

Community Bank Director

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CASE STUDY

Customers Bank Pursues a Targeted Strategy in Pennsylvania

By Kelly Pike

Growth is an understatement when describing Customers Bank in Phoenixville, Pa. In 2009, new management took over the then-troubled \$270 million-asset community bank. Five years later, Customers Bank has been transformed into a \$6.9 billion-asset commercial bank—almost entirely through organic growth. Its management accomplished this extraordinary growth by embracing a “branch lite” model where today 500 employees serve three customer segments in just 18 offices in the Philadelphia, New York and Boston areas, says Jay Sidhu, chairman and CEO of the bank.

In fact, Customers Bank ranks, as measured by total assets, as among the 10 fastest growing ICBA member banks over the past decade, a feat the bank has achieved with a tightly focused business strategy that relies on a relatively modest network of only 18 retail offices. Notably, the bank has no call center and no departments, just teams. Instead, each customer is assigned a pri-

vate concierge banker who is the single point of contact for everything—whether it’s a commercial loan or a problem with a debit card.

“The client makes one call and bankers take care of everything,” says Sidhu, explaining of the bank’s high-touch, high-tech model, which requires advanced infrastructure planning in areas like management, technology, expertise and risk management and fraud control systems.

Customers Bank was born during the recent Wall Street recession. Its management knew the bank had to differentiate itself, but it also sought to limit risk. That’s why 95 percent of the bank’s revenue comes from three proven markets: small private businesses with strong balance sheets with less than \$5 million in assets; solid mortgage companies that survived the crisis and have \$5 million to \$10 million in equity; and high net-worth families.

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LENDING

Home Equity Lending is Making a Comeback

By Howard Schneider

Home equity lending practices for MainSource Bank in Greensburg, Ind., never changed after the turmoil of the last real estate crisis. The business line kept humming along for the community bank, without pain or drama.

“We stuck with a consistent program through the economic downturn,” explains Chris Harrison, the bank’s executive vice president and chief consumer banking officer. “We’ve never been ultra-aggressive or ultra-conservative.”

A \$3.2 billion-asset community bank, MainSource Bank aims its promotions for home equity lines of credit at existing customers. Terms on its HELOCs can range from three years to a decade, and it offers both interest-only and amortizing options. Its loan-to-value ratios for HELOCs go up to 89.9 percent, and its average draws on available credit are less than 55 percent.

Recovering real estate prices nationally makes

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STRATEGIC PLANNING

New Views of an Old Process

By Cathy Ghiglieri

Strategic planning has always been an important function of the board of directors, but it takes on an even more critical role when under the regulatory microscope. The Office of the Comptroller of the Currency announced that, for the remainder of 2015, it will focus on strategic planning and execution, including the adequacy of strategic, capital and succession planning.

The strategic planning process can take many forms, such as the traditional strengths, weaknesses, opportunities and threats analysis (SWOT), but ultimately the board of directors has to decide where it wants the bank to go in the next five years and how the bank is going to get there. Regardless of the specific strategic planning process used, the board will have to analyze the internal and external factors that will impact the goals it is setting. The following are some new factors to consider when developing a strategic plan.

Risk Culture: The board should use the strategic plan to articulate the bank's risk culture to the staff. Is the board generally risk adverse or is it willing to take risks as long as they are monitored and controlled?

Enterprise Risk Management: Most banks should have started the process of quantifying risk across their entire institution. The results should be factored into the strategic planning process and should identify where excessive risk has been taken or where excessive risk could be taken because of lax controls. The board may decide to reduce the risk profile in certain areas after having the benefit of the results of the enterprise risk management review.

Capital: Basel III made significant changes to the capital rules as of Jan. 1, 2015, which requires banks to hold more capital against their assets, including a phased-in capital conservation buffer of 2.5 percent. Banks must also track their Common Equity Tier 1 Capital (CET1), Tier 1 Capital, Total Capital and their Leverage ratios. Trust preferred securities are being phased out as capital, which may require new injections of capital.

Succession Planning: Many board members and executive management made a commitment to stay at their bank through the economic downturn and now are looking to retire. Management and board succession are particularly important in strategic planning.

Regulatory Compliance: The cost of compliance with banking laws and regulations can affect a bank's profitability more than almost any other item. The following deserve particular attention in how they will affect the bank: (1) Fair housing laws, including the recent U.S. Supreme Court opinion upholding the disparate impact theory of liability, and how the bank prices its loans, (2) Bank Secrecy Act compliance, and (3) TILA-RESPA Integrated Disclosure (TRID) rule implementation and the impact to the new mortgage business.

Interest Rate Risk: Interest rates have been low for many years and the general consensus is that interest rates are going to rise. Strategic planning should consider the impact rising interest rates would have on the bank's net interest margin and on overall profitability.

Data Security and Cyber Terrorism: Community banks have increasingly become the targets of cyber terrorism, including everything from denial-of-service attacks to unauthorized wire transfers. Data security and the thwarting of cyber terrorism are timely topics for strategic planning.

Changing Marketplace: Generation Y's or millennials' dependence on mobile devices, Internet products and social media are changing the way banks market their products to customers.

Strategic planning is critical to a bank's success, not only because the regulators are giving it more scrutiny, but because it provides the board of directors with a means to set realistic goals based on a desired risk culture. Including the topics discussed above in strategic planning will help bring both the goals and the risk culture into sharp focus.

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