

LOAN PRICING (v2.0) NOW AVAILABLE

by [Steve Brown](#)

Would you let a contractor build a house for you without a level? Would you let an accountant manage your finances without a spreadsheet? While both occupations could pull the task off without this most basic of equipment, it is doubtful they could succeed for long. Why then do some lenders originate loans without a pricing model? The Banc Investment Group is proud to announce that the next version of our Loan Pricing application is now available online. To our knowledge, this is the only risk adjusted pricing model on the market for independent banks. Each month, we upload the latest statistics on the probabilities of default and loss given default for each lending class - from mixed use CRE to residential. This means that should the risk of construction lending increase, as it has the past 2 months, the model will reflect the accurate risk and provide the appropriate book yield, NIM, loan loss allowance, ROA and ROE. In addition to risk, the model takes into account optionality/probability of prepayments, several classes of deposit values and capital charges. The other revolutionary aspect of the pricing model is that it handles fully allocated costs. If you do not know what it costs your bank to originate a loan, our model will look up what a typical bank your size pays for branches, overhead, loan origination costs, etc. and at least get you in the correct ballpark. If you are not using a pricing model, or using one that does not take into account actual risk, now is the time to change. Understanding the value of duration, fees, prepayment penalties, deposits and costs allows for better negotiation with borrowers. In addition, our Loan Pricing tool uses the same interest rate and option model as our ALM and online swap products, the same credit process as our Credit Stress Analyzer ("CSA") and loan loss validation ("ALLLQ") and the same transfer price mechanism as our Relationship Profitability service. This means that if you are using any of these applications, the same calculation methodology and inputs (forward curve, default probabilities, etc.) are used. This provides a fully integrated solution and homogeneity of information. The Loan Pricing application is also Basel II compliant, so banks using it and CSA will have the quantitative backbone in place to adopt this forthcoming change to capital allocation, if desired. Introductory pricing is \$500 to \$3,500 per month (billed annually) depending on asset size. This allows unlimited use across the organization and is a low enough price point that it probably pays for itself on the first loan you price. Since the application is on the Web, you can be assured that we will continue to improve it over time (i.e the next version, slated for Dec. will have loan loss information down to geographical region). The contract is cancelable at any time (with 30-days notice) so there is very little risk in trying the application. Banks often have a tendency to under-price smaller sized credits and over-price larger credits. By using this Loan Pricing application, banks can better align risk with profitability. You wouldn't drive across country without a speedometer, so why make loans without a tool to quantify risk and profitability. To find out more, sign up to one of several upcoming online loan pricing seminars (detailed in the body of the e-mail) or contact us for more information.

BANK NEWS

Acquisition

SI Financial (\$714mm, CT) will purchase loan originator Fairfield Financial Mortgage for an undisclosed sum.

Acquisition

American Sterling Bank (\$187mm, MO) will buy the mortgage unit of Universal Savings (\$134mm, WI) for an undisclosed sum.

Acquisition

The parent company of Home Federal Bank (\$960mm, SD) will acquire the servicing rights for South Dakota Housing Development Agency and FNMA guaranteed mortgages from Great Western Bank (\$1.4B, SD). As part of the transaction, Home Federal will also sell 3 branches to Great Western.

Acquisition

Mellon Financial (\$42B, PA) will acquire ClearTran for an undisclosed amount. ClearTran offers electronic and online bill payment solutions to mid-sized businesses.

Little Oversight

The WSJ reports Republicans on a small business Senate committee released a report that concludes that 75% of the loans originated after 9/11 didn't have necessary documentation to qualify a recipient. In addition, fees for bank participation in the Supplemental Terrorist Activity Relief ("STAR") were 50% less than what is charged under the gov'ts small-business loan program.

SBA Feedback

The SBA is requesting feedback from banks on a new proposal that would assess fees to cover the costs of exams and oversight activities on the 7(a) program. Under the proposal, banks would pay actual costs of on-site exams and be allocated off-site monitoring charges based on proportionate share of portfolio guaranteed.

Criminal Behavior

A recent FBI report found that criminally predisposed employees of a bank are more likely to steal from customers than from the actual vault. An improvement in internal controls is thought to be one reason for the shift.

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