

State Bank Financial Improves Loan Yield with ProfitStars® Customer Profitability & PricingSM

Too often, financial institutions (FIs) today allow the competition to dictate their pricing without an understanding of the entire customer relationship value and a consistent method to determine sufficient margin for risk-based costs when competing for new loans. This leads to a weakening of net interest margin (NIM) and less liquidity to manage interest rate risk in a raising rate environment. This was the circumstance for State Bank Financial prior to June 2016. Since then, they have successfully positioned themselves for high-profit growth by making it a priority to establish a disciplined relationship pricing culture.

State Bank Financial has been proudly serving the Coulee region of Western Wisconsin since 1858, operating as the area's oldest community bank. Over its years of service, the bank has led the way with several new-era technology banking services, boasting the community's first walk-up window in 1974, the first Auto Bank in 1978, and offering online, mobile, and treasury management products today. It's this innovation and dedication to customer convenience that has allowed State Bank Financial to grow in both asset size and number of branch locations.

The bank's mission is to exceptionally serve the communities it touches and empower customers, associates, and shareholders to achieve their financial goals. Their focus on commercial and agricultural lending, as well as consumer and real estate financing, continues to help Western Wisconsin's communities thrive. This has been critical to the bank's success in navigating the difficult challenges in the banking industry. The current landscape is no different. With a prolonged low interest rate environment and intense competition for higher quality loans, the bank had been experiencing a declining trend in NIM and loan yield.

In remaining true to their mission and innovative ways, State Bank Financial realized the need to empower their associates with customer profitability analytics to make better pricing decisions in new loan opportunities and relationship management. This led them to seek out a new system, resulting in their selection of the ProfitStars Customer Profitability & Pricing module of the ProfitStars Financial Performance SuiteSM. With this module, FIs gain a thorough, accurate view of customer profitability alongside loan, deposit and service pricing data. This leads to better customer relationship decisions.

STATE BANK FINANCIAL

has been in business for 160 years and counting. The bank offers a wide variety of personal banking, business, loan, credit, deposit, and treasury management products, as well as wealth management.

RISKS & BUSINESS NEED TO CHANGE

With the prolonged low rate environment and intense competition for high quality loans, the bank experienced a declining trend in their loan yields.

RESOLUTION

State Bank Financial utilized the ProfitStars Customer Profitability & PricingSM module from the ProfitStars Financial Performance SuiteSM to empower their lenders with accurate customer profitability analytics for improved financial decision-making and relationship management strategies.

RESULTS AND BENEFITS TO THE BANK

They have reversed the trend of declining loan yields and positioned themselves well to improve margins in the raising rate environment.

The bank's Chief Financial Officer, Chris Weeks, explains that his objective in utilizing this module was to build a pricing culture based on holistic profit views of their customer relationships over time that would empower managers and lenders to make better decisions and take more ownership in growing profitability. They were surprised with the initial findings. "We've discovered that 10% of our customers are generating the majority of our profit, and we've been using this new module to find out what those customers look like, pinpoint what products and services they're using, and identify potential similar customers."

Weeks continues, "We've been able to work with our Sales and Marketing departments to really dig into a deeper understanding of our most profitable customers so that we can replicate them and ultimately cross-sell more products." With the leadership of Tim Kotnour, President and CEO leading a corporate cultural shift to a profitability behavior focus, State Bank Financial has seen increased cross-selling opportunities across several value-add product and service categories. He leads a regular sales meeting with the lenders to review opportunities uncovered in calling efforts to the most profitable customers. They also hired a treasury management specialist to partner with the lending team in identifying business service product opportunities. This is particularly valuable in new pricing deals where the loan yield may be lower, but they can make it up with additional non-interest income by cross-selling fee-based products and services. Weeks explains, "While we've done well with Treasury Management in the past, we now have the ability to dedicate more resources to increase what is otherwise a fairly incremental process."

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– Chris Weeks, CFO of First State Financial

Weeks further notes that 70% of the bank's overall revenue is generated by lending, so finding a way to ramp up the efficiency of their internal loan process was a must. "With ProfitStars Customer Profitability & Pricing, our loan officers can make more accurate decisions, because they have more accurate information at their fingertips," Weeks says. "No one has to guess at rates anymore." They are now more informed when considering rate matches with a complete historical view of the customer relationship and can provide customized pricing terms based on the projected change to the total risk-adjusted relationship value. Lenders now understand when it makes sense to compete for a deal and when to walk away.

The bank has also integrated information from ProfitStars Customer Profitability & Pricing into their Synapsys® CRM system to enhance lender relationship management, and frontline decision-making on rate and fee exception requests. That's not all, says Weeks. "We're looking to incorporate cross-sell lists into the Marketing Manager tool for direct mailings."

INSTITUTION

State Bank Financial

ADDRESS

401 Main Street
La Crosse, Wisconsin

TELEPHONE

608-784-4600

WEBSITE

statebankfinancial.bank

BRANCHES

5

ASSETS

\$323 million

FOUNDED

1858

PROFITSTARS® SOLUTION

ProfitStars Customer
Profitability & PricingSM

Their focus will be to continue driving culture change by empowering lenders to manage their portfolios with a profitability focus. They have added incentive components for origination fees and treasury management referrals. Additionally, portfolio profit objectives will be incorporated into the lender incentive plans – using the module’s Performance vs Objective report to measure results.

The bank has seen an improvement of loan yield interest as well as NIM. Weeks says, “Previously, instead of pricing for the overall relationship, we were limited to pricing for each loan. It was causing a decline in our loan yield and NIM, since longer-term loans were locked in at lower margins.” Discovering the importance of pricing to the relationship rather than pricing to the individual loan in evaluating rate match requests has made a world of difference. “We’re well-positioned over the next five years to combat margin compression in a raising rate environment.”

The ProfitStars Customer Profitability & Pricing module is a part of the ProfitStars Financial Performance Suite, a customizable collection of innovative tools and services. With them, financial institutions can develop a deep understanding of their client portfolios, deliver optimal loan and deposit pricing, and drive exceptional client profitability.

STATE BANK FINANCIAL: JUNE 2016 TO JUNE 2018 FDIC DATA

The ProfitStars Customer Profitability & PricingSM module has been a key factor in profitable loan growth:

YIELD ON EARNING ASSETS

2016	2017	2018
2.82%	2.93%	3.27%

NIM

2016	2017	2018
2.60%	2.68%	2.87%

ROA

2016	2017	2018
.70%	.72%	1.01%

ROE

2016	2017	2018
6.21%	6.51%	9.25%

LOANS

2016	2017	2018
\$162,160	\$167,999	\$193,189