



## Can Profitability Increase In A Low NIM Environment?

by [Steve Brown](#)



net interest margin

customer profitability

**Summary:** With the continuing low-interest rate environment, community financial institutions will need to maximize opportunities for customer profitability beyond interest income. Here are three strategies to do that: take a holistic view of customer relationships; evaluate low balance accounts, and reassess low utilization lines of credit.

Today is Bastille Day, when a group of revolutionaries stormed the bastille (prison) to get weapons and free prisoners. This event started the French Revolution in 1789. Frenchmen throughout the world consider this their Independence Day and celebrate with parades, fireworks, and parties. With travel picking up, Paris is likely to be quite busy with celebrations this year.

Even though the economy is opening up more this summer, many bankers aren't quite celebrating, like their French cohorts. With the announcement of the Federal Open Market Committee predicting rates will remain low for a while longer, net interest margin (NIM) will continue to be a challenge. In this low-interest rate environment, community financial institutions (CFIs) will need to execute strategies to maximize opportunities for customer profitability beyond interest income. Here are a few strategies to boost customer profitability, while rates stay low.

**Take a holistic view of customer relationships.** A good place to start is to look at your customer relationships as a whole, evaluating the overall profitability to your institution. Which customers have a loan at your institution, but not a deposit account? If loan-only accounts are a trend, this is a missed opportunity for the customer to fund a portion of their own loan. Having a plan in place to ensure that a deposit account is brought in as a requirement of a new loan will help moving forward. But, challenging team members to reach out to those loan-only accounts to bring more full relationships into the CFI will solidify the overall relationship and bring in that needed and preferably noninterest-bearing funding.

**Evaluate low balance accounts.** Another way to increase customer profitability is to look at the segment of customers with low balance deposit accounts. These accounts can bring down the CFI's profitability substantially. Are these accounts appropriately priced? How can your share of their wallet be expanded?

For business accounts that may be holding deposits elsewhere, joint calling with cash management specialists may help uncover service or pricing opportunities. Market your upcoming renewals with cash management, treasury services, remote deposit capture, and other functional offerings to deepen the relationship. If you are banking convenience consumer accounts for commercial customers, is this strategy costing or making you money?

**Reassess low utilization lines of credit.** Low utilization lines of credit are a burden to the CFI's profitability as well. Given the costs associated with maintaining and renewing these lines, in addition to the cost of capital, the minimally utilized or completely unused line of credit offers an extremely low return. Consider requiring the operating account or requiring another bundled depository offering for cashflow positive customers. At a minimum, review fees for unused lines of credit on non-

relational accounts. How many of your lines are under or unutilized, which are not part of a larger relationship? How does this affect the overall profitability of the product offering as a whole to your institution?

Not just looking at the loan portfolio, but evaluating product lines by customer relationships brings forward new opportunities. As loan margins continue to be compressed in the current interest rate environment, identifying ways to improve customer stickiness at your CFI and evaluating opportunities to increase profitability are imperative. If you need any assistance with this, we are here to help.

## ASSESS CUSTOMER PROFITABILITY IN THIS MARKET

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## ECONOMY & RATES

Rates As Of: 07/14/2021 04:15AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.05	0.00	-0.04
6M	0.06	0.00	-0.03
1Y	0.08	0.00	-0.03
2Y	0.25	0.00	0.13
5Y	0.83	-0.06	0.47
10Y	1.39	-0.09	0.47
30Y	2.01	-0.08	0.36
FF Market	FF Disc	IOER (Interest on Excess Reserves)	
0.10	0.25	0.15	
SOFR	Prime	OBFR (Overnight Bank Funding Rate)	
0.05	3.25	0.08	

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