forward

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FEATURE

# VIVE LA RESOLUTION!

WHILE THE TITLE OF THIS STORY MAY TRANSLATE TO "LONG LIVE THE RESOLUTION," VETERANS OF THIS ANNUAL NEW YEAR'S DAY RITUAL OF PROMISE AND ASPIRATION KNOW BETTER. THERE'S A REASON, FOR EXAMPLE, THAT REGULAR GYMGOERS TEND TO STAY AWAY FOR THE FIRST FEW WEEKS OF JANUARY, KNOWING THEY'LL MOST LIKELY RETURN AT THE END OF THE MONTH TO FIND THE CROWDS BACK TO MORE OR LESS THEIR REGULAR SIZE.

It's hard to keep a resolution.

But it isn't just common fitness-related goals that are difficult to see through to success as the initial enthusiasm of a clean slate gives way to the hard work and complicated schedules of real life. Bankers, too, often have trouble sticking to their big plans amid the short-term details and day-to-day operations of their institutions.

Still, if you can't dream big at the outset of a new year, then when can you dream big? Here are a few worthwhile ideas for banks and credit unions to consider as the calendar flips to 2020.

## ROB JOHNSON
PRINCIPAL AND EVP – C. MYERS

We do a lot of strategic planning, so when I was discussing this idea of resolutions with some colleagues here, the range of what institutions really need to focus on in 2020 was fairly wide. But I kept circling back to a formula that we came up with for high performance – that is, the key factors that seem to be common among institutions that are really getting it right. And that formula lays out like this:

(Culture + Clarity + Alignment) x Execution = High Performance

I think nailing this formula should be the one resolution community banks and credit unions aim to achieve in 2020 – having a solid corporate culture, a strong sense of clarity on where they're going and an alignment among every individual in the institution as to the role they need to play to get there. Then they have to execute that vision, by realizing that success doesn't come from a once-a-year planning session, but through living that plan every day to get to that end destination.

Talent and resources are limited within so many institutions. But as the focus on data and technology in the industry continues to increase, the need for good talent actually goes up. You need people who can understand how to connect all that data and information and channel it into a customer or member experience that clearly demonstrates the value proposition of the institution. It's harder to stand out these days, so it really comes down to how we work and how we choose the right things to focus on – and, just as importantly, the things we're not going to focus on.

The reality is that there are fintech competitors out there that are looking at the margins of community institutions as their next opportunities. And because of what they're doing, most consumers are going to start comparing their banking experience to what they experience with Amazon. How are banks and credit unions going to respond to that? This is where having that clarity of purpose as to what you're going to prioritize and deliver becomes so important – and then making sure you're prepared to execute that decision.

## JEFF MARSICO
EVP – THE KAFAFIAN GROUP

My top resolution for community financial institutions in 2020 would be to build and implement a talent development culture. Everything else cascades from this critical issue. Most pressure points experienced by community financial institutions come about as a result of not developing their greatest assets to implement their strategy.

We shop on the street for lending talent and pay up to get them to move from their current institution. We value deposits but are forced to incent them on loan production because that's the culture from whence they came. We struggle to find 'qualified' or 'experienced' credit people because we haven't implemented plans to grow them from 'green' to 'seasoned.'

Imagine having a nine-person credit analyst staff, three of which are seasoned, three middling and three green. Perpetually feeding and growing that important group would be so much easier if eight years ago we had raised our 'seasoned' credit analysts from green and up through middling. But we didn't. And it's time we did.

## TIMOTHY REIMINK
MANAGING DIRECTOR – CROWE

This is how a community institution's resolution for 2020 should read:

'We resolve to make the difficult decisions regarding people's roles and expectations, technology transitions and investments, and business strategies and operating models to prepare our organization to be relevant, competitive and successful in the digitally dominated future of banking. In doing so, we will articulate a strategic path forward for our organization around which our people can orient their efforts and make positive change happen. To accomplish this, we will need to step back and objectively evaluate the readiness of our people, technology, management structure and business models for the needs of the future.'

## LANCE DAVIS
PARTNER – BKD

From an income tax perspective, the top resolution for community banks should be to assess their accounting methods. The Tax Cuts & Jobs Act of 2017 (TCJA) created numerous opportunities and requirements for community banks to change their accounting methods for income taxes, and many have worked over the past 24 months to take advantage of these opportunities and to ensure compliance with these requirements. Since TCJA was enacted, the analysis and interpretation of this new legislation has been very fluid. Significant additional guidance has been issued in recent months that has provided a road map for some of these changes and clarification for others.

The benefit of focusing on this now is income tax savings. Many of the accounting method changes will defer and/or reduce income tax liabilities significantly. In addition, accounting method changes can often 'catch-up' prior year amounts that create even more benefit than just the current year savings. And it's important for institutions to make sure they're in compliance with the new legislation. Accounting for income taxes under an impermissible method will create problems down the road that will likely result in additional tax liabilities and, potentially, the assessment of penalties and interest.

## ADAM MUSTAFA
PRESIDENT AND CEO – INVICTUS GROUP

When I think of the word 'resolution' I think of something that maybe we got away from that we now need to get back to. And I think one of the things that a lot of community institutions have gotten away from is balance, by which I mean the balance between loans and deposits.

Most community institutions are out of balance. They either have a loan-to-deposit ration that's too high, with too few loans relative to their deposits, or they're too high with too many loans and not enough deposits. The optimal sweet spot for a loan-to-deposit ratio is probably about 75% to 85%, give or take about 5%. But only about 25% of community institutions are in that sweet spot, so the other 75% are either too high or too low.

In this environment, the number one problem that most community institutions have is deposit growth, so this lack of balance is coming back to bite them. Because if you think of deposits as the raw materials, an institution with 110% loan-to-deposit ratio is going to have a real problem when it discovers there aren't any raw materials left. All the unique organic strategies that institution may want to try just aren't going to work because the pie isn't really growing, and their larger competitors are getting more aggressive. As a result, institutions in this situation have to either slow their loan growth because they can't fund those loans anymore or continue to make the loans to keep their lenders happy, but sell off a big piece of that business because they can't keep those loans on the balance sheet anymore. And in either scenario, they're giving away earnings.

So the institutions that tend to be in the sweet spot are the very small institutions that just have that balance figured out for some reason or the much larger community institutions north of $10 billion that have a defined footprint where they do their lending and deposit-gathering. The typical community institution in between those points, however, tend to be out of balance. Those institutions need to look themselves in the mirror heading into 2020 and figure out how to get that ratio into some better semblance of balance, because it's only going to continue to hurt them on their earnings. And the irony is that if you look at institution valuations, there's a premium on earnings quality – not quantity, but quality – and one of the most important measurements of earnings quality is balance.

## DEB DONALDSON
PRESIDENT AND CEO – ALPHA-NUMERIC CONSULTING, LLC

As a former banker, current consultant in the financial services industry and long-time banking customer, I keep returning to the same two goals and challenges: relevance (why choose us instead of someone else?) and compliance (how do we balance the art of banking with the demands of regulatory requirements?).

With financial institutions on every corner and every iPhone, management is tasked with offering the optimum mix of products and services to not only entice new customers but to keep the existing base. Loans and deposits vary only slightly from one institution to another. Therefore, the deciding factor often comes down to whether the customers/members have a productive and positive experience, or if they walk away wondering what just happened (queue the on-hold music here as someone tries to figure out what is needed to redeem a paper Series E savings bond). Recently, customers and staff have been forced to endure changes, either as a result of technology, mergers/acquisitions or resource issues. Institutions are moving from tellers to apps, limited access to live/local personnel and cumbersome rather than confidence-inspiring security protocols. While younger customers and members are used to the world of e-banking, older customers may still need the personal touch.

As margins are squeezed and expenses increase, banks and credit unions continue to do what they can to ensure that customers and members are not lost in the shuffle. Compliance is also a larger portion of banking and finance than ever before. More experience, attention to detail and reporting is required, and the administration of those issues often demands more time than traditional profitability, liquidity and risk management. It's a difficult balancing act.

Today's customers and members are more sophisticated than ever, and with instant access to rates, terms, accounts and assorted online services, the competition to acquire and keep deposits and loans is fierce. Financial institutions no longer retain customers out of generational loyalty or geographical convenience, so keeping a clear focus on both relevance and compliance will be more important than ever in 2020. The benefits of getting this balance right will be customer acquisition and retention, continued liquidity, profitability and regulatory approval.

## STEVE WILLIAMS
PRESIDENT AND PARTNER – CORNERSTONE ADVISORS, INC.

The top resolution for community financial institutions in 2020 should be to formalize their digital growth strategies. Executives need to see greater transparency regarding the costs, usage and revenue production through their delivery channels and get serious about drastically improving digital marketing, online account origination and the mobile banking experience.

This is a crucial priority to stay relevant in the competition for deposits and payments revenue. It's time to react to lofty trends around digital, social and data analytics with pragmatic approaches to grow the institution in this new world. Ignoring this trend will prove costly as national banks and niched fintech firms are gaining share and greater confidence around growth using a digital-first approach.

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