Bank Strategies LLC
Consultants to Bank Management and Boards

Characteristics of Higher Performing Banks

Bank Strategies LLC article in the Bankers' Bank of the West September/October Newsletter

One of the questions asked of us by Board members and management when facilitating strategic planning sessions is; "How is XYZ Bank able to achieve such high growth in loans? They are XX% higher in annual growth than us?"

Good question. Our response is something like, "Well, don't interpret high growth in loans to mean they are a higher performing bank." The discussion that follows points out two types of banks, those that have/had high loan growth and eventually fail or run into regulatory issues, and those that consistently have higher loan growth along with strong asset quality and profitability even through the last credit downturn.

This latter group of higher performing banks employs practices that allow them to achieve their performance, different from the practices of banks that simply focus on loan growth. Understanding what the higher performing banks do and how they do it can help a community bank improve its loan growth rate and profitability.

Bank Strategies LLC most recent article in the Bankers Bank of the West newsletter discussed this subject in more detail. We have provided the article below. Given the space limitations for the article in the newsletter, the article hits some of the high points of some of the characteristics of the higher performing banks, but not all of them. Knowing and understanding all the characteristics is important.

If you would like to schedule a private consultation to discuss the full range of characteristics of higher performing banks relative to loan growth, quality and profitability, give me a call to set an appointment. You can reach me at (303) 903-9369 or via email at Jim@BankStrategiesLLC.com.

Looking forward to talking with you,

Jim Swanson
President & CEO

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Prior to the Great Recession, the formula for many higher performing community banks was pretty straight forward: generate enough loans to have a decent net interest margin, supplement that with fee and other noninterest income sources, control noninterest expenses and avoid significant asset quality problems. Today, this formula remains valid, but arguably more difficult to achieve for a variety of reasons impacting both sides of the income statement. Perhaps most notably, on the revenue side, the sustained ultra low interest rate environment, coupled with tepid loan demand (in some markets) and strong competition for loans seemingly across all markets, have combined to put downward pressure on net interest margins, the lifeblood of most community banks' earning streams.

However, some banks have had success sustaining higher performance amidst the changing landscape in recent years, while others have found ways to overcome challenges, or reinvent themselves to find success. While there is no cookie cutter recipe for success, higher performing community banks typically possess many, if not all, of the following characteristics:

They Are Opportunistic: Higher performing banks stay abreast of which geographies or market sectors are active, and find ways to capitalize on those without taking undue risk. They are also proactive in looking at ways to overcome traditional geographic and distribution hurdles that can limit opportunities and success.

They Satisfy Customer Needs: Higher performing banks actually deliver on (not just promote) what customers value, including strong customer service, quick turnaround in decisions, flexibility in lending activities, and providing ease of doing business. By satisfying customer needs, high performing banks are better able to build and maintain customer relationships, not just transactions.

They Have the Right People: Establishing and maintaining strong and profitable customer relationships requires good talent. Higher performing banks hire carefully and strategically for the longer term, and are not slow in weeding out nonperformers or those that don't fit their culture.

They Maintain Effective Performance Management and Compensation Systems: In addition to hiring good talent, higher performing banks are adept in establishing compensation and performance management systems that develop, motivate and reward actions that align with identified organizational goals and objectives, and are contributing factors in longer-term success.

They Create a Robust Credit Culture: Higher performing banks define and reinforce a sound credit culture by establishing meaningful policies, procedures, and risk tolerances. They also ensure adequate controls are in place to monitor activities and exposures against established guidelines, and have the necessary oversight to make adjustments when and where needed to maintain credit risk exposure at a manageable level.

To learn how the BBW Consulting Solutions team can put more than 100 years of collective industry experience to work in helping your institution reach its potential as a high performing bank, call 303-903-9369. Or email Jim Swanson at jim@bankstrategiesllc.com.