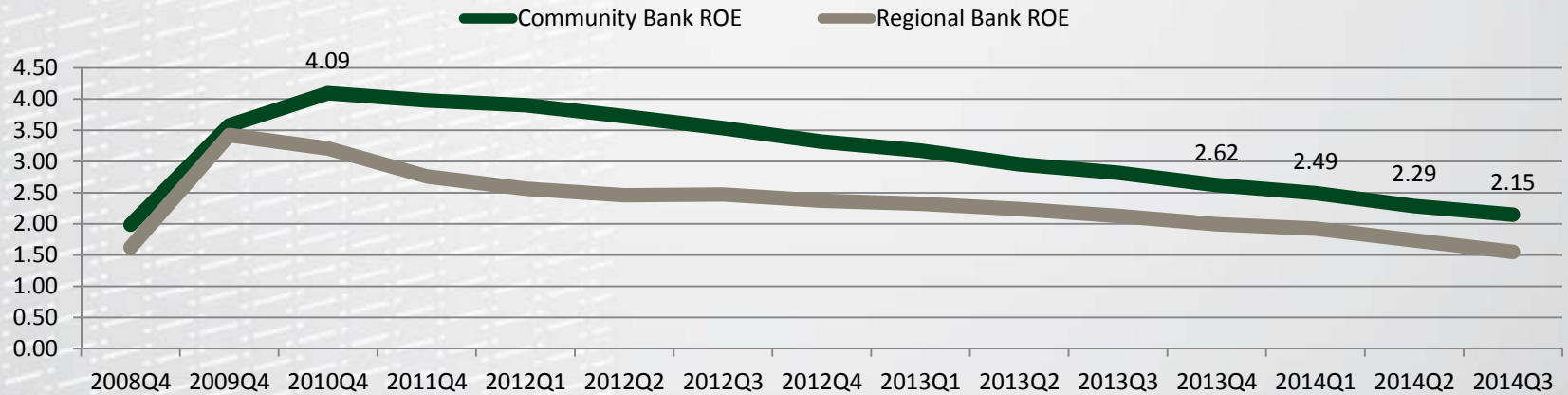


INDUSTRY TRENDS

Efficiency Ratio

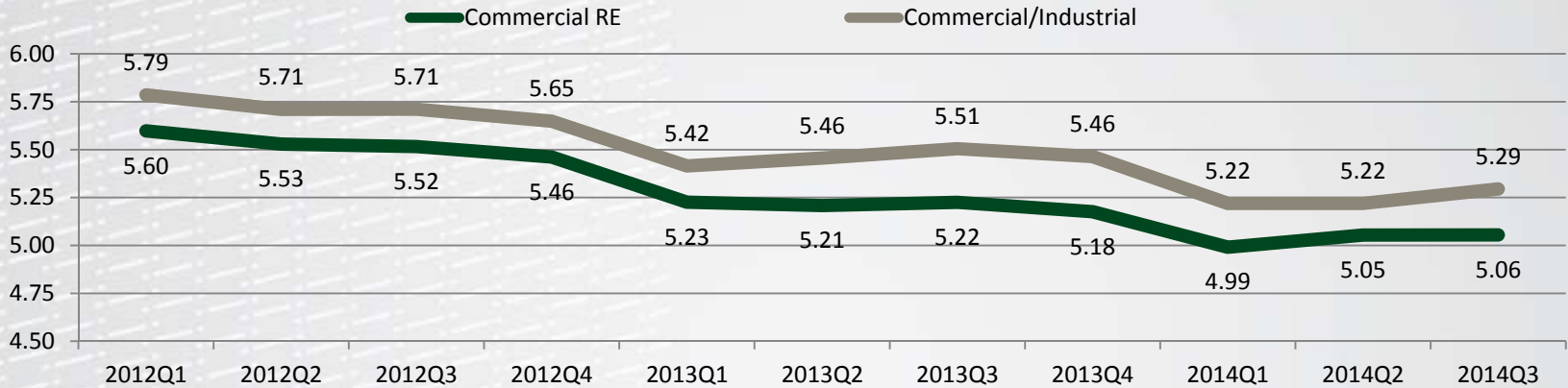


Non-Performing Loans/Total Loans

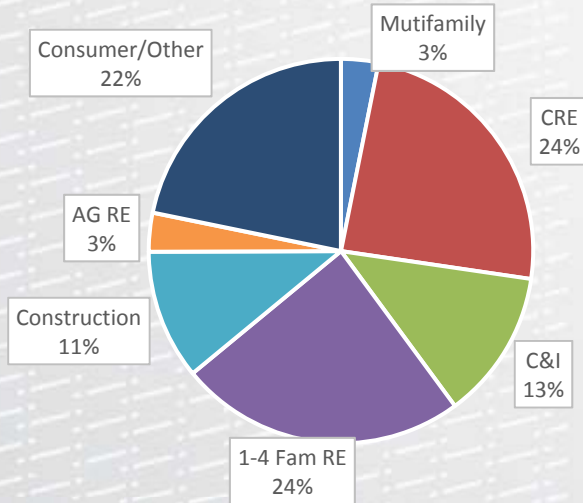


INDUSTRY TRENDS

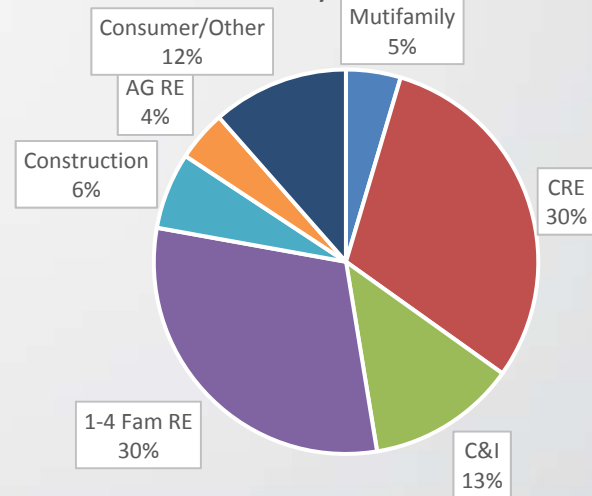
Community Bank Loan Yields



2008 Community Bank Portfolio Mix

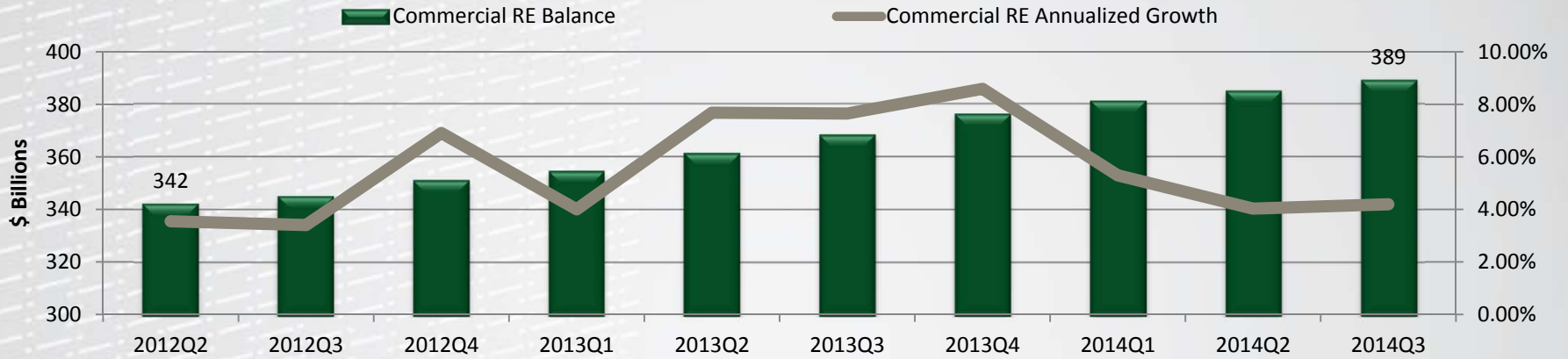


2014 Community Bank Portfolio Mix

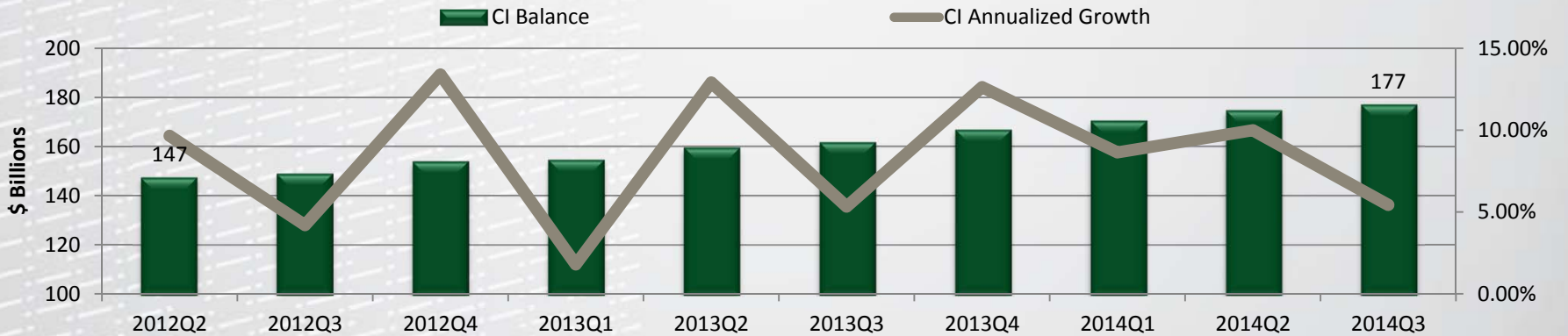


INDUSTRY TRENDS

Community Bank CRE Growth

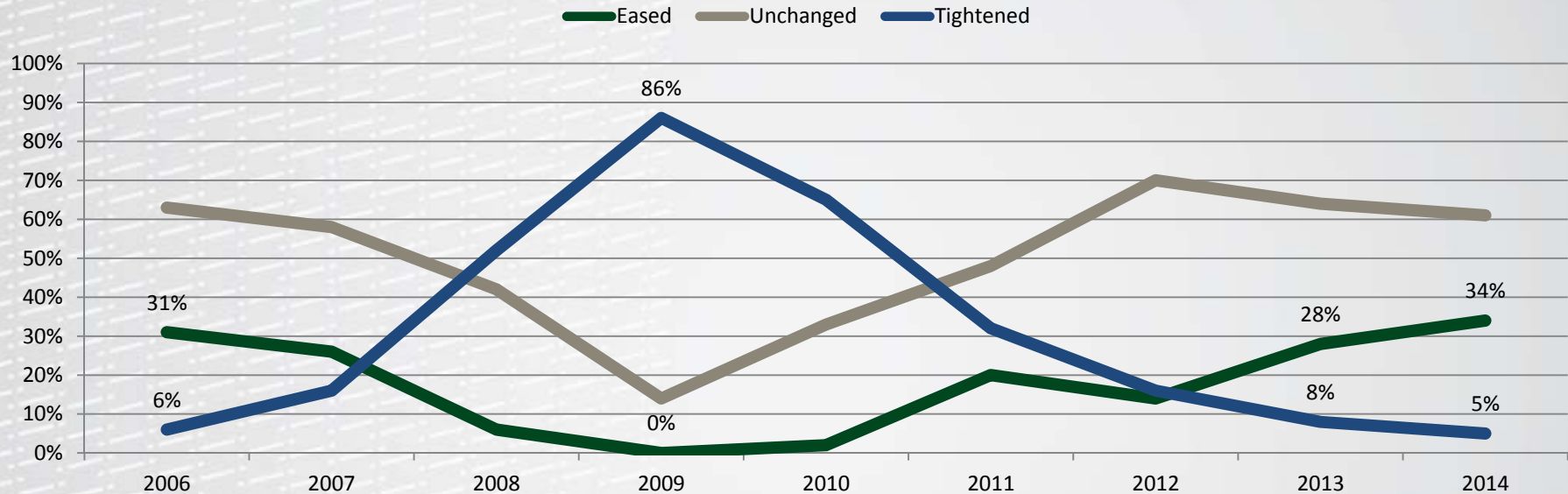


Community Bank C&I Growth



INDUSTRY TRENDS

Commercial Underwriting Trends

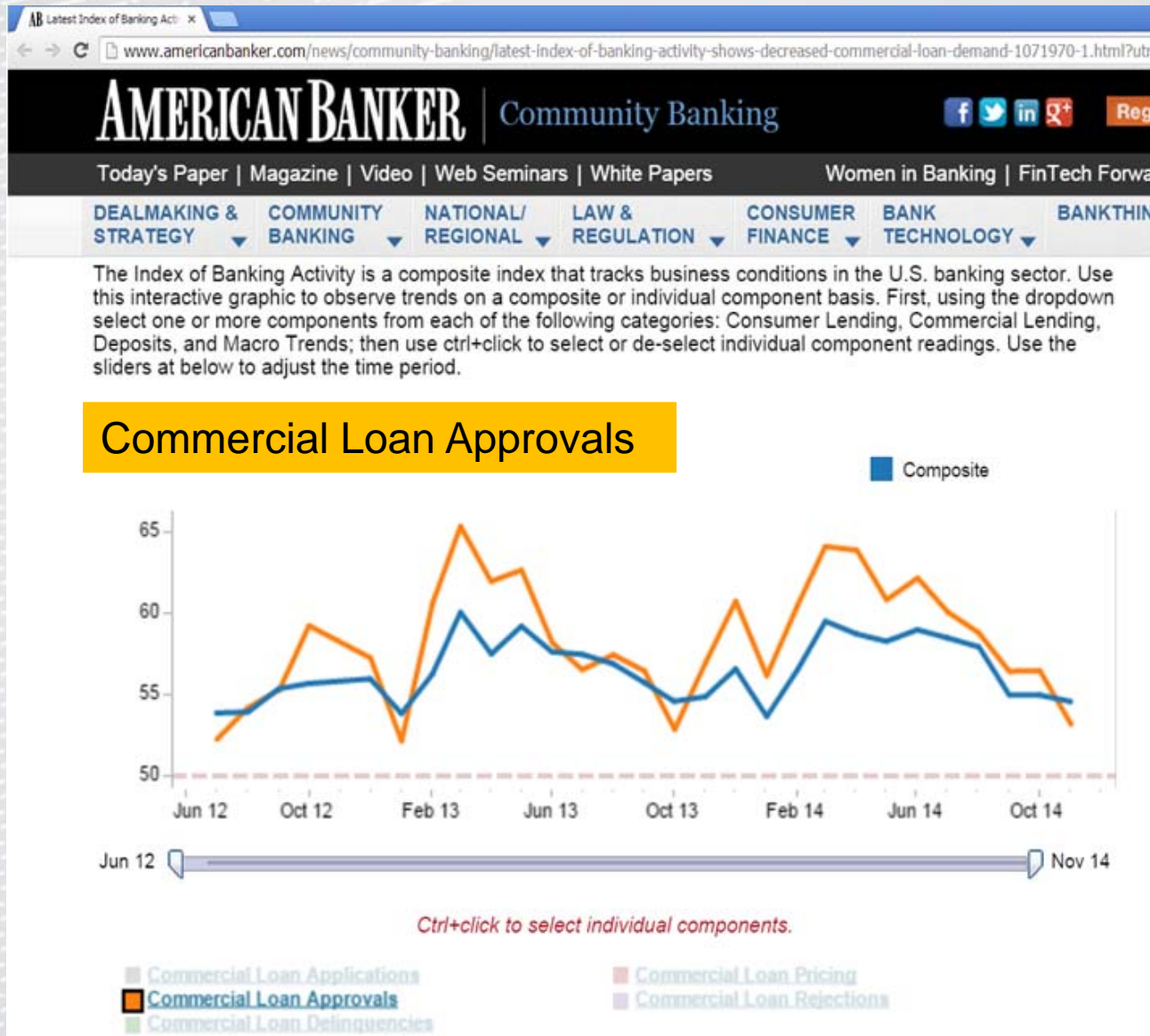


- Underwriting standards decreased for 3rd consecutive year
- 2014 easing is similar to that experience between 2004 and 2006, the time period leading up to financial crisis
- Easing is in large part due to banks' interest in increasing both volume and yield of loans in their portfolios
- 27% of loans in 2014 compared to 19% in 2013 showed signs of increased credit risk

INDUSTRY TRENDS



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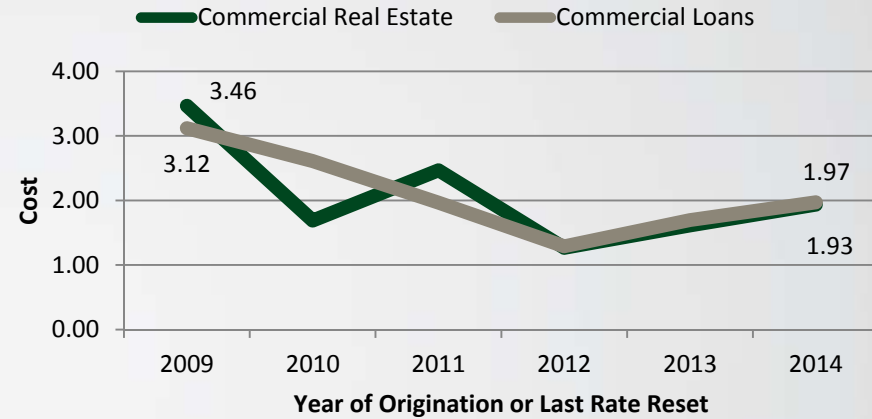


COMMERCIAL LOAN PRICING TRENDS

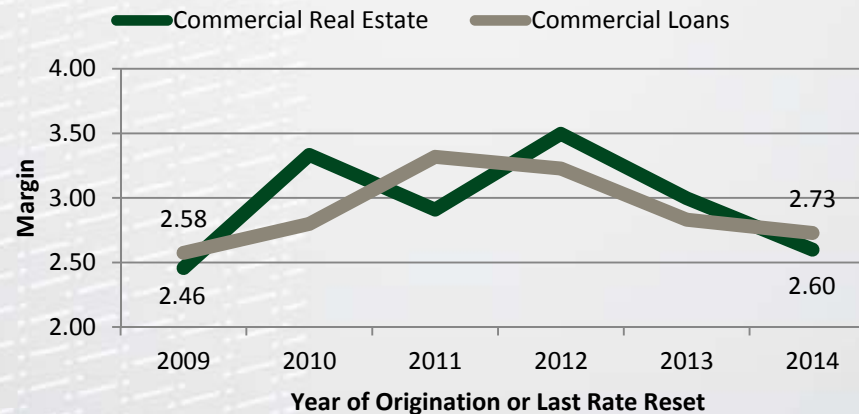
Loan Yields



Loan Funding Cost

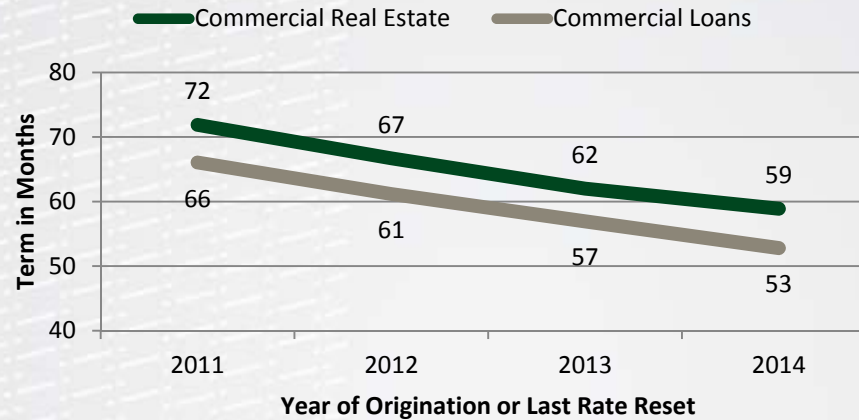


Loan Margins

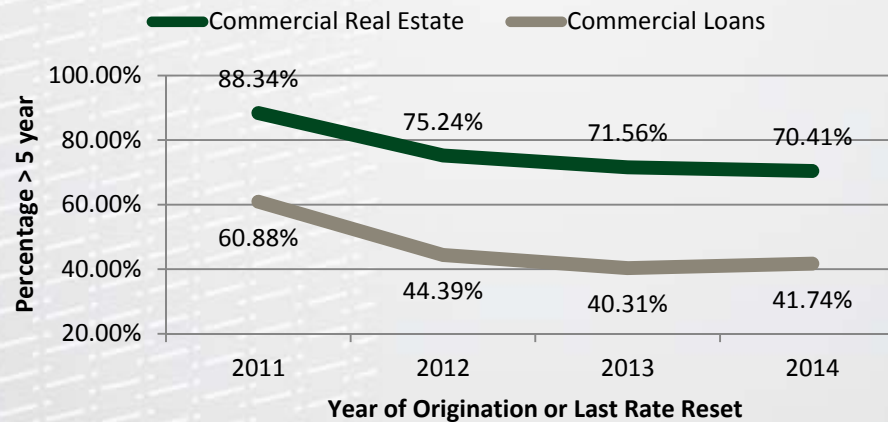


COMMERCIAL LOAN PRICING TRENDS

Loan Term to Re-Price



New loans with term > 5 years



COMMERCIAL LOAN PRICING TRENDS

- Note: Floating rate loans excluded
- Yields on new Commercial and CRE loans have declined between 100-140 bps from 2009 to 2014
- CRE yields continued to decline in 2014 while other Commercial loan yields began to rise
- Margins on new Commercial and CRE loans increased from 2009 to 2012, but have decreased since 2012
- New loan terms have gradually declined over the last 4 years. The average new loan term is now below 5 years
- We continue to hear exceptions to the trends (10 year fixed rate loans)

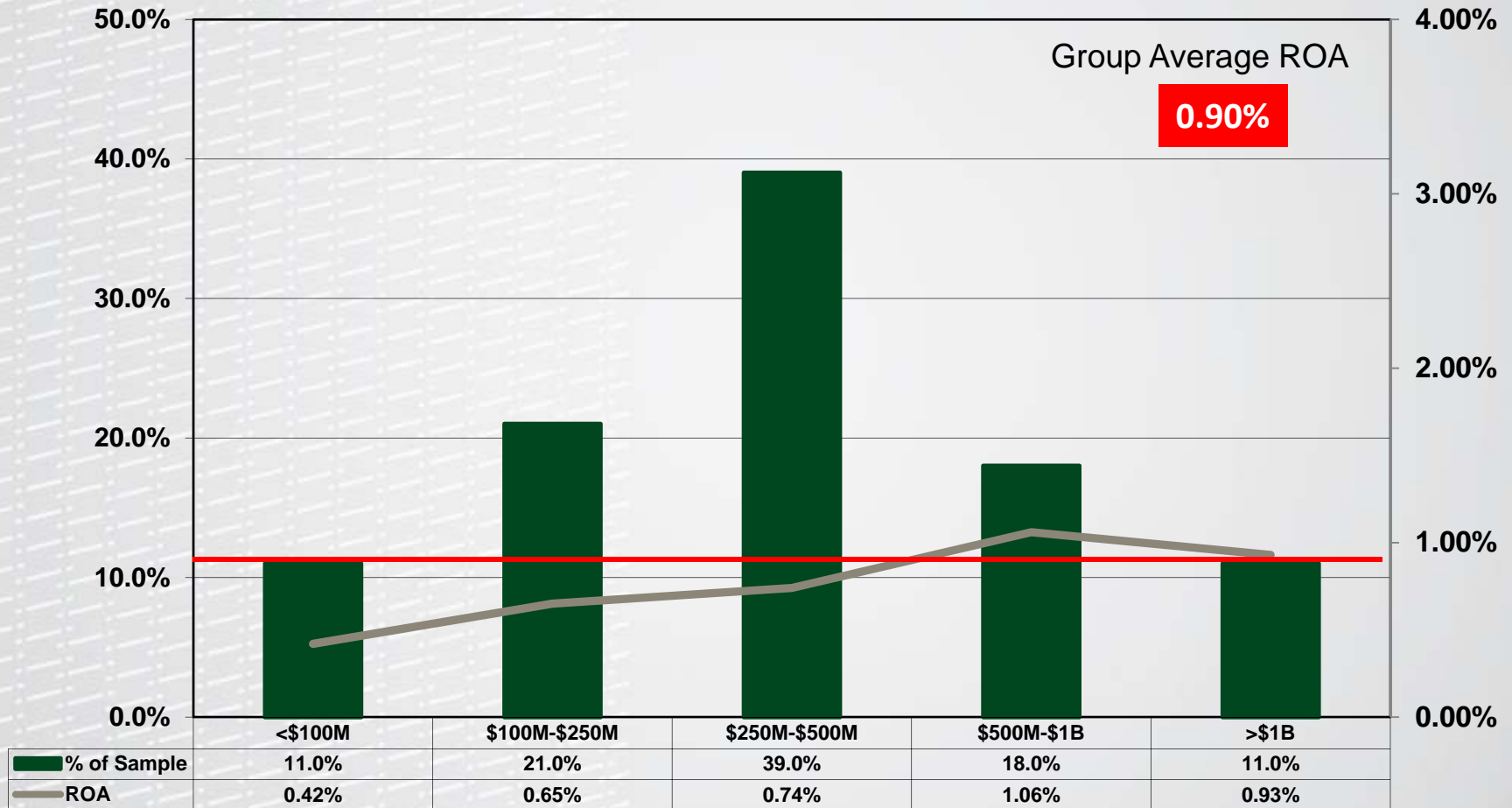
AUSTIN CLIENTS' 2015 BUDGET STUDY

Highlights / Findings

- No clients forecasted a decline in either loans or deposits
- Total loans expected to grow 7.6% over 2014
 - Business loans to grow faster
- Overall loan yields to remain unchanged
- 53% expect deposit costs to rise (average = 10 bps)
- 43% expect deposit costs to fall (average = 3 bps)
- Net Interest Margin to expand slightly due to mix & volume
- Provision expenses to rise due to new loan growth
- ROA to remain unchanged at 0.90% (2014 vs 2015)

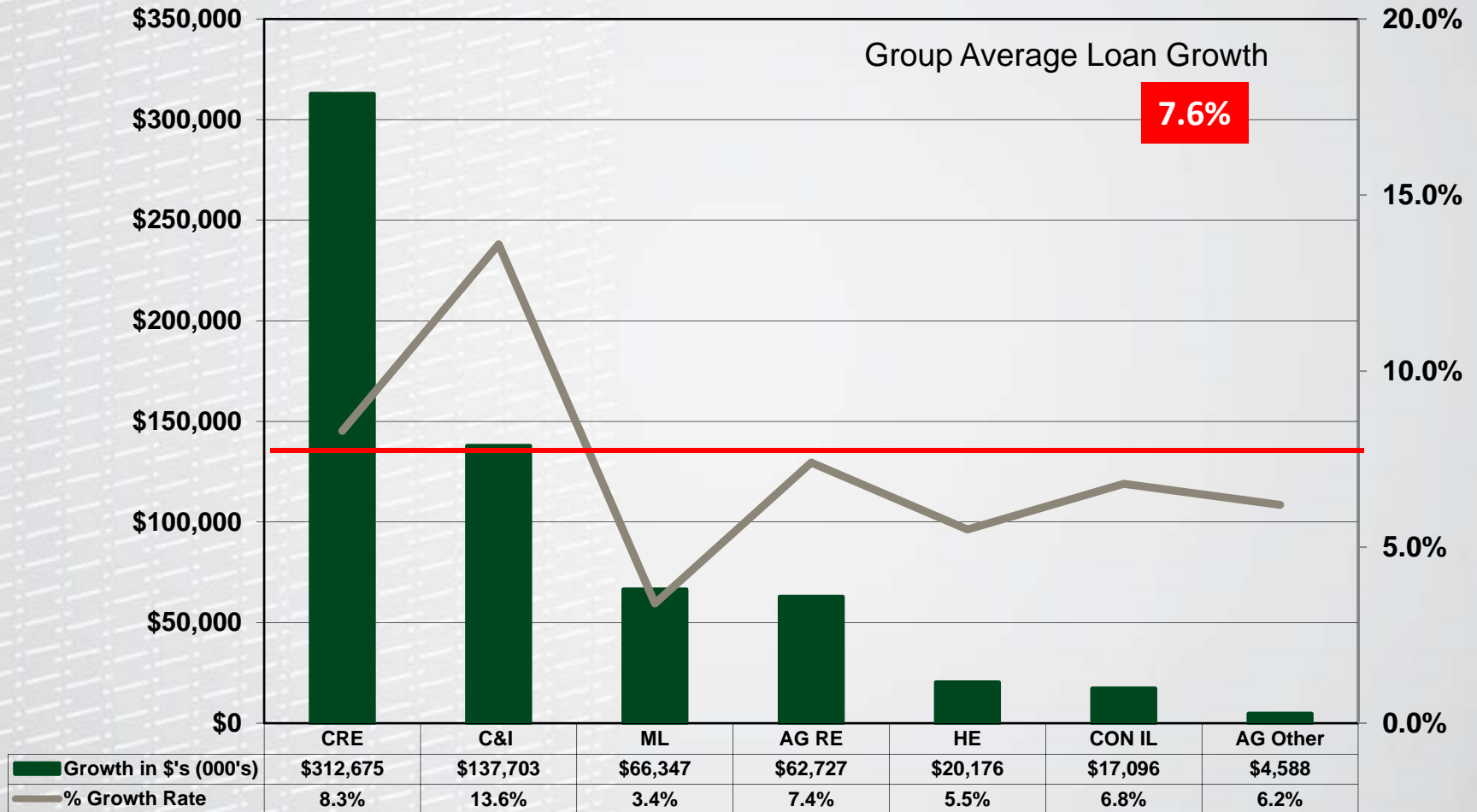
ROA by Bank Size

Austin Client Group – 2015 Budget Study

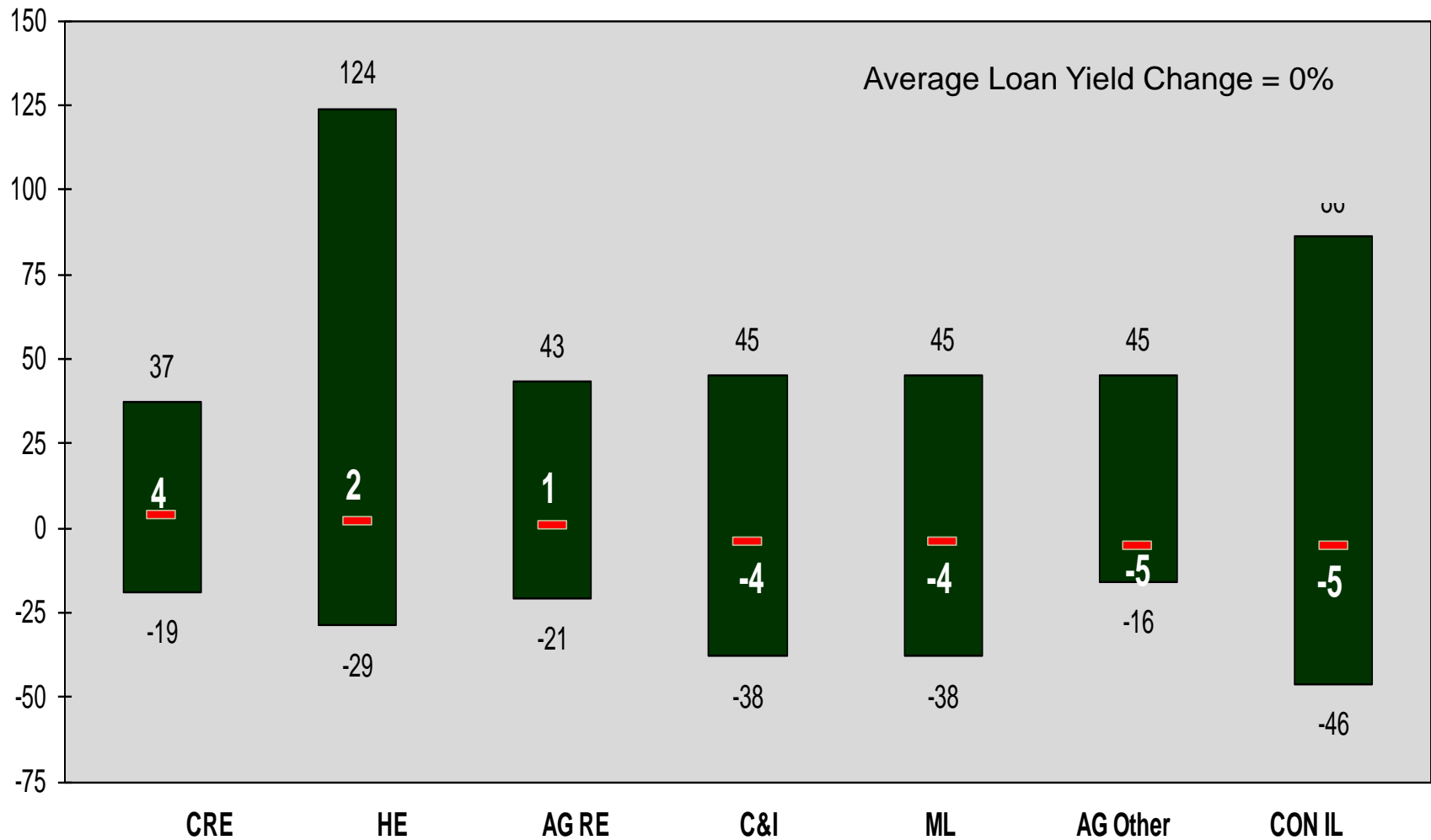


Growth by Loan Type

Austin Client Group – 2015 Budget Study

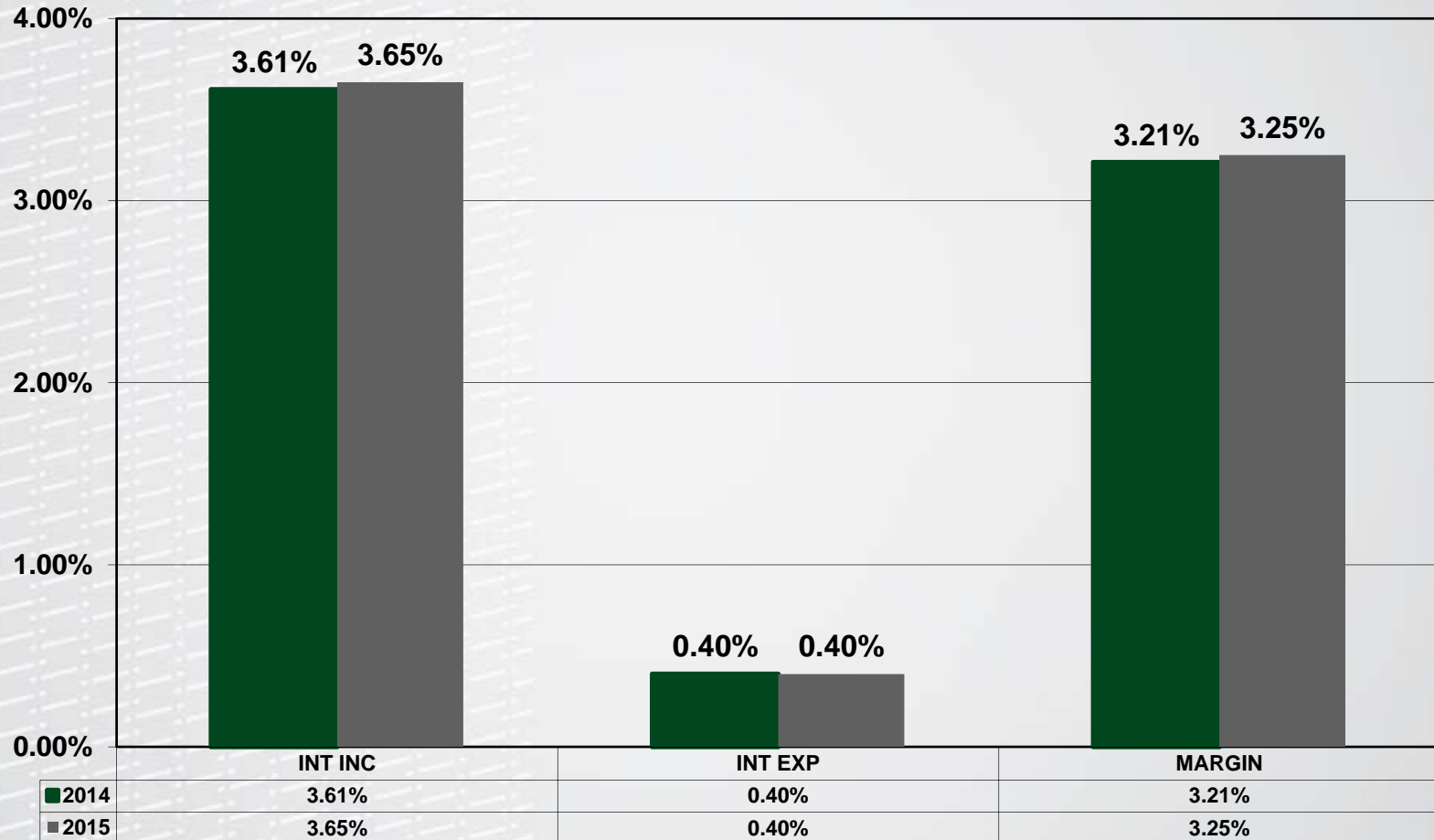


Expected Loan Rate Changes



Net Interest Margin

Austin Client Group – 2015 Budget Study

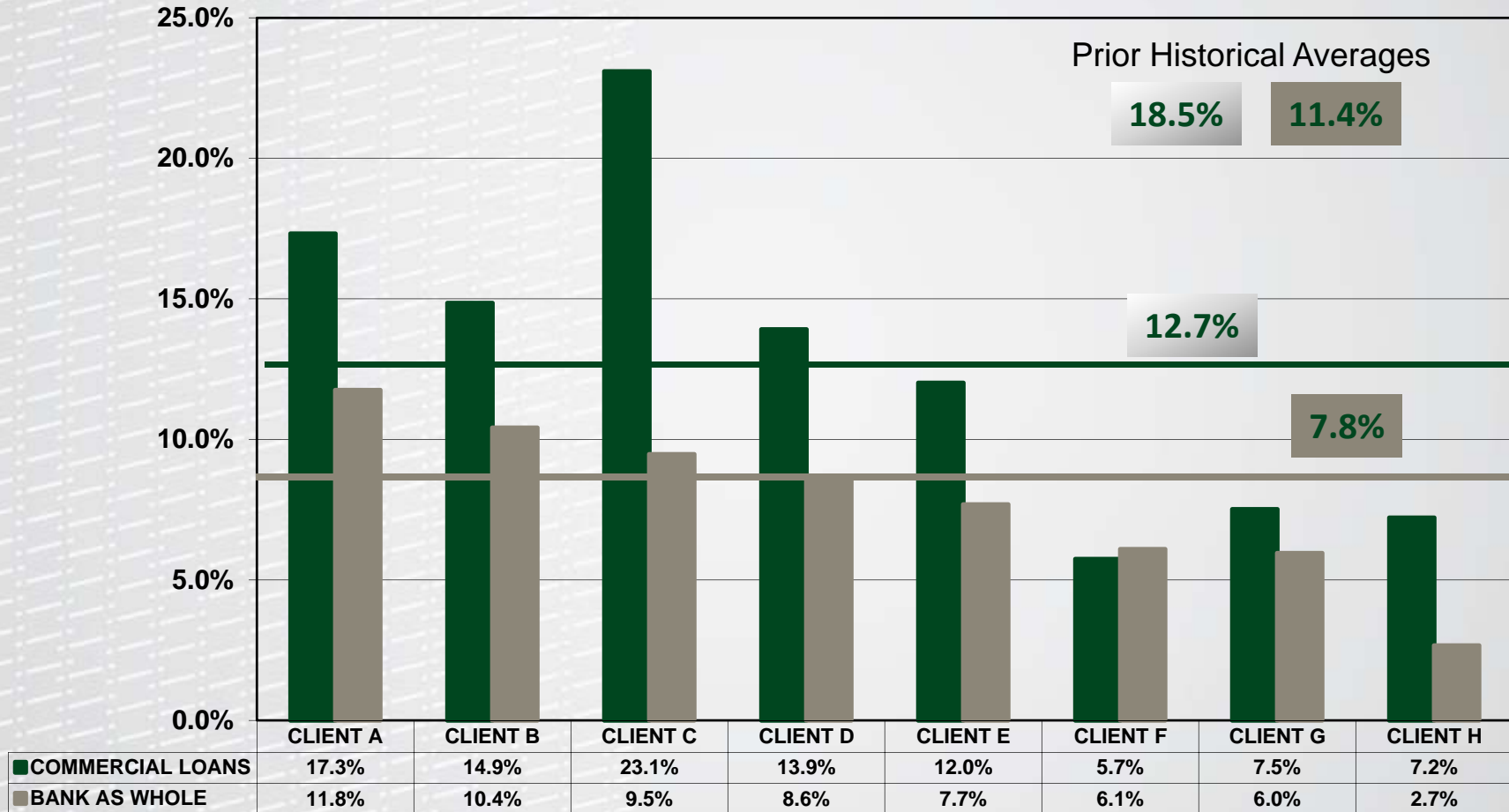


CONSIDERATIONS WHEN SETTING PRICING TARGETS

- Avoid Single Numeric Targets
- Current Bank-wide ROE
- ROE of Existing Commercial Loan Portfolios
 - Make Apples to Apples Comparisons
- Appetite for New Loan Balances
- What is the competition doing?
- Capital Availability
- The ROE of the Customer's Existing Relationship
- Incremental Improvement

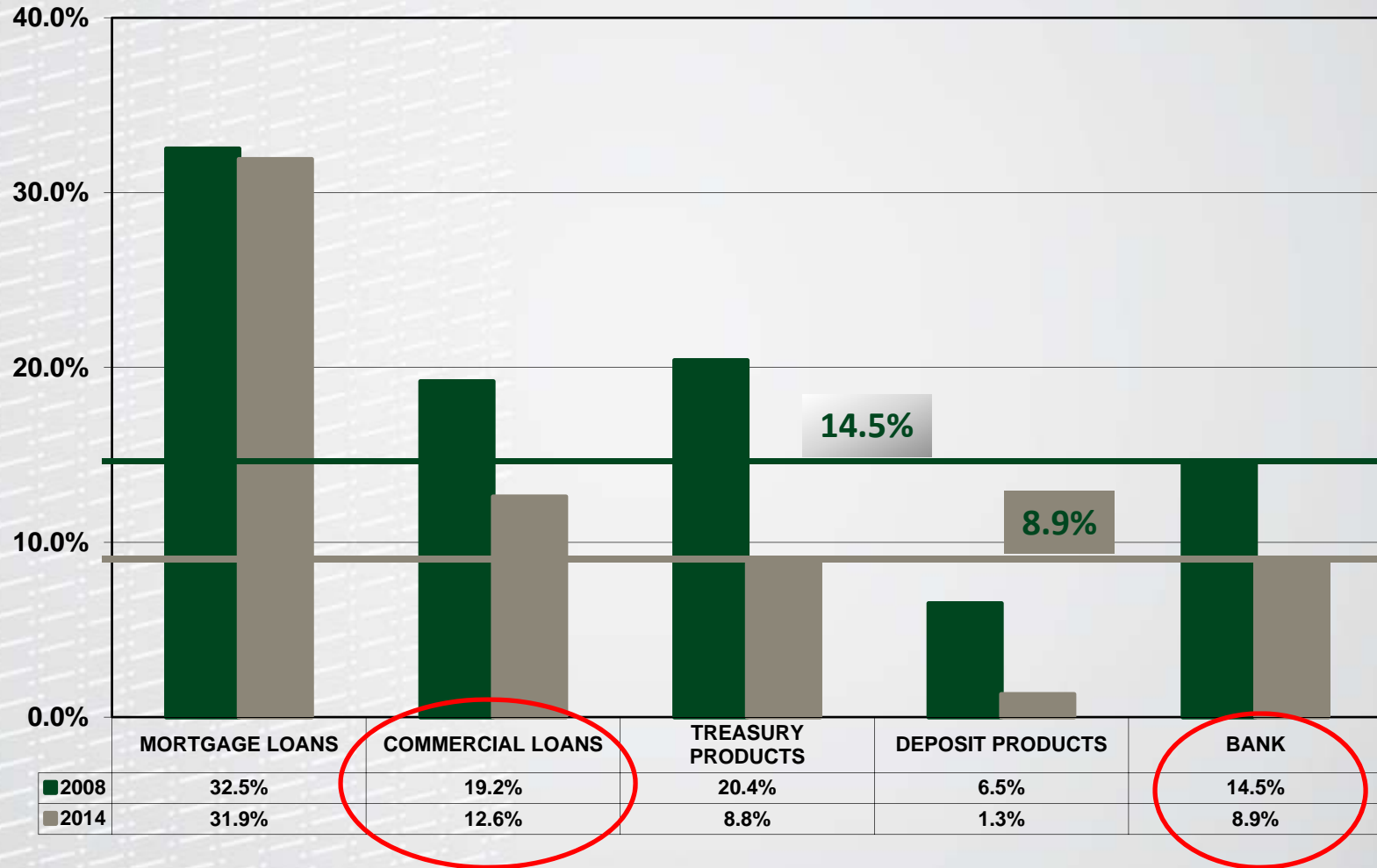
Community Bank ROE by Product

Commercial Loans versus Bank-wide ROE



Community Bank ROE by Product

Pre-recession (2008) versus Current (2014)



KEY STRATEGIES FOR 2014 - 2015

- Prepare for rising interest rate environment
 - Raise ROE targets going forward
 - New loans must cover future cost of funding
- Focus sales strategy on relationship instead of loan price
- Always give the customer alternatives and options – avoid ever saying “NO”
- Avoid pricing down to the competition, or to as low as the pricing model says you can go
- Be disciplined and objective – walk away from deals if the bank’s objectives are not being met

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 loan or customer relationships modeled, please feel free to contact us at any time.

We would also be pleased to provide your lending team with a customized demonstration of the Austin Associates Commercial Loan Pricing System - simply contact Andy or Jeff to arrange a date and time for your demo.

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Commercial Loan Pricing Strategies

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