# Performance And Goals

by Steve Brown Topics: performance, deposits, funding

**Summary:** When it comes to banking performance, it makes sense to set goals and use metrics to track achievement. However, this is easier said than done.

A CNBC survey finds Americans don't save very much. When asked what percentage of annual income people saved, the results were: 6-10% (25% of respondents); 5% or less (21%), nothing (19%), more than 15% (16%), 11-15% (11%), don't know (7%). To perform at the highest level, bankers know their customers should have a savings plan for every single month.

When it comes to banking performance, it also makes sense to set goals and use metrics to track achievement. However, this is easier said than done.

Take, for example, net interest margin (NIM). NIM is often used as a measure of performance. The problem is that NIM does not account for credit risk nor loan size/costs. As such, it does not ultimately reflect actual profitability. So, setting goals based on NIM may leave a bank with weaker quality loan borrowers, along with shorter term, smaller balance and more expensive loans.

To rectify this issue, identifying which metrics or group of metrics to use will tell a fuller story. It will also better reflect performance over time.

There are a number of factors to consider here, depending on what type of performance bankers wish to improve (i.e. ROE, losses, customer service, etc.). To get you thinking, we direct our attention to just one of these - deposit growth.

**Deposit Growth:** This is an important area for bankers given the strength of the economy, but particularly those with a higher loan to deposit (LTD) ratio. This is also true of banks that are flush with deposits. History shows that as rates rise, deposits become more rate sensitive. In such an environment, depositors slowly move funds to other investments (bonds, money market funds, etc.), so these deposits must be replaced.

While things have calmed down for now on the rate increase front, to address this issue, some banks will ask loan officers to bring in deposits with any loans originated. The idea is that they are talking to the customer anyway, and such deals are stickier than standalone deposit relationships, so why not try at least.

To track progress, banks compare deposit balances by officer and customer over a set period of time (perhaps 1Y or 6 months). In addition to ensuring projected deposit balances are actually coming in, banks need to ensure these deposits are the sort desired.

For example, an officer may have grown deposit balances by $20mm in the last quarter, but a bunch of $10,000 1Y CDs aren't as valuable to the bank as a handful of larger non-maturity deposits (which carry longer duration). Smaller time deposits can help with short-term funding, but they may cost banks more over time.

While we know there are quite a few factors involved these days in deposit growth, reviewing growth by officer and also profitability by customer, may help put things more in perspective and increase your bank's performance, as you hone sales and marketing efforts.

# BANK NEWS

**LIBOR-SOFR**

The Fed Vice Chair for Supervision said examiners will put US banks "under regulatory scrutiny" over how prepared they are to transition from LIBOR to SOFR as an index or reference rate by the 2021 deadline. He stressed that the "transition needs to continue to accelerate" and that banks should conduct thorough due diligence on reference rates they use.

**M&A**

1) 13-bank holding company Central Bancompany ($13.1B, MO) will acquire BankLiberty ($541mm, MO) for $103.7mm in cash (100%).

**CEO Concerns**

A Cornerstone Advisors survey finds the top concerns for bank executives this year are: growing deposits (50%); interest rate environment (41%); cybersecurity (34%); cost of funds (29%); weak economy/loan demand (25%); new customer growth (24%); regulatory burden (21%); efficiency, non-interest expenses or costs (19%) and non-interest income (13%).

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