

Session 3 – From the CEO Seat - Defining Moments in our Professional Development Journey

OBJECTIVES

Provide you some insight into leading and managing a bank exploring the following areas:

- Review our Current Bank Environment
- Customer Experience Management
- Lending Portfolio Management
- Leadership Development Journey



Have some fun in the process!

CURRENT BANK ENVIRONMENT

Opening Small Group Exercise

Here is your task over the next 10 minutes:

- ✓ Brainstorming – Regardless of your experience in the financial services industry, please create your top five list of issues you believe are currently having a competitive impact on the financial services industry.
- ✓ Appoint a spokesperson (the individual whose birthday is closest to today) and be ready to share your group's brainstormed ideas with the class



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- Economic Challenges
- Mergers and Acquisitions

of Banks in ...

1980 _____

2000 _____

2021 _____

- Products & Services
- Regulatory & Legislative Issues



Customer Perceptions related to:

Emergency Economic Stabilization Act of 2008 – included in the troubled Assets Relief Program (TARP) – created “Too Big to Fail”

2010 Regulation E, Electronic Fund Transfers Act – POS and ATM opt-in

2010 Dodd Frank Act – Creation of the Consumer Financial Protection Bureau (CFPB) – has not been completely implemented and now will see significant repeals

- Non-Bank Competition
 - ✓ Farm Credit
 - ✓ Credit Unions
 - ✓ Brokerage Companies
 - ✓ Suppliers: Seed, Machinery, etc.
 - ✓ Others: Wal-Mart, State Farm Bank
 - ✓ Phone Apps (Venmo, Zelle, Apple Pay)

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“Merrill Lynch’s cash management account allows you to borrow against securities, write checks, deposit your paycheck . . . and do about everything else you could do at a bank plus a lot more.”

Source: Fortune Magazine

Competitive Landscape – What is our end game?

MAXIMIZE the number of **HOUSEHOLDS** banking with you!

Success comes down to our ability to **ATTRACT & RETAIN**

Ordinary or EXTRAORDINARY?

What comes to mind when you hear Ordinary?

What comes to mind when you hear EXTRAORDINARY?

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Small Group Exercise



Criteria	Mega Bank	Your Community Bank
Locations:		
Marketing Dollars Available:		
Product Offerings:		
Pricing on Deposits (i.e., interest rates):		
“Too Big to Fail” (i.e., Safety and Soundness):		
Customer Culture and Service Orientation:		

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1. In your opinion, what advantages does Mega Bank have over *Your Community Bank*?

- ➔ _____
- ➔ _____
- ➔ _____
- ➔ _____
- ➔ _____

2. In your opinion, what advantages does *Your Community Bank* have over Mega Bank?

- ➔ _____
- ➔ _____
- ➔ _____
- ➔ _____
- ➔ _____

3. In thinking about competitive advantages, which one of these banks must consistently focus on EXTRAORDINARY (vs. ordinary) in your opinion?

- ➔ _____

RETAIL MANAGEMENT

Our Customer Experiences

Would you agree with this statement?
As a customer I want to feel. . .

WELCOME

REASSURED

SIGNIFICANT

Where do **YOU** go today and experience this?

Buckle 

amazon.com
Prime

chewy

Customer Experience - Common Themes

- Take **CARE** of me
- “**WOW**” Experience
- Make it **EASY**
- Provide **SOLUTIONS** . . . *You are the expert in the eyes of the customers*
- I got your **BACK**

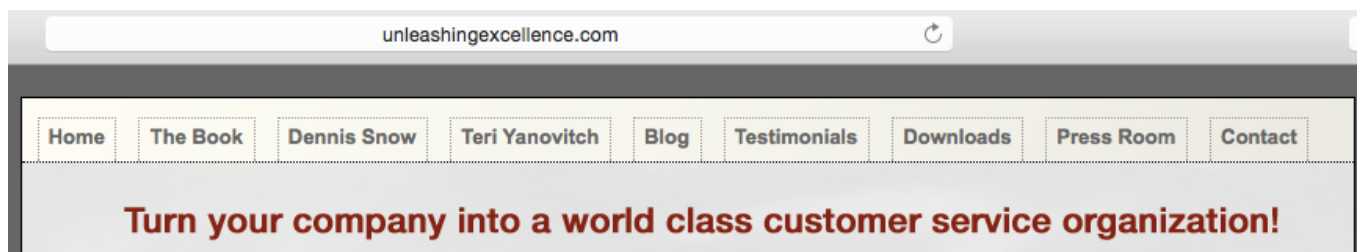
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See EVERYTHING through the lens of your customer!

Looking at your organization from the customer perspective is one of the performance elements that separates **EXTRAORDINARY** organizations from **ORDINARY** ones.

EVERYTHING Speaks!

Unleashing Excellence – Dennis Snow & Teri Yanovitch



Review your . . .

Website

Brochures

Lobby

Teller line

Your Office

Your Appearance

Your Forms

Why is this important?

Why Do Banks Lose Customers?

1% Customer Dies

9% Better Competitive Offerings

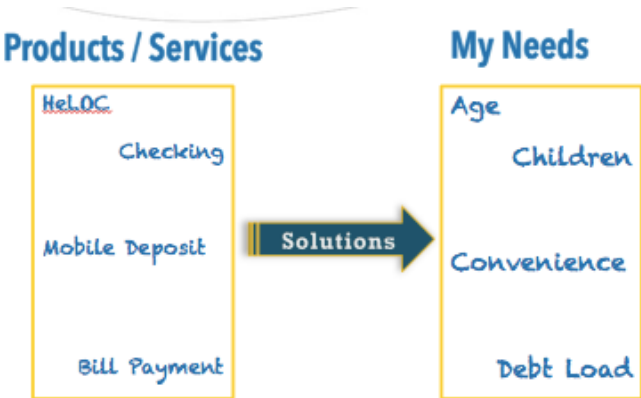
3% Customer Moves

14% Product Dissatisfaction

5% Influenced by Friends

68% **EXPERIENCE**

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Bankers need to move from. . .



Breakdown the barriers by department – you are all on one team from the lens of the customer

LENDING PORTFOLIO MANAGEMENT

Loans to Consumers

- Unsecured – Why make this type of loan?
- Car – Secured by _____?
- Home Improvement – HELOC (Home Equity Line of Credit)
Secured by _____?
- Debt Consolidation – Secured by _____?
- Recreational (boats, RV's, vacations) – Secured by _____?
- Student Loans

Loans to Businesses

- Term loans for Land, Equipment or Capital Purchases – Secured by _____ ?
- Operating Lines of Credit – Typically renewed and reviewed annually –
Secured by _____?
- SBA or FSA Guaranteed Loans – limits the bank's exposure - Secured by _____?
- Covid PPP Loans –

Let's not forget:

- Overdrafts
- Secondary Mortgage Market (Residential Real Estate Lending)
- Loan Participations

Loan Participation – Example

Loan to Customer	2,000,000	7%
Lead Bank	1,000,000	7%
Participating Bank #1	500,000	6.5%
Participating Bank #2	500,000	6.5%
Lead Bank – servicing fee 1,000,000		50 bp or .5% (\$2,500 x 2) \$5,000 total

Does your bank buy or sell participation loans?

Lending – Impact on Earnings

Interest Income – Impact on Earnings

Total Operating Income	
<i>Interest Income - Loans</i>	<i>80.0%</i>
<i>Interest Income -Investments</i>	<i>10.3%</i>
<i>OD Fees/Service Charges</i>	<i>5.0%</i>
<i>All Other</i>	<i>4.7%</i>
	<i>100.0%</i>

Total Operating Expenses	
<i>Interest Expense - Deposits</i>	<i>39.0%</i>
<i>Salaries & Benefits</i>	<i>32.0%</i>
<i>Equipment/Occupancy</i>	<i>7.8%</i>
<i>All Other Expenses</i>	<i>18.5%</i>
<i>Provision for Loan Loss Reserve</i>	<i>2.7%</i>
	<i>100.0%</i>

What does this look like for your bank?

Credit Decisions

6 C's of Credit

1. **CAN** we make the loan?

- Legal (Federal & State Laws, Contractual Age)
- Lending policy

2. **CHARACTER** of the borrower or borrowing entity?

- Past credit history with your bank
- Credit history with others (Credit bureau report)

3. **CAPACITY** of the borrower or borrowing entity?

- Income sources
 - Self-Employed
 - Seasonal work
 - W-2 employment
- Verification of Income
 - Tax returns, pay stubs, employment verification
- Stability
 - Length of time in current job
 - Length of time in location/area
 - Employment History
- Financial Capacity
 - Debt/Income ratio – With new payment included – typically total payments should not exceed 35-40% of gross income.

4. **CAPITAL** of the borrower or borrowing entity?

- Net Worth (financial statement)
- Amount invested by borrower (down payment capacity)

5. **COLLATERAL** of the borrower or borrowing entity?

What is the collateral?

- Real Estate (Land)
- Crops
- Home
- Crops
- Equipment
- Inventory, Receivables
- Vehicles
- Certificate of Deposit
- Cash Value of Life Insurance

Where is the collateral?

- Location
- Control of
- Availability

Is the collateral marketable?

- Demand
- Value
- Ease of disposing

6. **CONDITIONS** of the borrower or borrowing entity?

- Repayment terms
- Loan Agreement
- Lien position
- Insurance on borrower
- Reporting requirements to the bank

Approaches to Credit Decisions

1. Manual Review – Following Established Guidelines

Examples:

- Debt/Income ratio
- Acceptable past credit history
- Job Stability
- Down payment (equity)

2. Credit Scoring – Assignment of points to application data and credit bureau data to arrive at a final score predicting the odds of repayment

Sample Credit Scoring characteristics:

Application data

Length of time at present employer
Rent/Own

Credit bureau data

of Open Revolving accounts
Credit bureau score
Judgments/Late payments
Ratio of High Credit Available/Utilization

3. Combination (Scoring & Manual)

Scoring can be used to filter out the obvious turndowns and a manual review at a certain score level or below **OR** manual review prior to all final decisions.

Example of a possible Decision Matrix:

<u>CREDIT SCORE</u>	<u>DECISION</u>
> 740	Auto Approval
680 – 740	Manual Review
< 680	Auto Decline

Sample Credit bureau report – See Handout

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Profits/Net Income vs. Cash Flow

What is most important?

What's the difference?

_____ refers to making money

_____ refers to collecting money (good measure to find out where the cash goes)

Elements of a Loan Policy

- Philosophy of the bank
- Minimum loan standards
- Loan authority levels by position
- Process for exceptions to policy
- Pricing guidelines
- Documentation requirements for all loan types
- Process of handling problem loans

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Loan Policy Management

- INTERNAL Management
 - Board of Directors
 - Directors Loan Committee
 - Loan Committee
 - Senior Loan Officer
 - Internal Auditors
 - Loan Officers
- EXTERNAL Management
 - FDIC
 - State Examiners
 - OCC
 - Independent Auditors
 - FHLB – Collateral Review

What are the Lender's Responsibilities?

_____ & _____ the risk to the Bank.

Match the loan purpose, _____, maturity & source of repayment to the borrower's cash flow.

Properly _____ the loan (term, risk, collateral).

Review _____ with the borrower.

Word Bank			
		Structure	
Quantify	Size		Performance
	Identify		

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Managing the Loan Portfolio

- Use of Loan Policy – “_____” in the daily lives of the lenders.
- Loan Committee – Communication
- Yield & Mix of portfolio
- Risk Rating systems
- Concentrations
- Economic Factors
- Bank’s Legal Lending Limit
- Adequate Loan Loss Reserve (ALLR)

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Yield/Mix Discussion

	<u>Average Yield</u>
Securities Portfolio	?
Loans	
Commercial Loans	?
Installment Loans	?
Ag Loans	?
Real Estate Loans	?

Mix Considerations:

- Size of loan
- Expertise required
- Time commitment
- Level of Risk
- Collateral

Risk Rating System

Risk Rating Systems are designed to assess the risk level of individual loans. This is strongly encouraged by regulators (if not required).

<u>Risk Rating</u>	<u>Level of Risk</u>	<u>Benchmarks</u>
1	Lowest	Overall business credit Asset quality Financial – key ratios Debt capacity and coverage Management and depth Position in the market (market share) longevity
2	Modest	
3	Average	
4	Acceptable	
5	Acceptable with risk	
6	Watch	
7	Special Mention	
8	Substandard	
9	Doubtful	
10	Loss	

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Concentrations

- Industry
- Borrower
- Geographic

Economic Factors

Lending Limit Considerations

One example of calculating a bank's legal lending limit:

25% of Capital + Surplus

\$21 Million Bank - \$600,000

\$100 Million Bank - \$1,200,000

Other Considerations:

State Charter vs. National Character

Regulatory limit vs. Internal limit

Definitions:

Tier I Capital: Total capital (core capital + reserves)
Less mark-to-market adj.

Tier II Capital: Tier I + ALLR

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Allowance for Loan Loss Reserve (ALLR)

Reserve funds held in anticipation of any credit losses (charge-off's) that may occur. (Insurance policy)

- Managed by the Senior Loan Officer or Loan Committee
- Reviewed and approved by the Board of Directors at least quarterly to be deemed adequately funded.
- Target: 1-2% of Total loans

Summary Page Sample of Reserve Adequacy

Impaired Loans	\$64,631
Commercial Loans	\$18,440
Installment Loans	\$7,428
Ag Loans	\$14,291
Real Estate Loans	\$40,992
Charge Off History	\$37,231
Environmental Factors	\$6,000
Estimate Allowance:	\$189,013
Balance in Reserve:	\$188,532
Surplus/Shortage:	-\$481

Lending Case Studies – handout

Small Group Exercise



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Today's Challenges in Lending

- Competition – Pricing
- Competition – (including Non-Bank Competitors)
- Growth
- Economic Factors
- Profitability (Net Interest Margin)
- Talent
- Other Sources of Income (Fee Income generation)

LEADERSHIP DEVELOPMENT JOURNEY

Leading an Exceptional Team – What it takes?

Visit your values	
Show up & take responsibility	
Ask for help	
Model the behavior you expect of your team	
Managing commitments to self & others	
Have those courageous conversations	
Giving & receiving feedback	
Invest in your team - engagement	
Building Trust	

What Does all this Mean?

- Leadership is the key to winning in the current environment
- Articulating a clear vision for the bank’s team is linked to organizational success
- The **financial services industry and your bank** will prosper, or struggle based on our **choices as leaders**

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Visit your Values

Core Values – Where do these fit in?

(Handout)



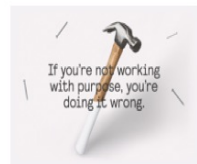
Our non-negotiables

Knowing the mission, purpose and your WHY.

KNOW your Why?



"Without a mission statement, you may get to the top of the ladder, and then realize it was leaning against the wrong building." – Dave Ramsey



Operating from your **WHY**, not your what.
It's not what you do that matters, it is **WHY** you do what you do that matters!

Ethics & Ethical Decision-Making

Group Activity – Case Studies



Why Do Ethics/Values Matter?

Lawrence Journal-World

Topeka — A federal judge sentenced former banker Clinton Odell "Del" Weidner II to 6 1/2 years in prison for his role in a federal loan-conspiracy case that involved former Westar Energy Inc. chief executive David Wittig.

Weidner, 50, the former president of Topeka's Capital City Bank, was convicted of conspiracy, two counts of filing false bank entries and one count of money laundering. Prior to his trial, he pleaded guilty to two other counts of filing false bank entries.

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Former TierOne executives sentenced to prison

Posted: Mar 25, 2016 2:29 AM CDT
Updated: Apr 01, 2016 8:45 AM CDT



Posted By: Channel 8 Eyewitness News

8@kikntv.com

LINCOLN, Neb. (AP)

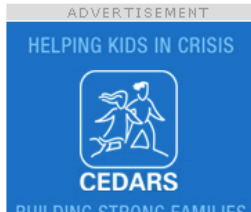
Two more former bank executives have been sentenced to federal prison for their roles in a fraud scheme that led to Lincoln-based bank's collapse.

Former TierOne president James Laphen was sentenced Thursday to 34 months in prison after he pleaded guilty to charges of mail and wire fraud. Don Langford, the bank's former chief credit officer, was also sentenced Thursday to 21 months in prison after pleading guilty to similar charges.

Both men testified against their former boss and CEO Gilbert Lundstrom, who was sentenced Wednesday to 11 years in prison after being convicted of 12 counts related to the 2010 failure of the bank.

Prosecutors have said that Lundstrom and bank officers hid losses from regulators and shareholders.

Regulators took over TierOne in 2010.



2022 – Grand Island Independent

State senator steps down blaming aide's "modesty" as he's caught taking photos of her with consent

Political turmoil is developing in [Nebraska](#)'s state capitol after a female aide to a [GOP](#) state senator discovered photos of herself she described as objectifying on her boss's laptop that were taken without her [consent](#).

Multiple news outlets reported that Mike Groene of the Nebraska Senate announced that he would resign following the discovery;

The Ideal Banking Leader
Group Activity – Handout



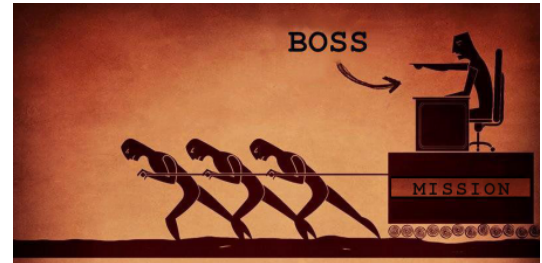
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“When you were made a leader you weren’t given a crown, you were given the responsibility to bring out the best in others.” - Jack Welch, Former CEO of GE



Don’t put yourself on a pedestal

You don’t know everything. You do know that don’t you.



It means you listen with intent to learn rather than show what you know. We need to be coachable.
Source: Inspireyourpeople.com

Perception is Key!



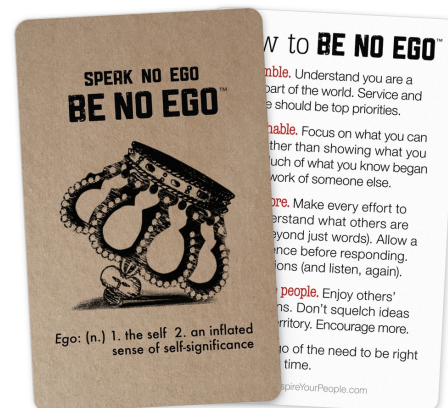
Equipping ourselves with everything we need to take the wheel and drive

Or

Realizing when we should let someone else land the plane

People trust what they SEE over what they HEAR

1. **Humble**
2. **Teachable**
3. **Listen More**
4. **Appreciate People**
5. **Relax**



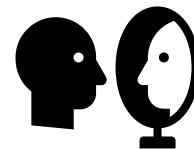
What is Emotional Intelligence?

Your ability to recognize and understand emotions in yourself and others, and your ability to use this awareness to manage your behavior and relationships.

Intensity of Feelings	Happy	Sad	Angry	Afraid	Ashamed
High					
Medium					
Low					

Source: Emotional Intelligence 2.0

IQ and EQ: A Comparison

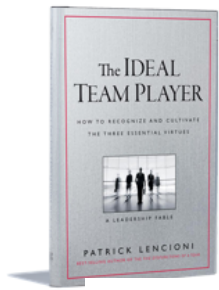


Ability to feel	
Measure cognitive	
Gets through school	
Convince by reasons & emotions	
Rely solely on cognitive skills	
More to do with success & happiness	
Refers to knowing what	
Not possible to raise	
Can be learned	
Is the heart	

Ability to think	
Measures emotional	
Gets through life	
Convince by facts alone	
Rely on both	
Less to do with success and happiness	
Refers to how and why	
Possible to raise	
Cannot be learned	
Is the brain	

Low Emotional Intelligence	High Emotional Intelligence
Aggressive Demanding Egotistical Bossy Confrontational	Assertive Ambitious Driving Strong-Willed Decisive
Easily Distracted Glib Selfish Poor Listener Impulsive	Warm Enthusiastic Sociable Charming Persuasive
Resistant to Change Passive Un-Responsive Slow Stubborn	Patient Stable Predictable Consistent Good Listener
Critical Picky Fussy Hard to Please Perfectionistic	Detailed Careful Meticulous Systematic Neat





Ideal Team Player – Patrick Lencioni
The concept: An ideal team player embodies three virtues: humility, hunger and people smarts. The power this combination yields drastically accelerates and improves the process of building high-performing teams.

Humble

Ideal team players are humble. They lack excessive ego or concerns about status. Humble people are quick to point out the contributions of others and slow to seek attention for their own. They share credit, emphasize team over self and define success collectively rather than individually.

Hungry

Ideal team players are hungry. They are always looking for more. More things to do. More to learn. More responsibility to take on. Hungry people almost never have to be pushed by a manager to work harder because they are self-motivated and diligent. They are constantly thinking about the next step and the next opportunity.

Smart

Ideal team players are smart. They have common sense about people. Smart people tend to know what is happening in a group situation and how to deal with others in the most effective way. They have good judgment and intuition around the subtleties of group dynamics and the impact of their words and actions.

Humble, Hungry and Smart—The Three Virtues Combined

What makes humble, hungry and smart powerful and unique is not the individual attributes themselves, but rather the required combination of all three. If even one is missing in a team member, teamwork becomes significantly more difficult, and sometimes not possible.



The Source for Organizational Health
www.tablegroup.com

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True Humility is not thinking less of yourself: it is thinking of yourself less

- C.S. Lewis

Tablegroup.com

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Closing Thoughts

- Continue your education
- Continue networking
- Be intentional about bringing something back to your bank or to ask “how” we do this
- Get involved in your community/industry
- Admit when you have made a mistake or need help
- Be a good team player
- Always be humble and kind

Thank you!

If I can be of further assistance don't hesitate to contact me –
Your training and development partner

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