

Managing Your Commercial Loan Portfolio Through Challenging Times: A Live Webinar Presented by Austin Associates, LLC

Presenters:

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May 25, 2011



Austin Associates' Lines of Business

- **Investment Banking**
- **Strategic Consulting**
- **Financial Management**
- **Insurance and Financial Services**
- **Technology Solutions**
- **Risk Management and Compliance**

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Today's Presentation

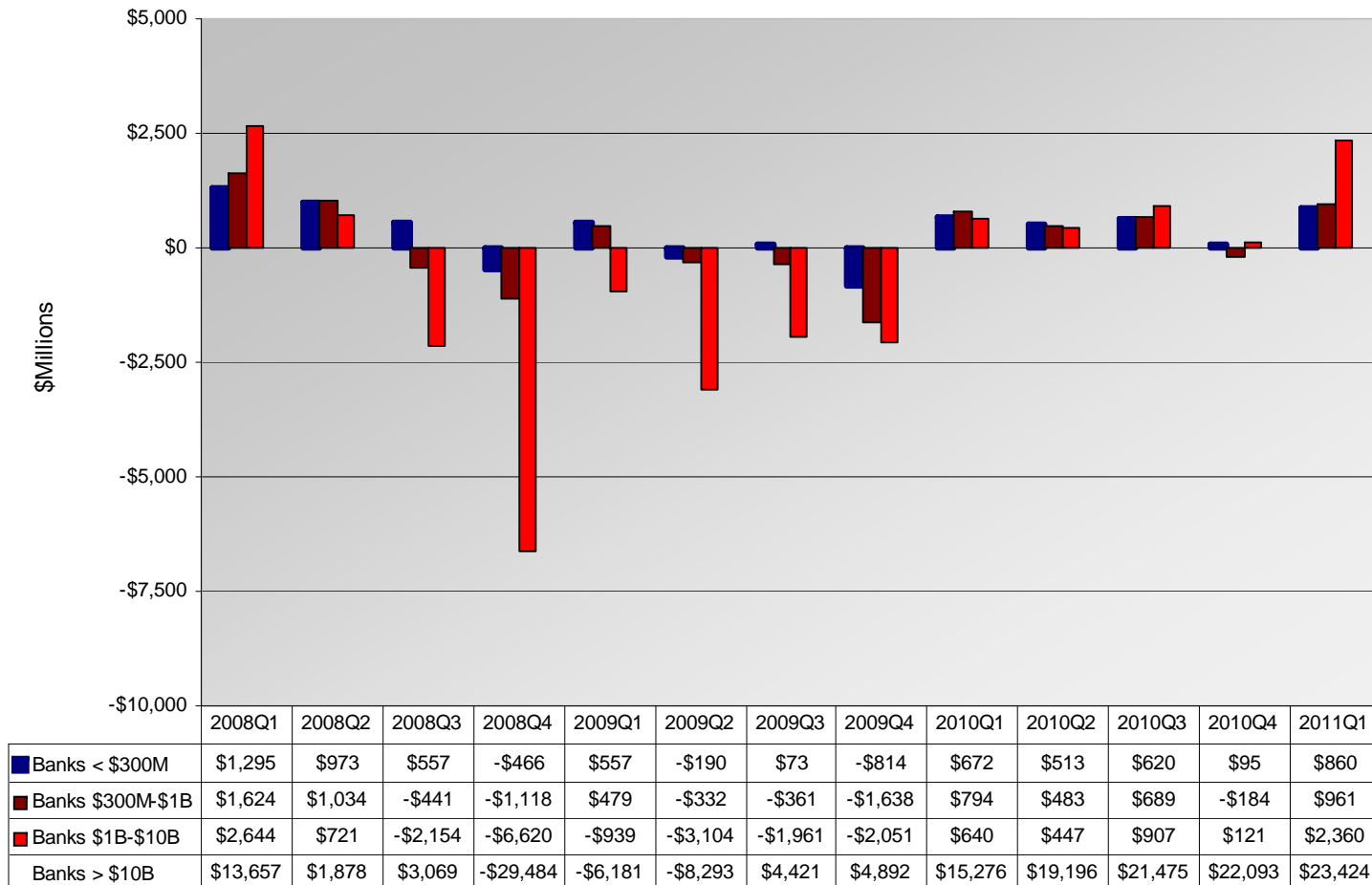
- **Part I – Market Trends Update - Industry Trends Affecting Commercial Loan Performance**
- **Part II – Managing the Existing Commercial Loan Portfolio**

Market Update

- **Industry Financial Performance**
- **Growth / Decline in Commercial Loan Balances**
- **Trend in Loan Yields**
- **Loan Renewals & Commitments**
- **Provision for Loan Losses**
- **Net Charge Offs**
- **Past Dues & Non Accruals**
- **Reserve Levels**

Industry Financial Performance

Net Income

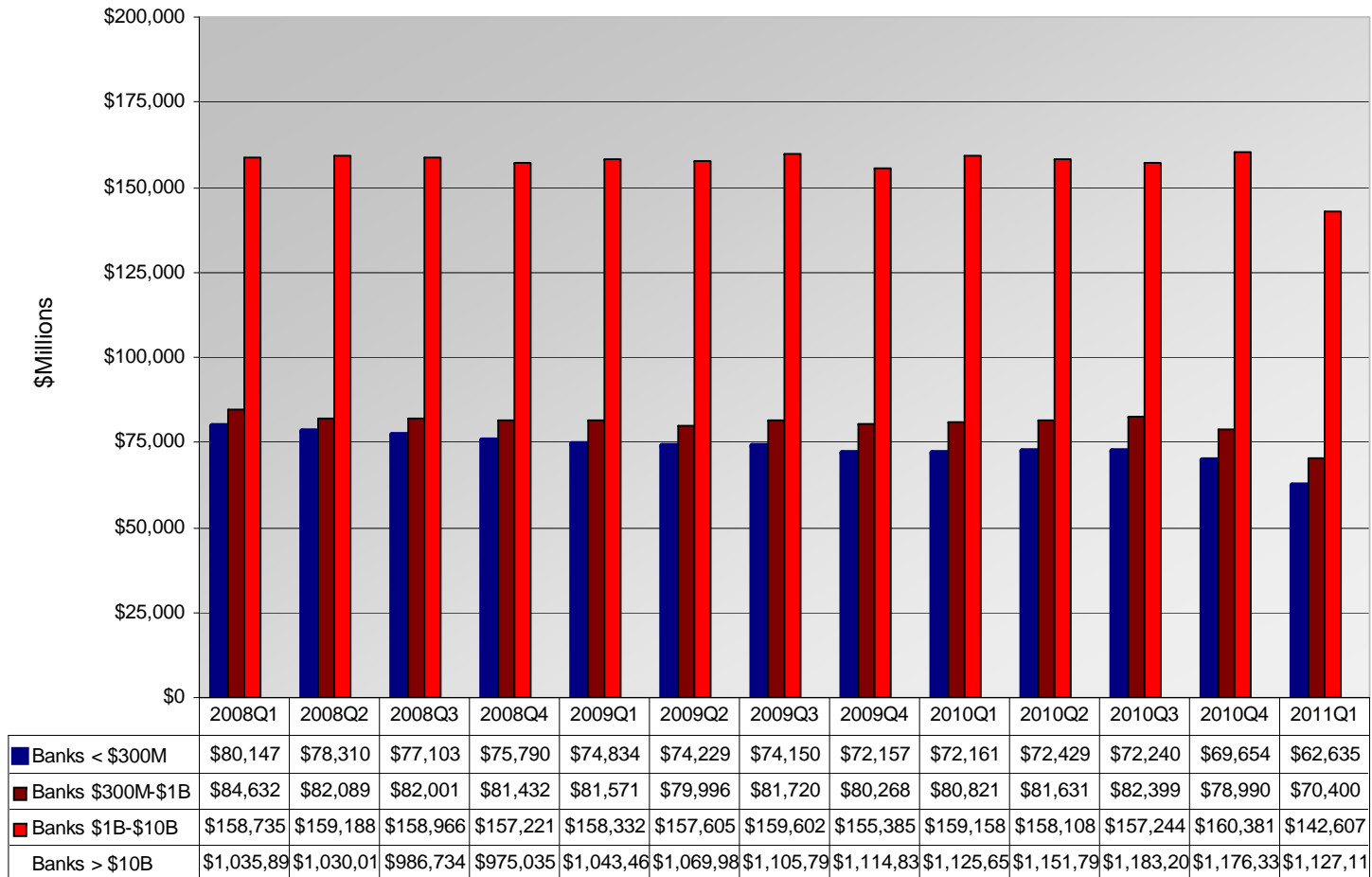


Source: SNL Financial

Note: Aggregate for all US banks

Industry Financial Performance

Total Equity Capital

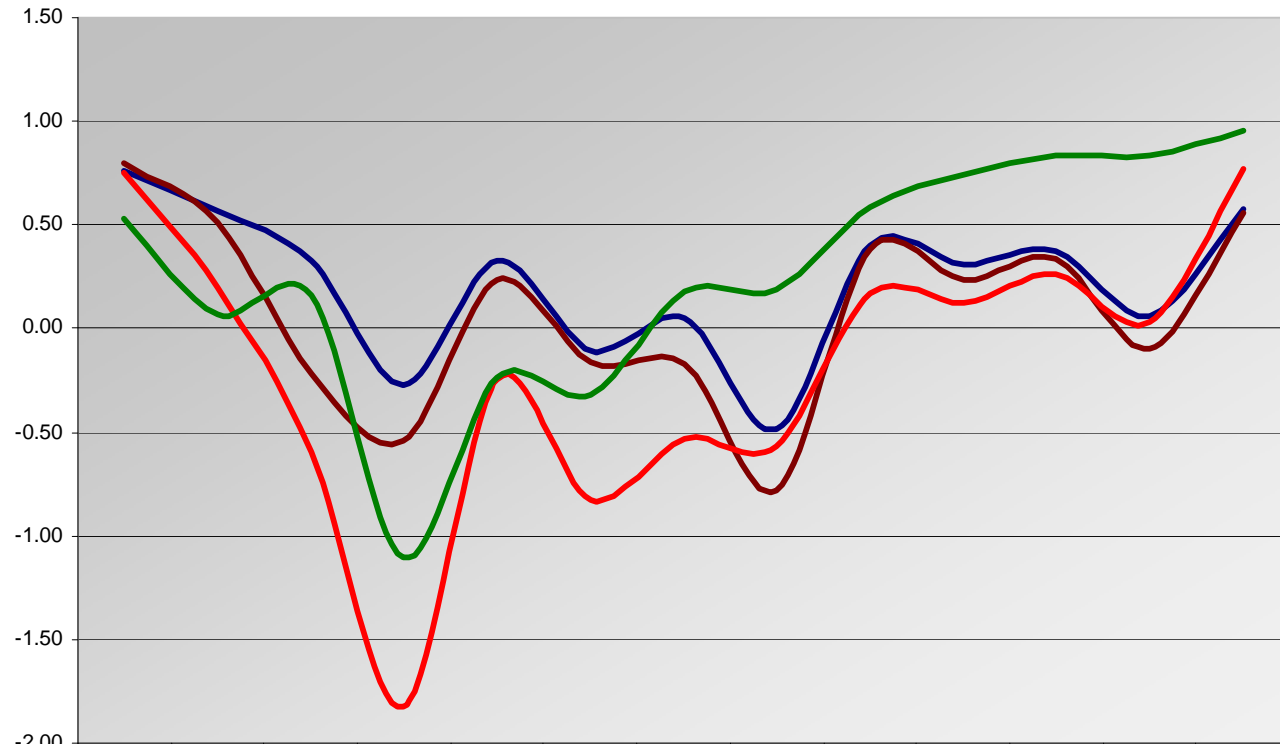


Source: SNL Financial

Note: Aggregate for all US banks

Industry Financial Performance

Return on Avg Assets



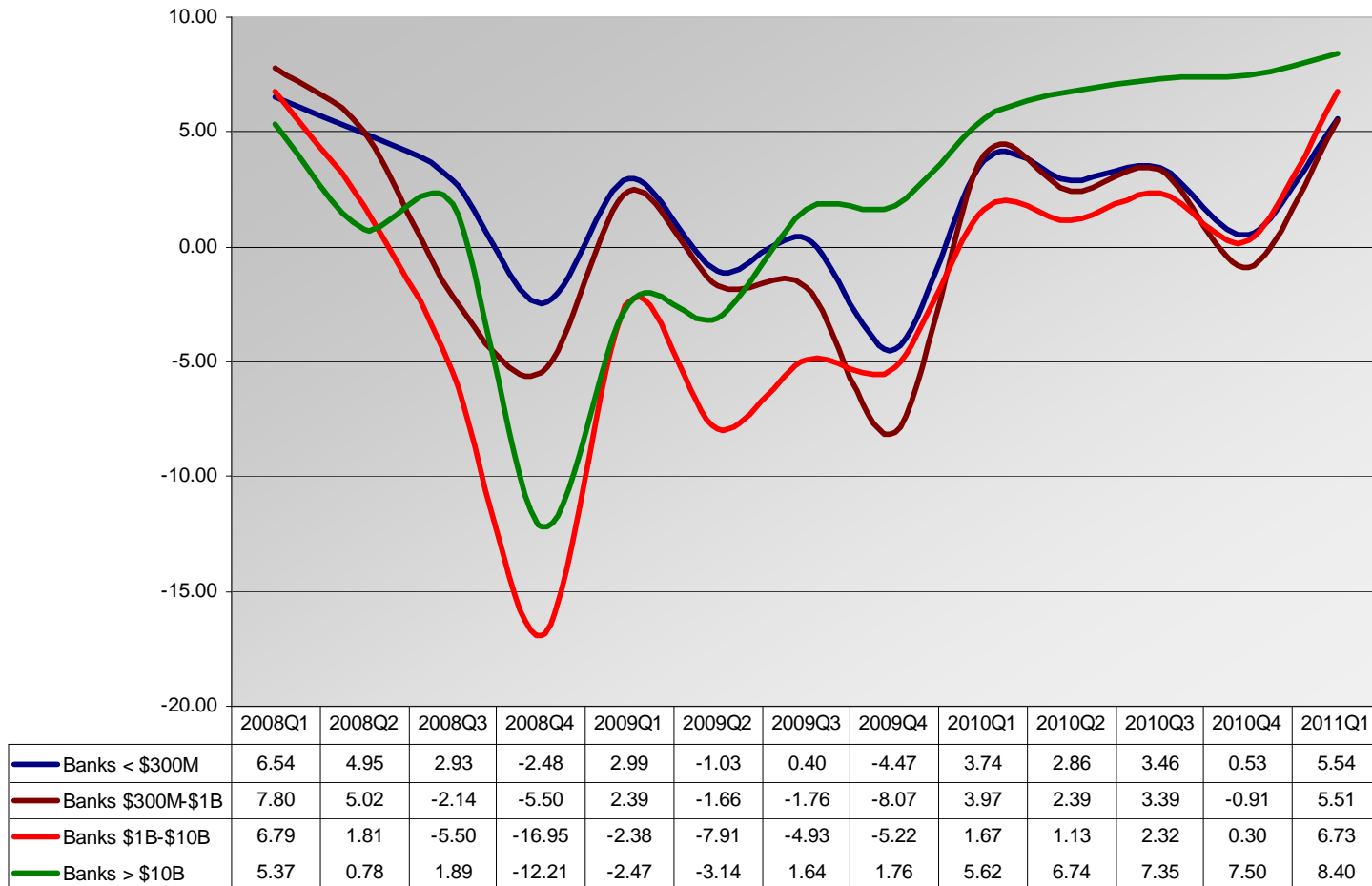
	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1
— Banks < \$300M	0.77	0.57	0.33	-0.27	0.33	-0.11	0.05	-0.48	0.40	0.31	0.38	0.06	0.58
— Banks \$300M-\$1B	0.80	0.51	-0.21	-0.54	0.23	-0.16	-0.17	-0.78	0.39	0.24	0.34	-0.09	0.56
— Banks \$1B-\$10B	0.75	0.20	-0.59	-1.82	-0.25	-0.82	-0.53	-0.56	0.17	0.12	0.26	0.03	0.77
— Banks > \$10B	0.53	0.07	0.16	-1.10	-0.23	-0.32	0.18	0.19	0.58	0.74	0.83	0.84	0.95

Source: SNL Financial

Note: Aggregate for all US banks

Industry Financial Performance

Return on Equity



Source: SNL Financial

Note: Aggregate for all US banks

ROE by Product Type

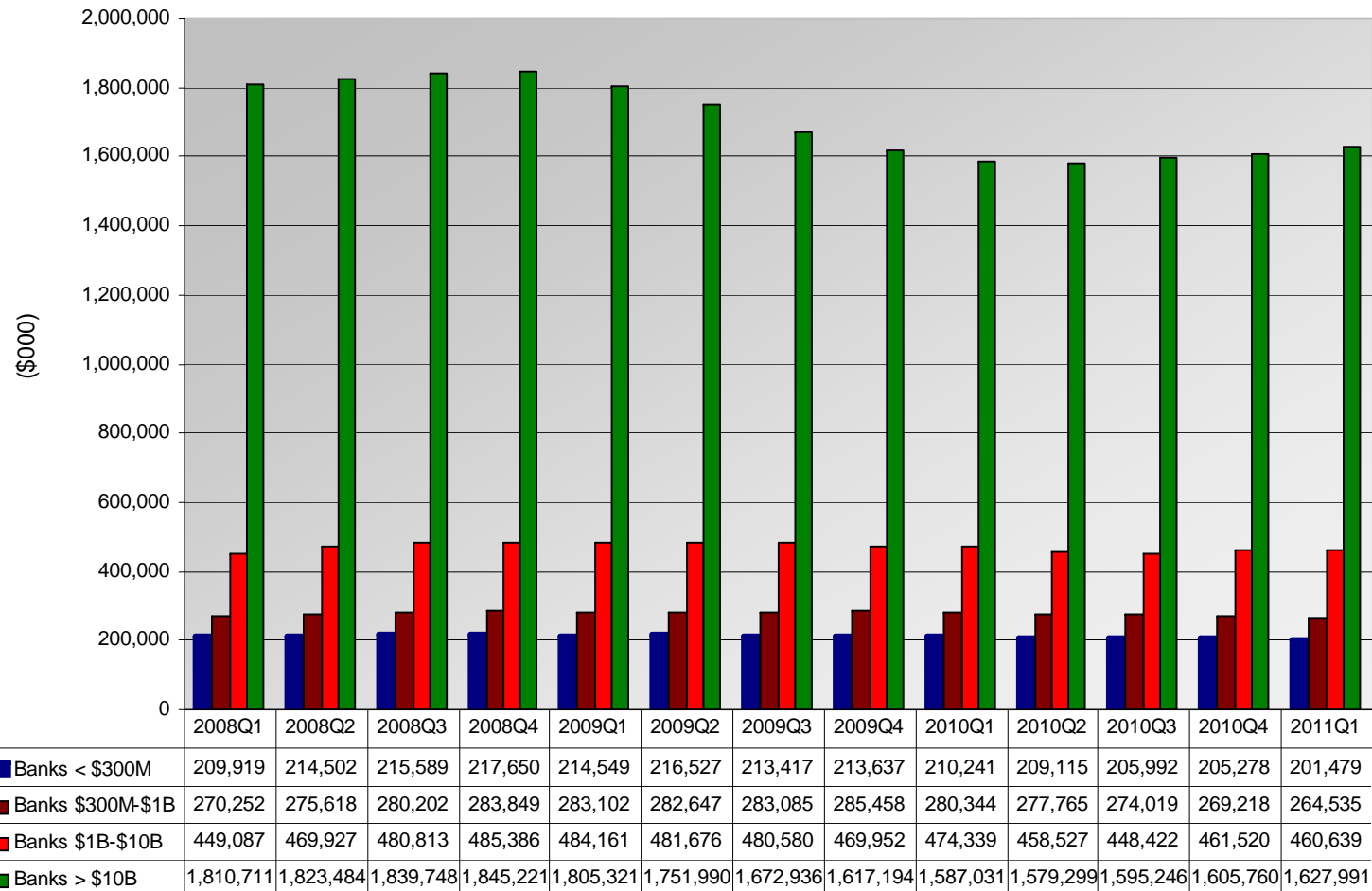
Three Example Institutions

(Actual Results for 12/31/2010)

<u>Institution</u>	<u>Bank Wide Average ROE</u>	<u>Commercial Loans ROE</u> <small>(100% Risk Weighted)</small>	<u>Mortgage Loans ROE</u> <small>(50% Risk Weighted)</small>	<u>Core Deposits ROE</u>	<u>CD Products ROE</u>	<u>Investment Portfolio ROE</u>
\$250 M Community Bank	8.50%	17.22%	14.74%	34.82%	(-82.36%)	(-0.50%)
\$800 M Thrift	9.63%	14.02%	5.97%	24.07%	(-135.29%)	5.18%
\$2.8 B Commercial Bank	10.82%	21.22%	7.87%	65.39%	(-118.09%)	3.51%

Industry Financial Performance

Total Commercial Loan Balances

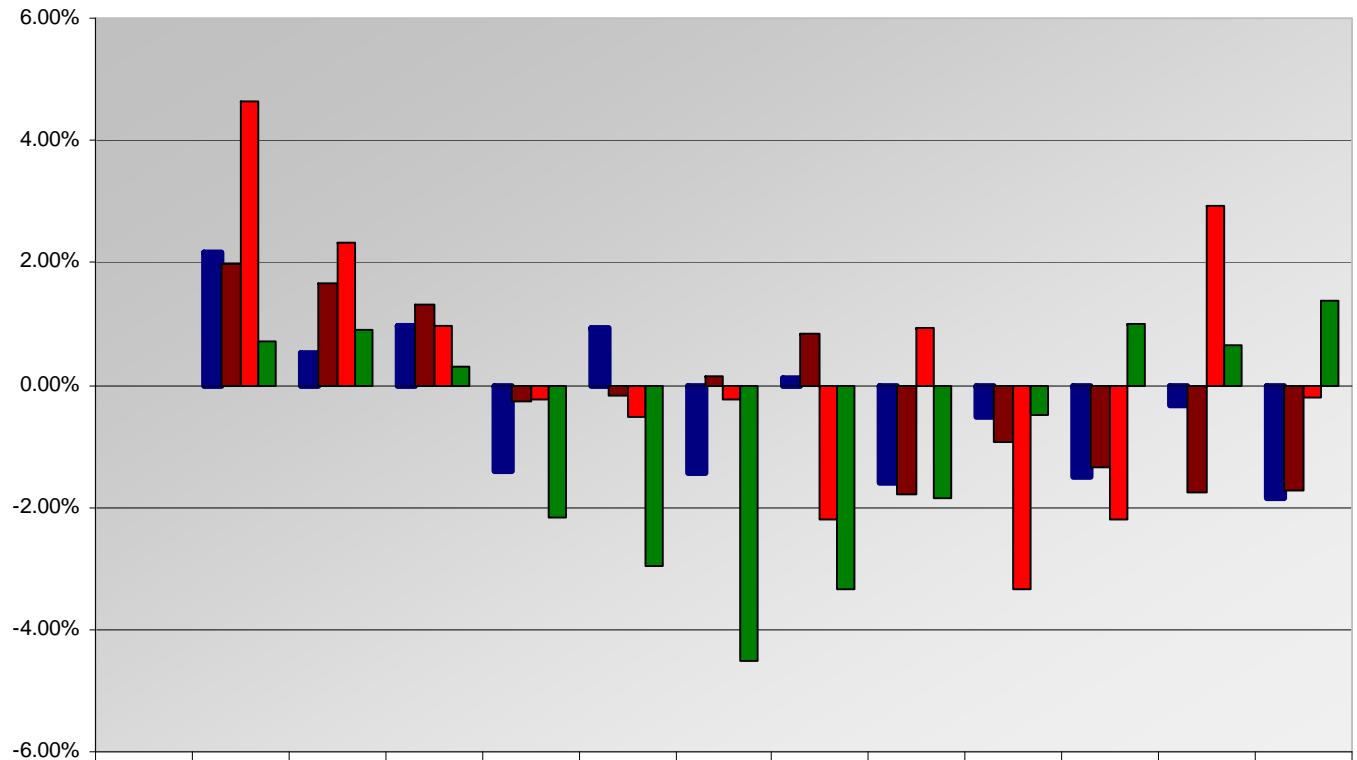


Source: SNL Financial

Note: Aggregate for all US banks

Industry Financial Performance

Percentage Change in Commercial Loan Balances

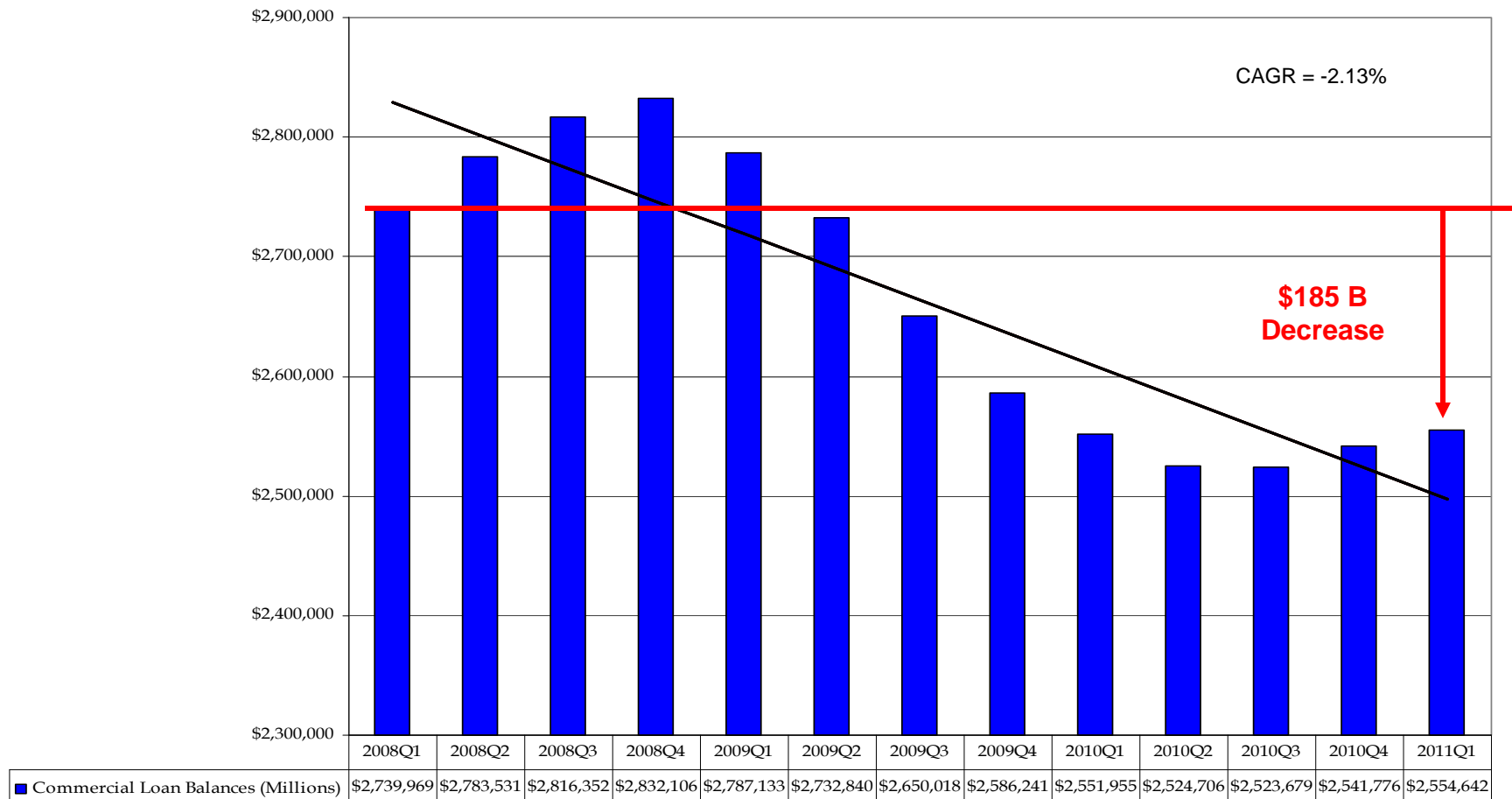


	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1
■ Banks < \$300M	0.00%	2.18%	0.51%	0.96%	-1.42%	0.92%	-1.44%	0.10%	-1.59%	-0.54%	-1.49%	-0.35%	-1.85%
■ Banks \$300M-\$1B	0.00%	1.99%	1.66%	1.30%	-0.26%	-0.16%	0.15%	0.84%	-1.79%	-0.92%	-1.35%	-1.75%	-1.74%
■ Banks \$1B-\$10B	0.00%	4.64%	2.32%	0.95%	-0.25%	-0.51%	-0.23%	-2.21%	0.93%	-3.33%	-2.20%	2.92%	-0.19%
■ Banks > \$10B	0.00%	0.71%	0.89%	0.30%	-2.16%	-2.95%	-4.51%	-3.33%	-1.87%	-0.49%	1.01%	0.66%	1.38%

Source: SNL Financial
 Note: Aggregate for all US banks

Commercial Loan Balances

Entire Industry

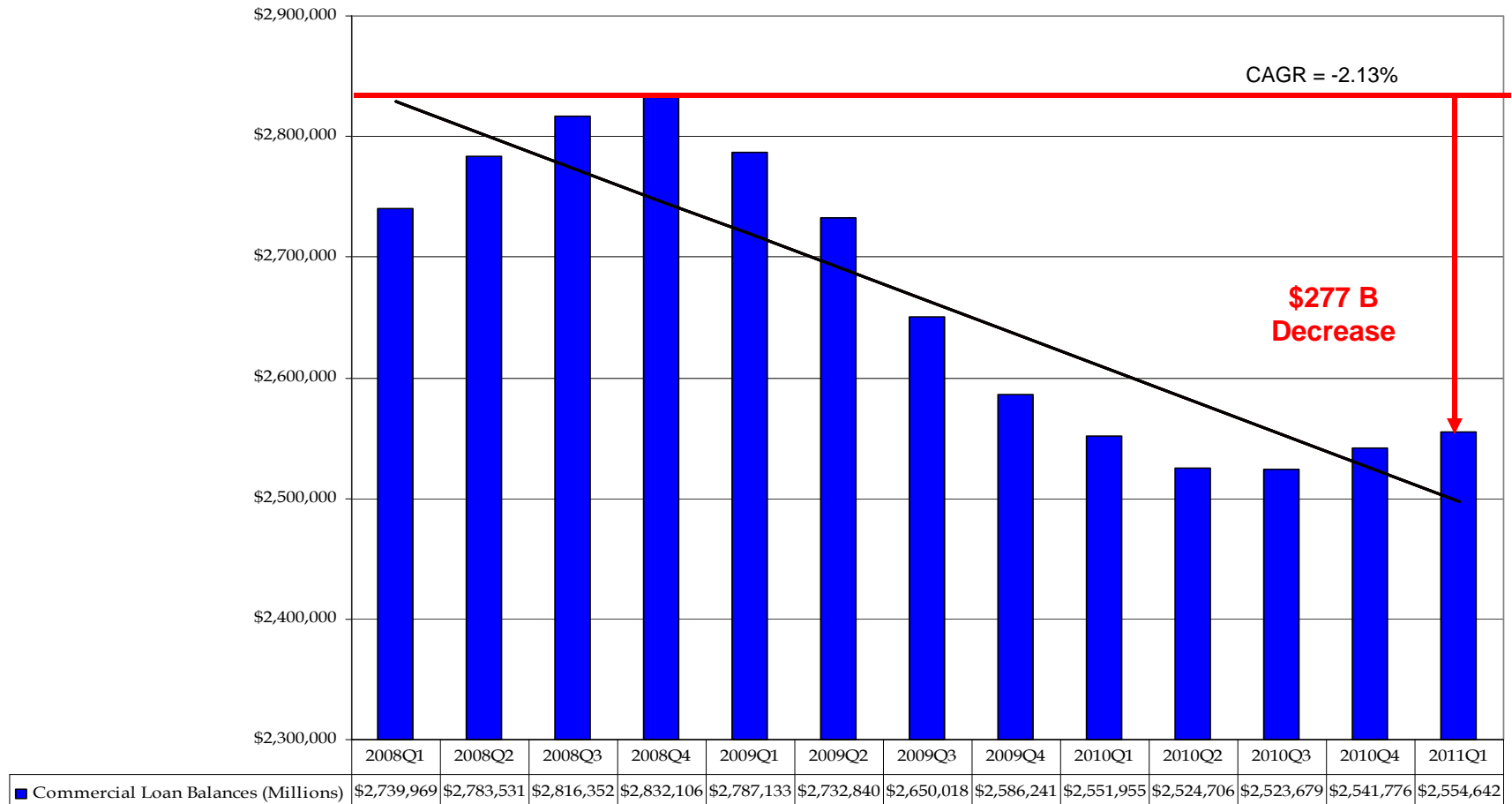


Source: SNL Financial

Note: Aggregate for all US banks

Commercial Loan Balances

Entire Industry

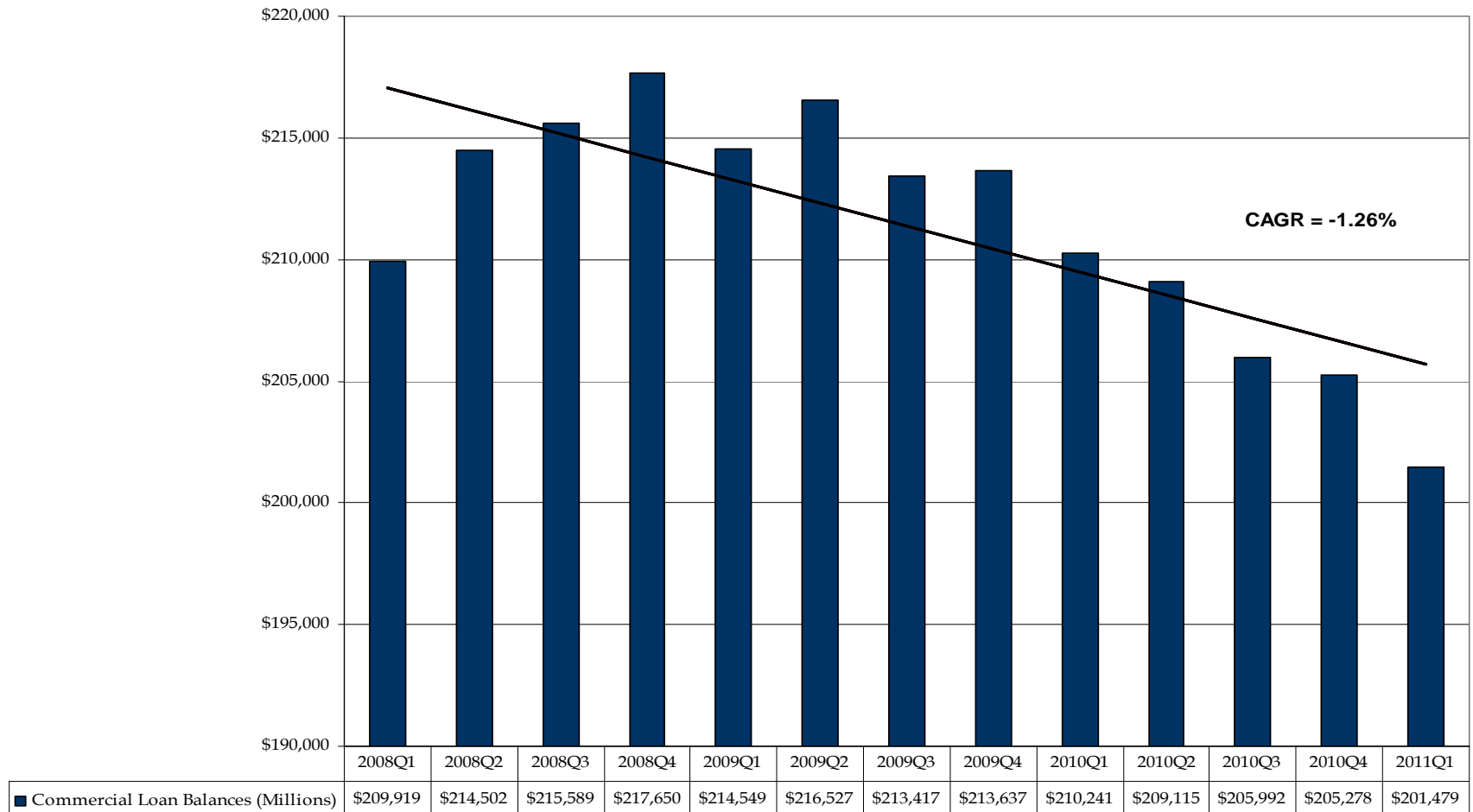


Source: SNL Financial

Note: Aggregate for all US banks

Commercial Loan Balances

Banks < \$300 M in Assets

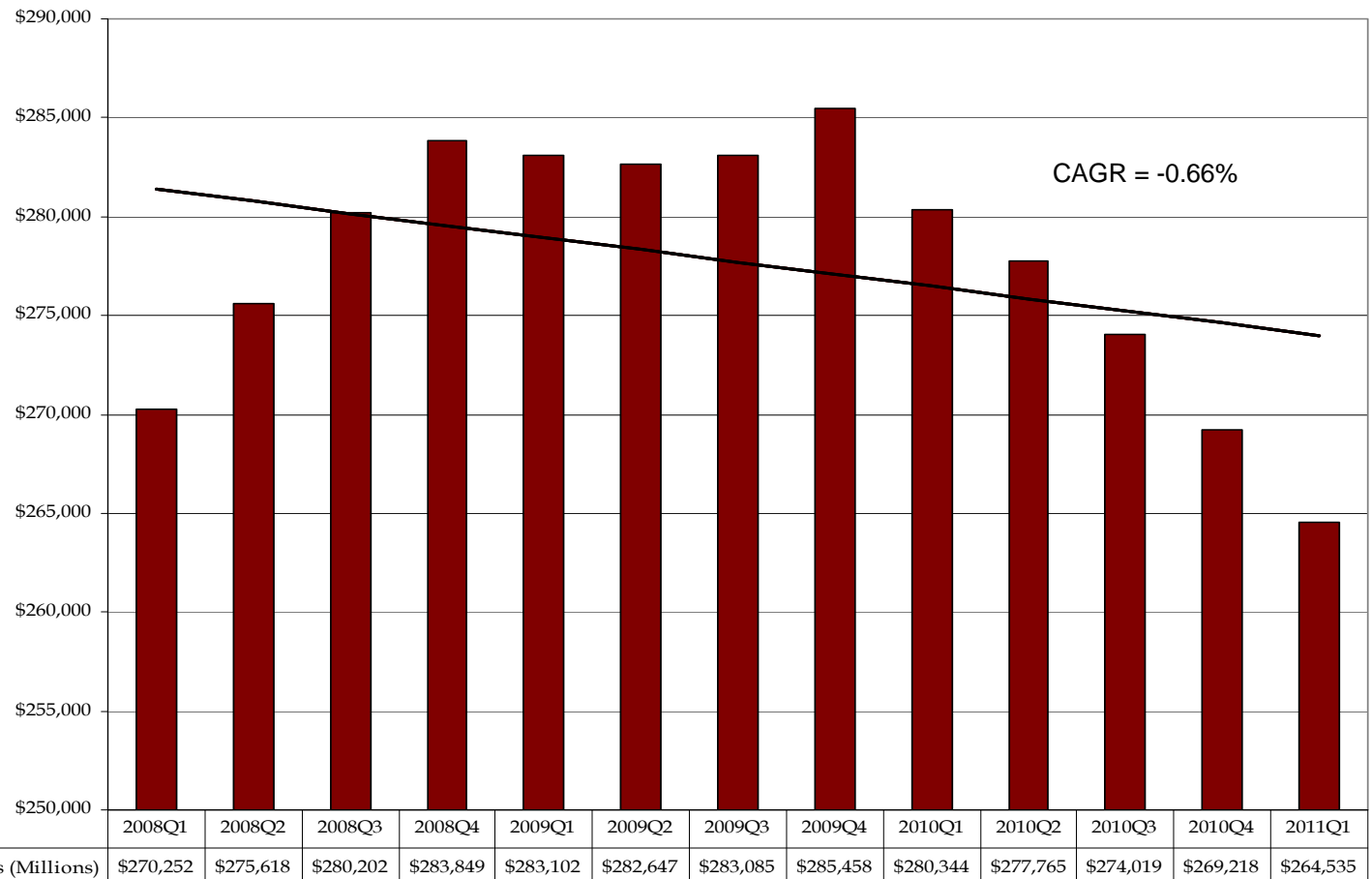


Source: SNL Financial

Note: Aggregate for all US banks

Commercial Loan Balances

Banks \$300 M - \$1 B in Assets

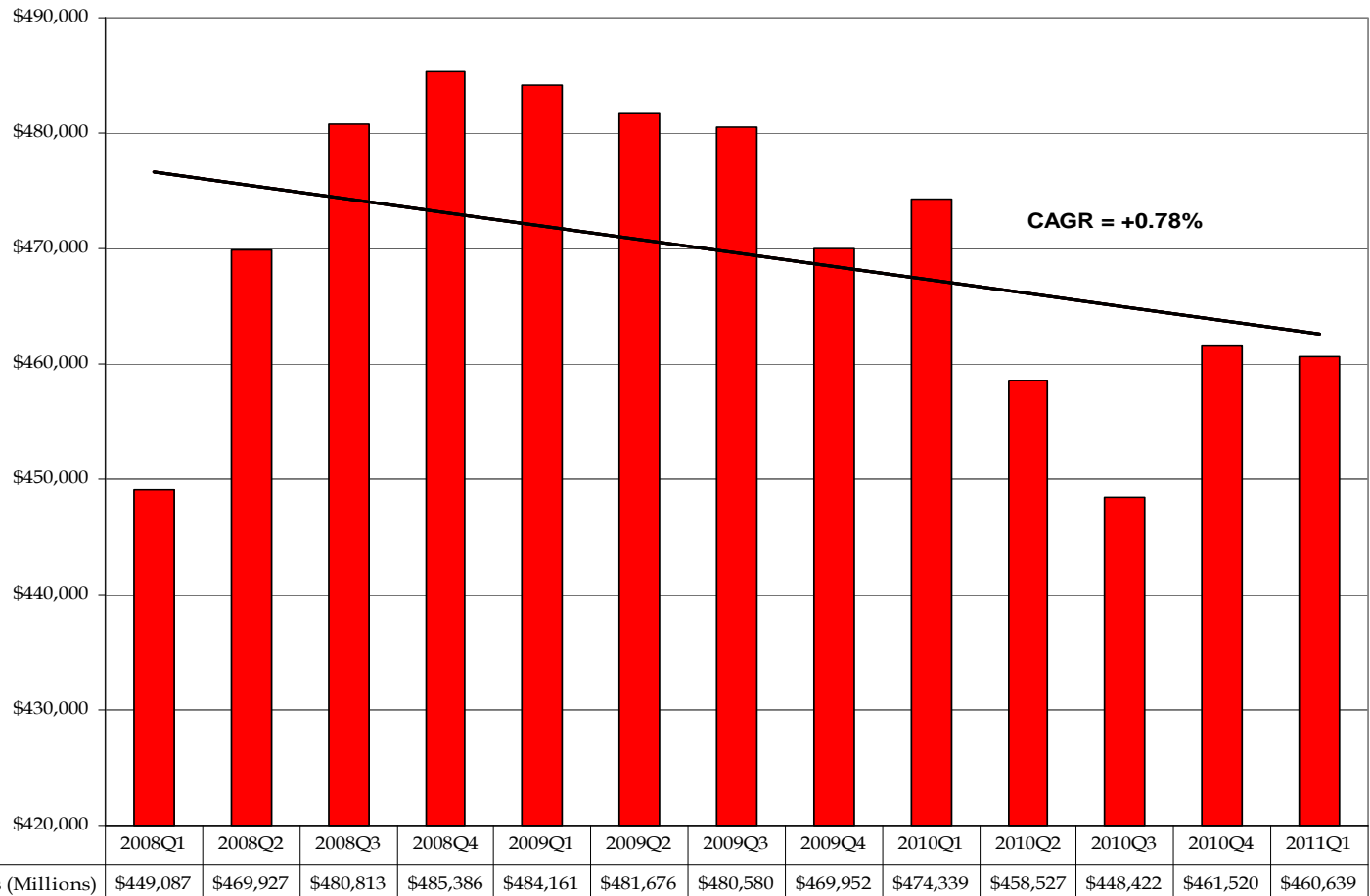


Source: SNL Financial

Note: Aggregate for all US banks

Commercial Loan Balances

Banks \$1 B - \$10 B in Assets

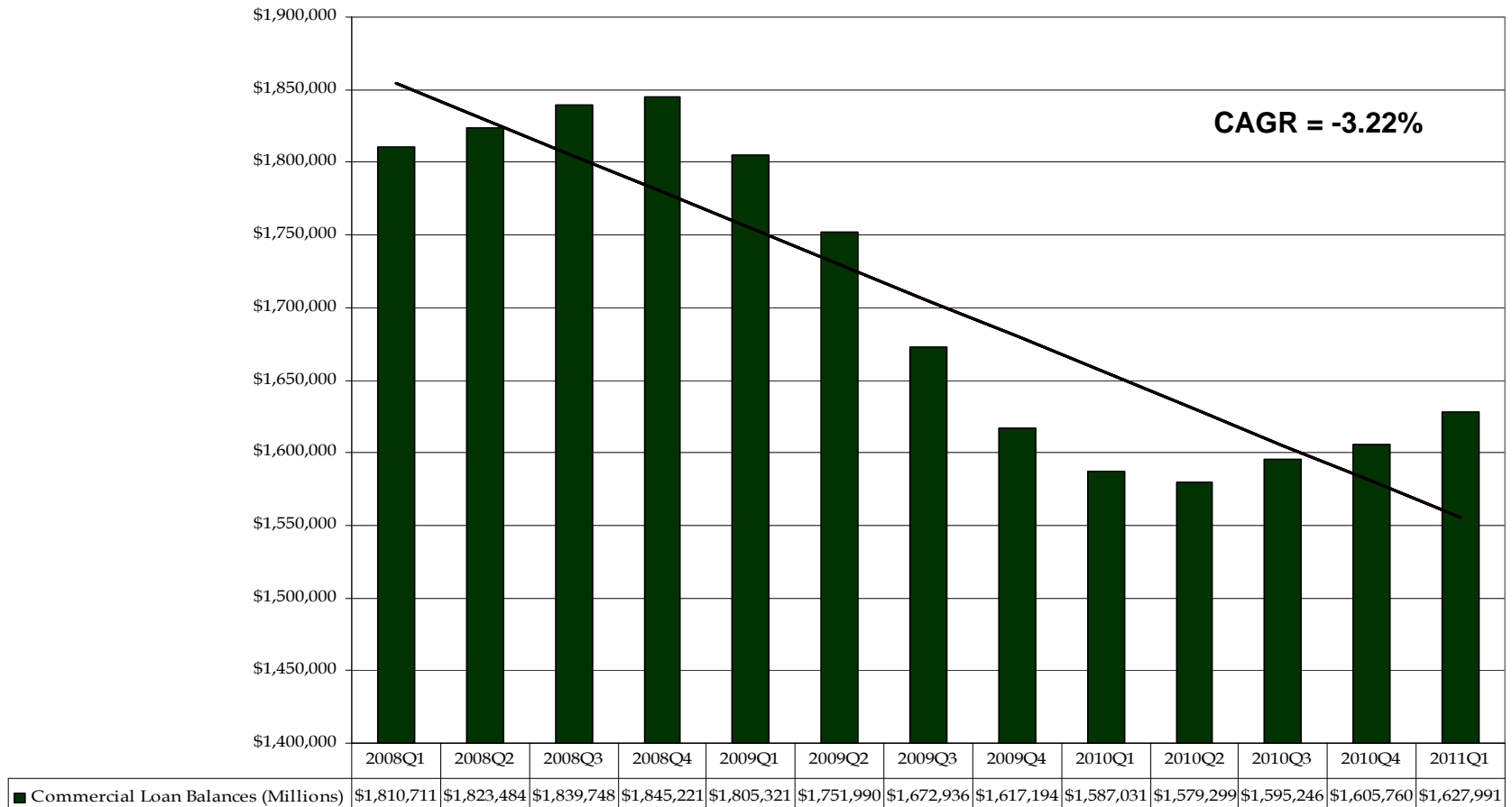


Source: SNL Financial

Note: Aggregate for all US banks

Commercial Loan Balances

Banks > \$10 B in Assets



Source: SNL Financial

Note: Aggregate for all US banks

Loss of Commercial Loan Volume by Segment

(1st Quarter of 2011 vs. 1st Quarter of 2008)

	<u>Amount</u>	<u>%</u>
➤ Small Community Banks < \$300 M	- \$8 B	(4.0%)
➤ Community Banks - \$300 M - \$1 B	- \$5 B	(2.1%)
➤ Larger Community Bank - \$1 – 10 B	+\$11 B	+ 2.4%
➤ Regional / National Banks > \$10 B	<u>- \$183 B</u>	(10.1%)
➤ Entire Industry	- \$185 B	(6.8%)

Loss of Commercial Loan Volume by Segment

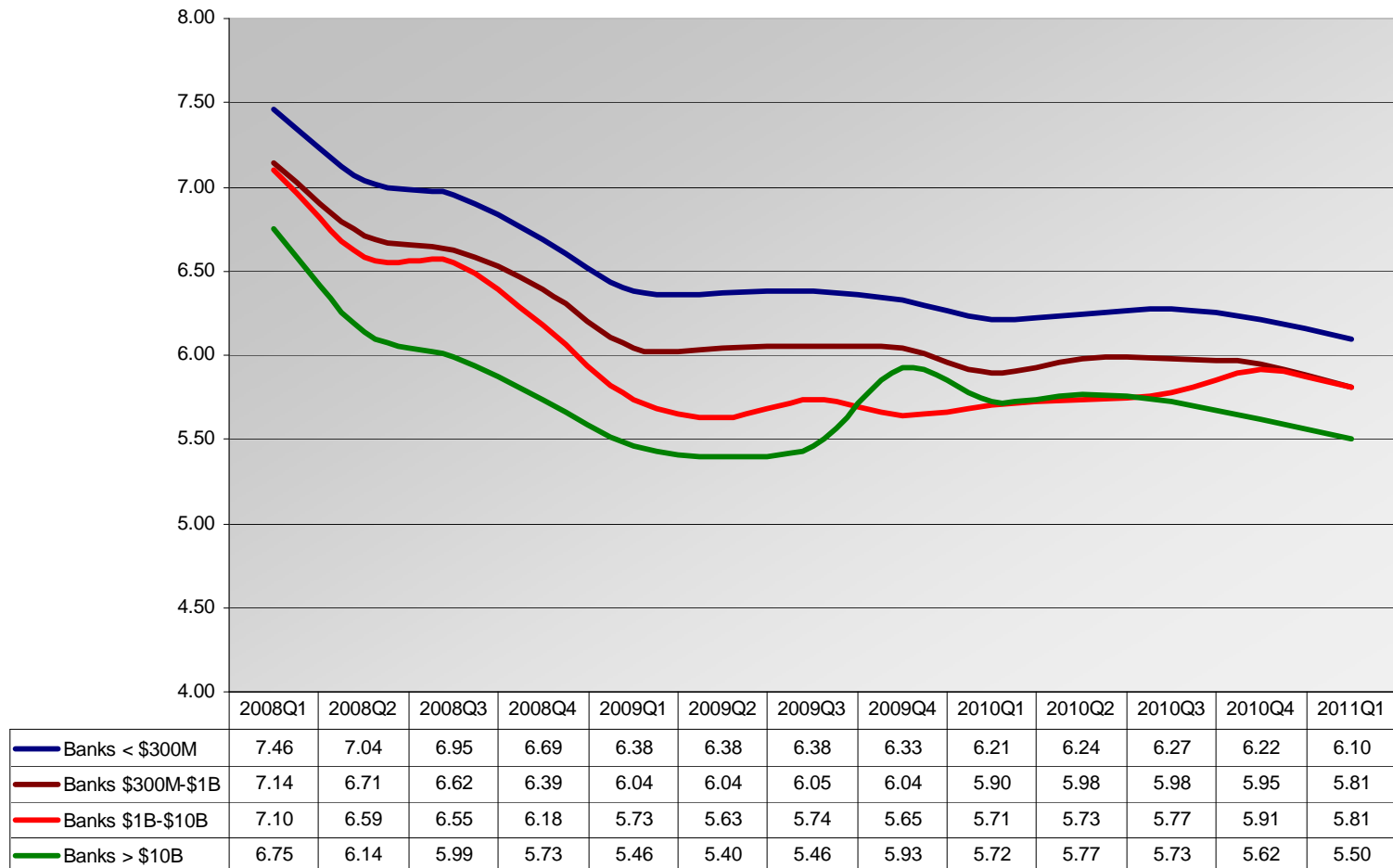
(1st Quarter of 2011 vs. "PEAK")

	<u>Amount</u>	<u>%</u>
➤ Small Community Banks < \$300 M	- \$16 B	(7.4%)
➤ Community Banks - \$300 M - \$1 B	- \$22 B	(7.3%)
➤ Larger Community Bank - \$1 – 10 B	- \$25 B	(5.1%)
➤ Regional / National Banks > \$10 B	- \$217 B	(11.8%)
➤ Entire Industry	- \$277 B*	(9.8%)

* Does not total, as measurement is from "Peak" which occurs in different time frames for the different segments of the Entire Industry.

Market Update

Loan Yields



Source: SNL Financial

Note: Aggregate for all US banks

Market Update

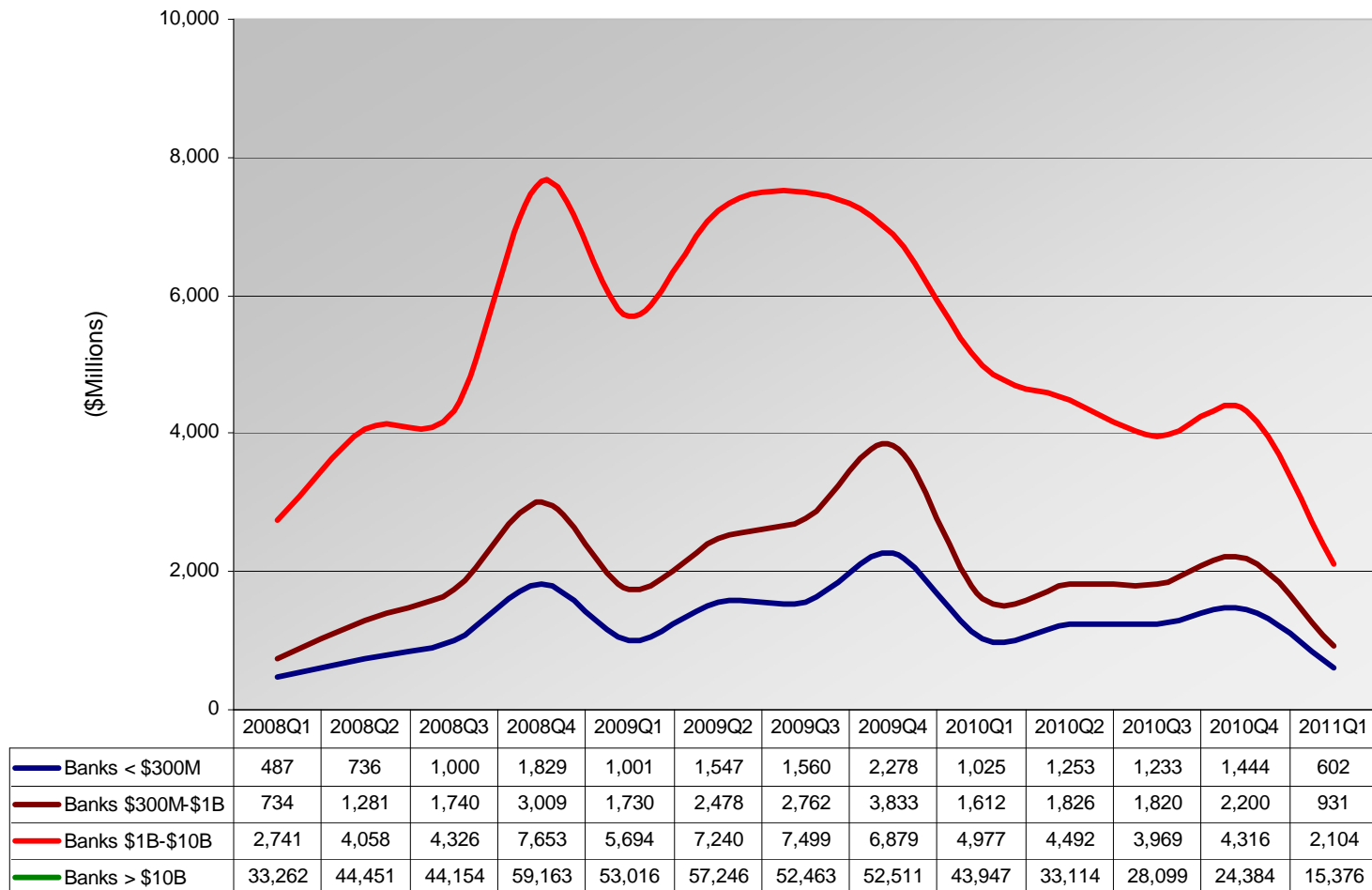
Renewals and New Commitments

Institution	Tot Ass (\$000) as of 3/31/2011	Comm Avg		Renewals (\$000) Last 12 Months	Renewals/ Comm Lns	Commits (\$000) Last 12 Months	Commits/ Comm Lns
		Ln Bal (\$000) as of 3/31/2011					
Bank of America Corporation	2,274,532,000	279,811,879		210,653,839	75.28%	112,851,822	40.33%
JPMorgan Chase & Co.	2,198,161,000	156,165,102		196,824,786	126.04%	165,290,452	105.84%
Citigroup Inc.	1,947,815,000	29,526,247		22,575,210	76.46%	25,413,203	86.07%
Wells Fargo & Company	1,244,666,000	298,485,000		154,638,000	51.81%	93,087,000	31.19%
U.S. Bancorp	311,462,000	97,690,000		65,601,000	67.15%	36,191,000	37.05%
Bank of New York Mellon Corporation	266,444,000	10,440,000		3,227,000	30.91%	1,082,000	10.36%
PNC Financial Services Group, Inc.	259,378,000	82,686,000		55,595,000	67.24%	28,039,000	33.91%
Capital One Financial Corporation	199,300,000	40,723,788		3,514,308	8.63%	6,541,438	16.06%
State Street Corporation	171,796,000	10,854,000		8,400,000	77.39%	5,397,000	49.72%
SunTrust Banks, Inc.	170,794,000	52,188,000		17,775,000	34.06%	19,835,000	38.01%
BB&T Corporation	157,039,000	62,226,100		22,379,334	35.96%	18,466,852	29.68%
Regions Financial Corporation	131,756,000	51,226,850		35,491,700	69.28%	14,277,100	27.87%
KeyCorp	90,438,000	34,333,046		15,793,000	46.00%	11,272,000	32.83%
Comerica Incorporated	55,017,000	36,964,000		31,479,000	85.16%	4,998,000	13.52%
Marshall & Ilsley Corporation	49,640,946	27,025,000		2,475,000	9.16%	1,459,000	5.40%
Wgt-Avg					78.71%		58.73%

Source: SNL Financial

Market Update

Total Provision for Loan Losses

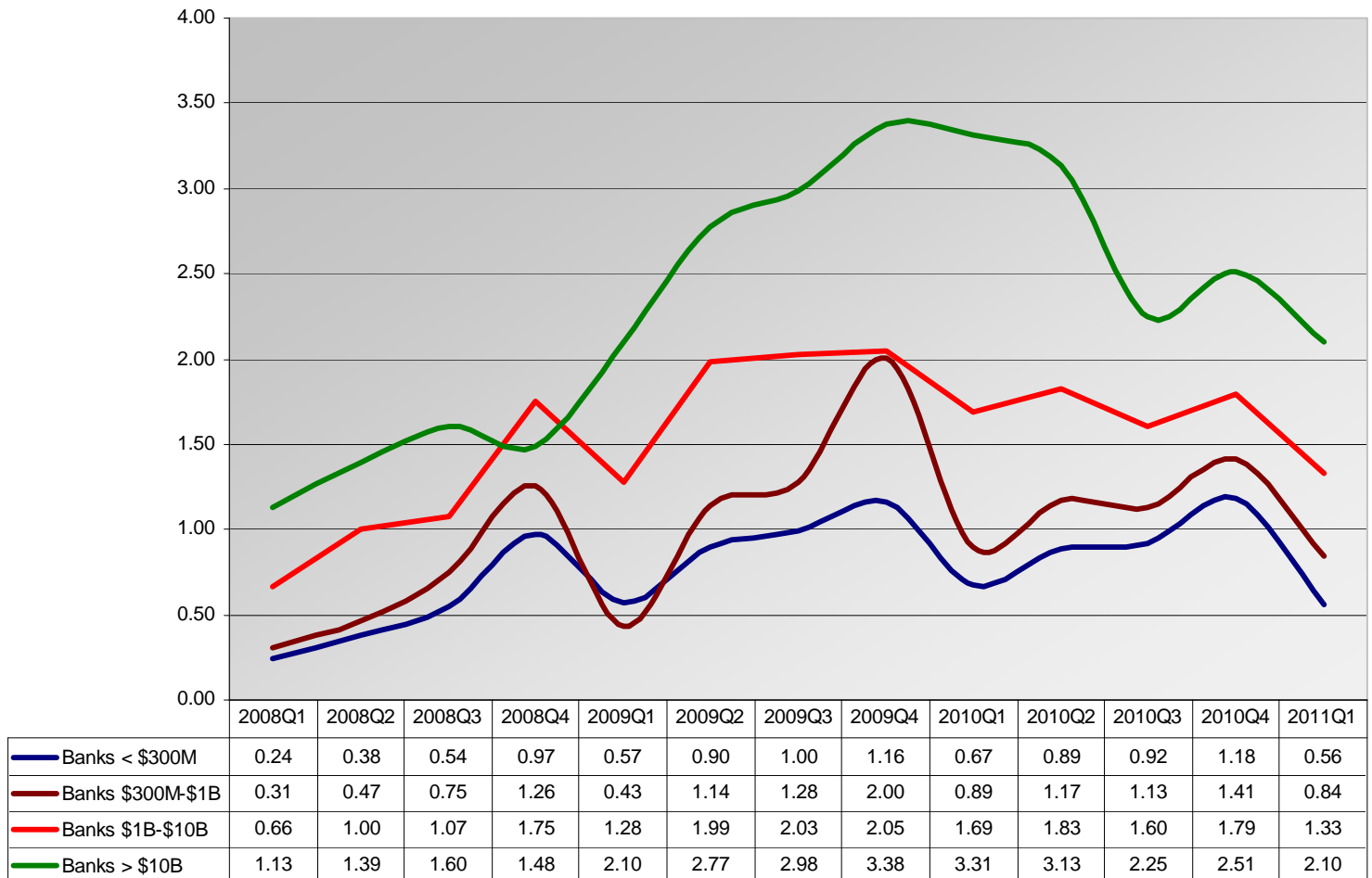


Source: SNL Financial

Note: Aggregate for all US banks

Market Update

Net Charge Offs / Total Loans

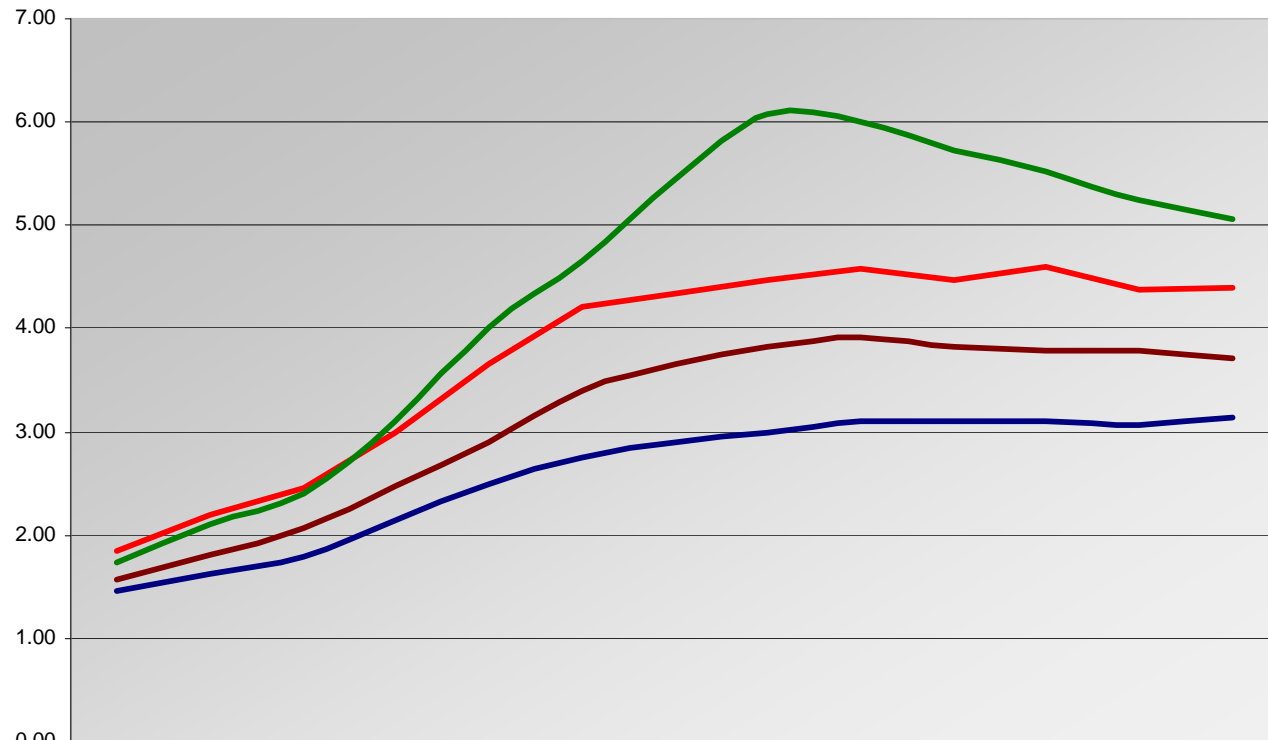


Source: SNL Financial

Note: Aggregate for all US banks

Market Update

(90 Day Past Due + Non-Accrual) / Total Loans



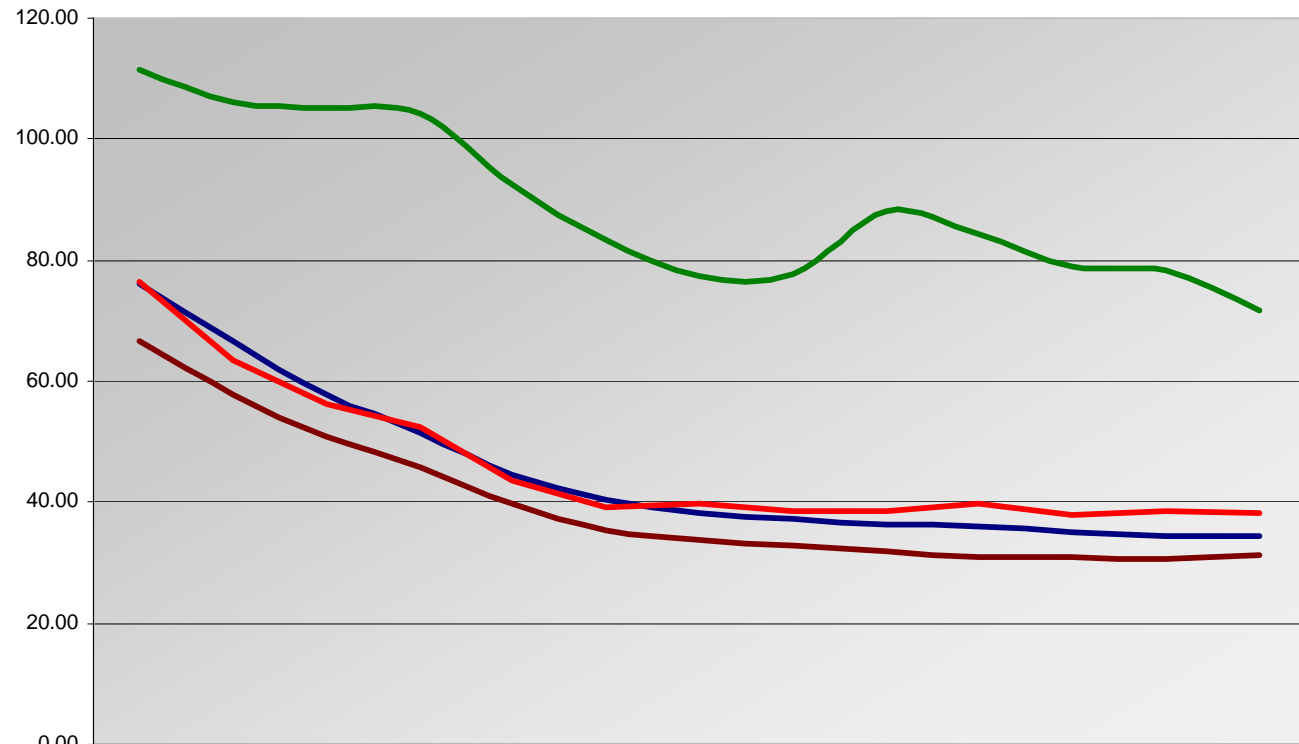
	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1
— Banks < \$300M	1.46	1.62	1.80	2.14	2.49	2.76	2.90	2.99	3.10	3.10	3.10	3.06	3.13
— Banks \$300M-\$1B	1.57	1.80	2.06	2.47	2.91	3.40	3.65	3.83	3.92	3.83	3.78	3.79	3.71
— Banks \$1B-\$10B	1.84	2.20	2.46	2.99	3.65	4.21	4.34	4.48	4.58	4.47	4.60	4.38	4.40
— Banks > \$10B	1.73	2.10	2.39	3.09	4.01	4.65	5.46	6.08	6.01	5.72	5.53	5.24	5.06

Source: SNL Financial

Note: Aggregate for all US banks

Market Update

Reserves / Non-Performing Assets



	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1
Banks < \$300M	76.06	66.64	57.75	51.34	44.48	40.29	38.10	37.22	36.44	35.85	35.01	34.36	34.57
Banks \$300M-\$1B	66.60	57.84	50.94	45.83	39.72	35.40	33.64	32.82	31.87	30.99	30.81	30.66	31.28
Banks \$1B-\$10B	76.27	63.33	56.30	52.28	43.68	39.20	39.87	38.56	38.53	39.84	37.88	38.57	38.36
Banks > \$10B	111.39	106.20	105.24	104.32	92.54	83.23	77.26	77.57	87.96	84.43	79.05	78.35	71.69

Source: SNL Financial

Note: Aggregate for all US banks

Managing Your Commercial Portfolio

- **Characteristics of Profitable Lending Relationships**
- **Tools and Strategies for Managing Your Highly Profitable Relationships**
- **Action Steps to Implement Now**

ROE by Product Type

Three Example Institutions

(Actual Results for 12/31/2010)

<u>Institution</u>	<u>Bank Wide Average ROE</u>	<u>Commercial Loans ROE</u> <small>(100% Risk Weighted)</small>	<u>Mortgage Loans ROE</u> <small>(50% Risk Weighted)</small>	<u>Core Deposits ROE</u>	<u>CD Products ROE</u>	<u>Investment Portfolio ROE</u>
\$250 M Community Bank	8.50%	17.22%	14.74%	34.82%	(-82.36%)	(-0.50%)
\$800 M Thrift	9.63%	14.02%	5.97%	24.07%	(-135.29%)	5.18%
\$2.8 B Commercial Bank	10.82%	21.22%	7.87%	65.39%	(-118.09%)	3.51%

ROE within Customer Relationships

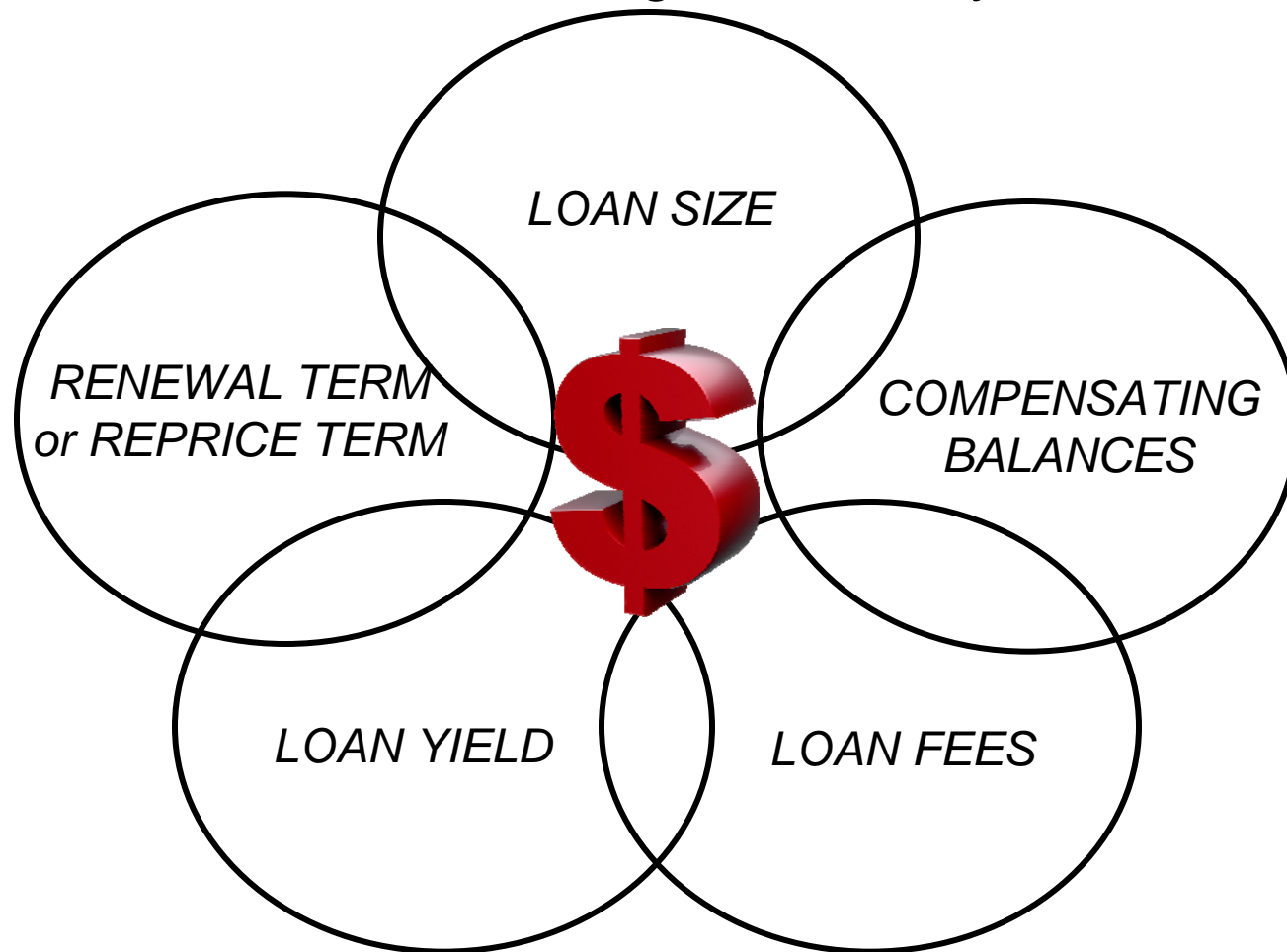
Three Example Customers

(Proforma)

<u>Institution</u>	<u>Commercial Loan Balances</u>	<u>Commercial Loans ROE</u>	<u>Checking Account \$'s</u>	<u>Core Deposits ROE</u>	<u>Customer Relationship ROE</u>
\$250 M Community Bank (11.5% Capital)	\$350,000	17.22%	\$50,000	34.82%	17.69%
\$800 M Thrift (9.5% Capital)	\$350,000	14.02%	\$50,000	24.07%	14.78%
\$2.8 B Commercial Bank (7.5% Capital)	\$350,000	21.22%	\$50,000	65.39%	23.71%

Characteristics of Profitable Relationships

Key Considerations Affecting Profitability



Characteristics of Profitable Relationships

Key Considerations Affecting Profitability

- *LOAN SIZE* – Larger loans generally have higher returns because they can overcome their fixed cost burdens
- *RENEWAL/REPRICE TERM* – Shorter term loans generally have higher returns because of their lower cost of funding
- *COMPENSATING BALANCES* - *Attracting profitable compensating balances will generate higher returns and allow for more competitive pricing*
- *LOAN YIELD/FEES* – This is a “No-Brainer”. Higher yields and fees generate better returns

Managing Your Commercial Portfolio

- Characteristics of Profitable Lending Relationships
- **Tools and Strategies for Managing Your Highly Profitable Relationships**
- Action Steps to Implement Now

Managing Your Portfolio

Officer Profitability - Loans & Deposits

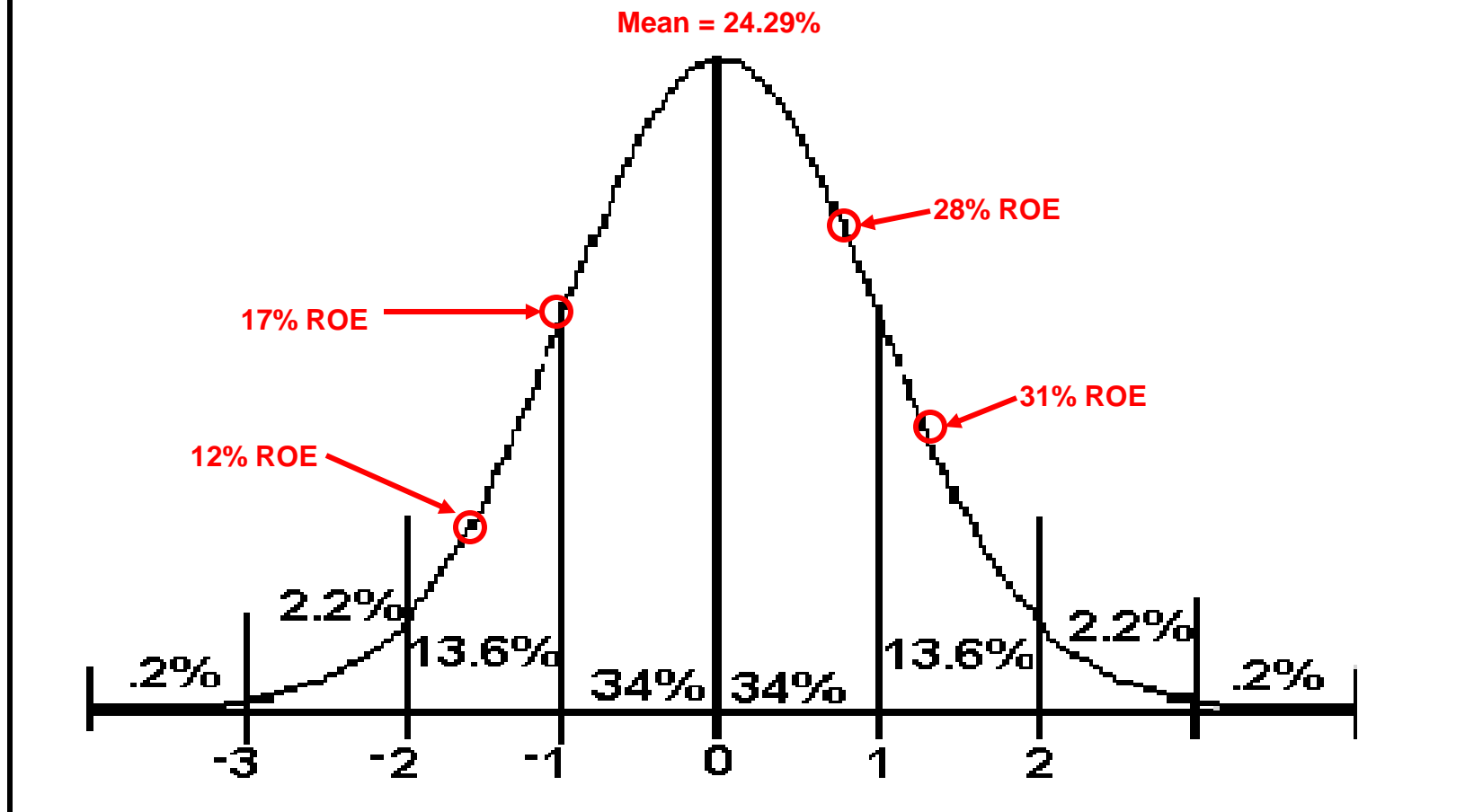
Example Bank & Trust

<u>Officer Name</u>	<u>Portfolio Balance</u>	<u>Annualized Profit</u>		
OFFICER 1	\$45,000,000	\$580,000	\$2,800,000	20.71%
OFFICER 2	\$35,000,000	\$510,000	\$2,100,000	24.29%
OFFICER 3	\$30,000,000	\$400,000	\$2,200,000	18.18%
OFFICER 4	\$20,000,000	\$340,000	\$1,350,000	25.19%
OFFICER 5	\$400,000,000	\$1,000,000	\$17,800,000	5.62%
ALL OTHERS				
TOTAL LOANS & DEPOSITS	\$570,000,000	\$3,510,000	\$29,750,000	11.80%

One of Officer 3's most profitable customers has a loan coming up for renewal

Managing Your Commercial Portfolio

Customer Profitability Within an Officer's Portfolio Usually Follows a more or less Normal Distribution



Officer # 3's - Example Customer Relationships

<u>Customer Group</u>	<u>Range of ROE</u>	<u>No. of Customers</u>	<u>Balances</u>	<u>Capital Committed</u>	<u>Net Income</u>	<u>Customer Relationship ROE</u>
Well Above Average	> 30%	30	\$12,000,000	\$840,000	\$266,000	31.69%
Above Average	24.30% - 30%	50	\$8,500,000	\$550,000	\$150,000	27.33%
Below Average	12% - 24.29%	100	\$7,250,000	\$400,000	\$72,000	17.97%
Well Below Average	0% - 12%	150	\$4,500,000	\$225,000	\$24,500	9.12%
Losses	< 0%	25	\$2,750,000	\$85,000	(\$2,500)	-2.76%

Managing Your Portfolio

Officer 3 - Loans & Deposits

Example Bank & Trust

<u>Customer Name</u>	<u>Customer Balance</u>	<u>Annualized Profit</u>		
ACME Industries	\$6,000,000	\$0		
ACME Enterprise	\$5,000,000	\$61,200	\$210,000	29.14%
ACME, LLC	\$5,000,000	\$89,250	\$300,000	29.75%
ACME Home Builders	\$4,000,000	\$63,750	\$240,000	26.56%
ACME Restaurants, Inc.	\$1,500,000	\$25,500	\$90,000	28.33%
ALL OTHERS	\$15,000,000	\$158,100	\$900,000	17.57%
TOTAL LOANS & DEPOSITS	\$35,000,000	\$510,000	\$2,100,000	24.29%

ACME, LLC's operating LOC is up for renewal. They are receiving competitive rate quotes. How do we respond?

Managing Your Portfolio

ACME, LLC Relationship

Example Bank & Trust

<u>Account</u>	<u>Account Balance</u>	<u>Annualized</u>		
Commercial RE Loan	\$3,000,000	\$44,625	\$176,913	25.22%
Commercial LOC	\$1,100,000	\$20,081	\$82,811	24.25%
Business DDA	\$750,000	\$8,925	\$11,292	79.04%
Personal DDA	\$50,000	\$893	\$753	118.55%
1-4 Fam Mortgage	\$750,000	\$14,726	\$28,231	52.16%
TOTAL LOANS & DEPOSITS	\$5,000,000	\$89,250	\$300,000	29.75%

Currently on our books at Prime +150bps, but competitive quote is at Prime +100bps w/ no floor

Managing Your Portfolio

Analyze Existing Relationship With a Pricing Tool

RESULTS

Incl		Average Balance	Profit	ROE %
<input type="checkbox"/>	Loan 1	\$0.00	\$0.00	0.00%
	Loan 2	\$0.00	\$0.00	0.00%
	Loan 3	\$0.00	\$0.00	0.00%
<input checked="" type="checkbox"/>	Others	\$5,000,000.00	\$89,250.48	29.74%
	Total	\$5,000,000.00	\$89,250.48	29.74%

Customer's current ROE is 29.75% with the LOC at Prime +150bps

Customer 111111 - ACME, LLC Relationship

[Reset](#)



New Loan Inputs



Customer Relationship Accounts

Add Accounts from Customer ID: 111111

[Add](#)

*To permanently link customers, use the household feature located on the customer lookup screen.

Select a Product to Add: COMMERCIAL - TERM

[Add](#)

[Historical Rates](#)

[Amortizing Balance Calculator](#)

Include	Product*	Balance \$	Credit %	COF %	Annual NII	PFLL %	Orig Exp	Annual VE	Annual FE
<input checked="" type="checkbox"/>	1-4 Family Mortgage	\$750,000.00	5.00%	1.34%	\$0.00	0.50%	\$500.00	\$125.00	\$750.00
<input checked="" type="checkbox"/>	Commercial LOC	\$1,100,000.00	4.75%	0.82%	\$0.00	1.00%	\$500.00	\$250.00	\$1,000.00
<input checked="" type="checkbox"/>	Commercial RE Loan	\$2,350,000.00	5.25%	1.30%	\$0.00	1.00%	\$500.00	\$125.00	\$1,127.00
<input checked="" type="checkbox"/>	Personal DDA	\$50,000.00	3.35%	0.00%	\$0.00	0.00%	\$50.00	\$75.00	\$200.00
<input checked="" type="checkbox"/>	Business DDA	\$750,000.00	1.86%	0.00%	\$0.00	0.00%	\$100.00	\$100.00	\$250.00

Managing Your Portfolio

Revised ROE After LOC Renewal At Competitive Rate

RESULTS

Incl		Average Balance	Profit	ROE %
<input type="checkbox"/>	Loan 1	\$0.00	\$0.00	0.00%
	Loan 2	\$0.00	\$0.00	0.00%
	Loan 3	\$0.00	\$0.00	0.00%
<input checked="" type="checkbox"/>	Others	\$5,000,000.00	\$85,620.48	28.53%
	Total	\$5,000,000.00	\$85,620.48	28.53%

By matching the competitive rate, the ROE of the Customer drops, but still remains highly profitable.

Customer 111111 - ACME, LLC Relationship [Reset](#)

▶ **New Loan Inputs**

▼ **Customer Relationship Accounts**

Add Accounts from Customer ID: [Add](#)

*To permanently link customers, use the household feature located on the customer lookup screen.

Select a Product to Add: [Add](#) [Historical Rates](#) [Amortizing Balance Calculator](#)

Include	Product*	Balance \$	Credit %	COF %	Annual NII	PFLL %	Orig Exp	Annual VE	Annual FE
<input checked="" type="checkbox"/>	1-4 Family Mortgage	\$750,000.00	5.00%	1.34%	\$0.00	0.50%	\$500.00	\$125.00	\$750.00
<input checked="" type="checkbox"/>	Commercial LOC	\$1,100,000.00	4.25%	0.82%	\$0.00	1.00%	\$500.00	\$250.00	\$1,000.00
<input checked="" type="checkbox"/>	Commercial RE Loan	\$2,350,000.00	5.25%	1.30%	\$0.00	1.00%	\$500.00	\$125.00	\$1,127.00
<input checked="" type="checkbox"/>	Personal DDA	\$50,000.00	3.35%	0.00%	\$0.00	0.00%	\$50.00	\$75.00	\$200.00
<input checked="" type="checkbox"/>	Business DDA	\$750,000.00	1.86%	0.00%	\$0.00	0.00%	\$100.00	\$100.00	\$250.00

Managing Your Portfolio

Decision Time - Officer 3

Example Bank & Trust

<u>Step</u>	<u>Portfolio Balance</u>	<u>Annualized Profit</u>	<u>Allocated Capital</u>	<u>Officer ROE</u>
EXISTING CUSTOMER	\$5,000,000	\$89,250	\$300,000	29.75%
CUST AFTER RENEWAL	\$5,000,000	\$85,620	\$300,000	28.54%
EXISTING OFFICER PORT	\$35,000,000	\$510,000	\$2,100,000	24.29%
AFTER RENEWAL	\$35,000,000	\$506,370	\$2,100,000	24.11%
IF CUSTOMER LEAVES	\$30,000,000	\$420,750	\$1,800,000	23.38%

IN THIS CASE, EVEN THOUGH YOU AGREE TO A RATE CONCESSION, IT IS BETTER TO KEEP THE CUSTOMER

Managing Your Commercial Portfolio

- **Characteristics of Profitable Lending Relationships**
- **Tools and Strategies for Managing Your Highly Profitable Relationships**
- **Action Steps to Implement Now**

Managing Your Commercial Portfolio

Action Steps to Take Right Now

- Get Customer Profitability Reporting In Place
 - Each Officer Should Have the Following Data:
 - Overall ROE of Their Entire Portfolio
 - ROE of Each Customer Relationship, Including Knowing What Profit Group They Fall Into
 - Relationship Renewal / Next Repricing Date
- Develop Profit Improvement Strategy for Each Customer that has an ROE < Portfolio Average
- Develop Retention Strategy for Each Customer That has an ROE > Portfolio Average
- Assess Risk of Loss / Risk of Retention – by Customer

Commercial Loan Pricing Best Practices

Action Steps to Take Right Now

- Evaluate 100% of New Commercial Loan Requests > \$XXX,XXX
– Require RAROC > XX%

(Previously 100% - Now 20%)

- Analyze 100% of Renewals > \$XXX,XXX, as follows:
 - If Current ROE > Average – Maintain ROE / Maintain Relationship
 - If Current ROE < Average – Reprice @ 10 – 20% improvement in ROE (10% - 12%) or better

Now 80% of Loan (Re-)Pricing Use

- Assess Risk of Loss / Risk of Retention – by Customer

Managing Your Commercial Loan Portfolio Through Challenging Times

Q & A

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