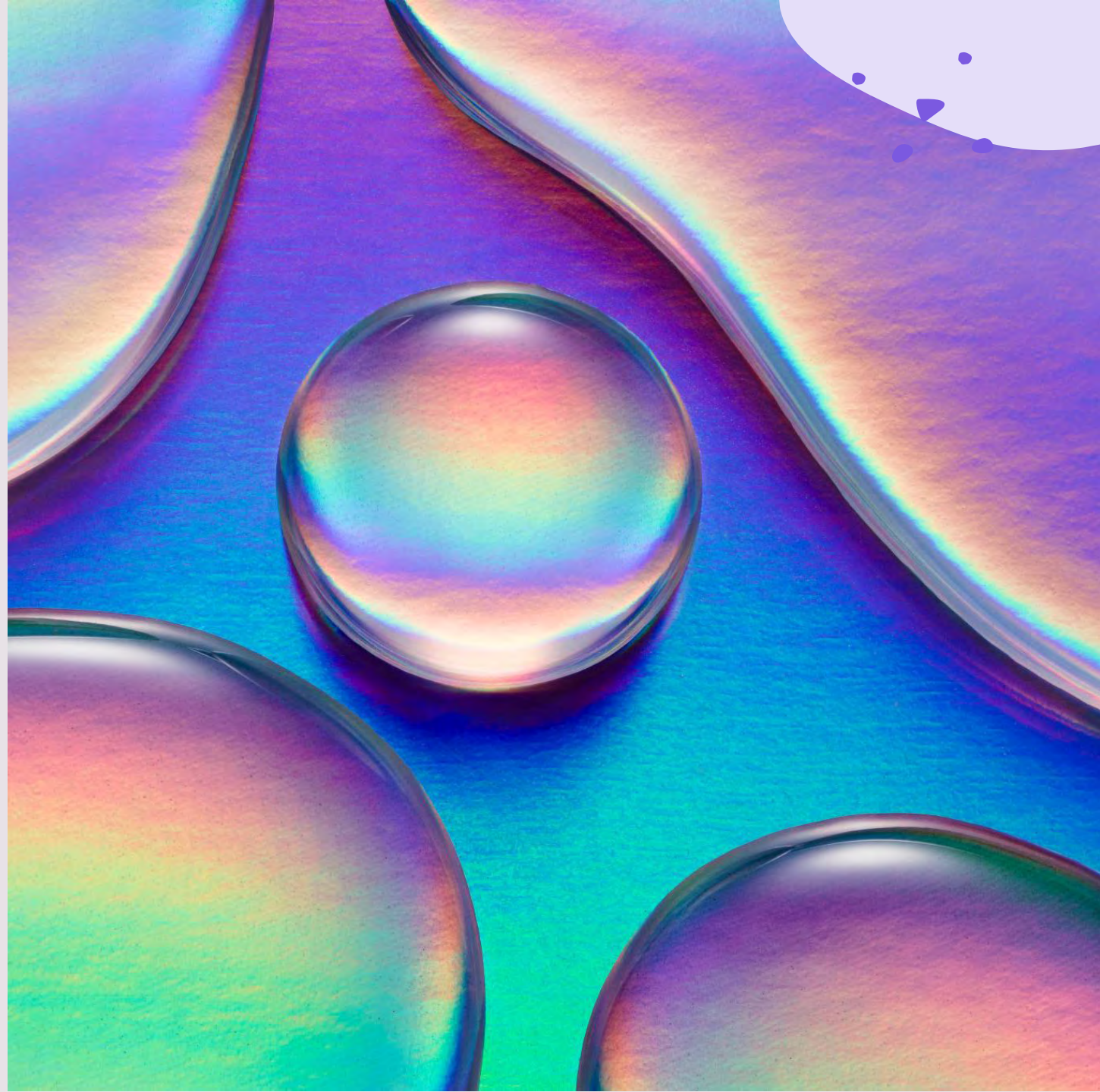


Strunk

compliance
profitability
growth

Increase Net Interest Margin

And Win More Deals!



About Strunk



Unmatched Industry Reputation
Over 1,700 **highly satisfied** bank clients



Market Focused, Fact Based
Continually evaluate market needs and performance with **processing, analytic and compliance software**



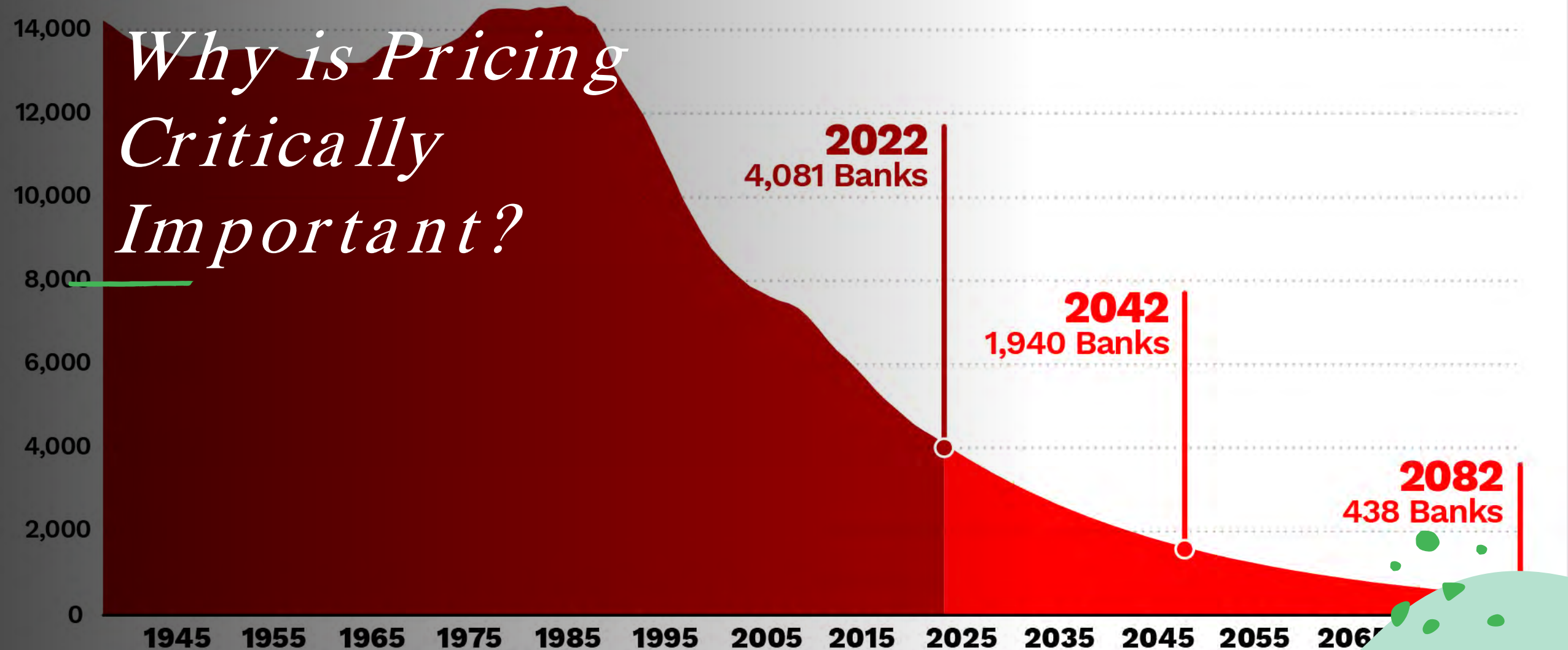
Experts in Core Customer Profitability
Consistent success: Overdraft Privilege, Rewards Checking and Secure Checking, Pricing



Partners not Vendors
Provide **strategy + execute programs** start to finish, self-funding pricing model

■ ACTUAL ■ PROJECTED

Why is Pricing Critically Important?



Mega-Bank and Regional Sophistication

- ❖ The 'Double-Whammy'
 - ❖ Differentiating capital allocation based on risk
 - ❖ Varying profitability targets based on risk
- ❖ The result? Competing more aggressively for the largest most profitable customers



How is Pricing Set Today?

#1 Answer is...we have to match the competition

Benchmark vs. Treasury or FHLB Advance rates

Spread over bank 'base' rate

And my favorite...the flinch method

Why Do Our Customers Choose Us?

Have done business with the bank for years

Family has a history with the bank

They like our people

They like the service we provide

What About Credit Considerations?

- ❖ Is every customer an 'A+' credit?
- ❖ Can every customer go to any other bank and get a 'YES'?
- ❖ Do we often have a better understanding of our customer's business situation than other competitors that don't have a relationship with that customer?

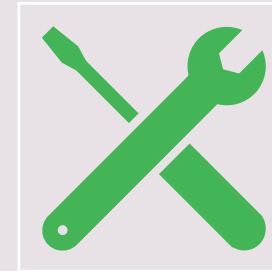
What Motivates our Lenders?



Are they motivated to give the customer the best possible deal they can –i.e. is price often confused with service?



Or, are they motivated to structure the deal so that it works for the borrower and the bank?



Do our tools arm the lender with the information they need?

What Factors Should be Considered?

- ❖ Type of Loan
- ❖ Amortization Term
- ❖ Fixed, Adjustable, or Floating Rate – Term of Fixed Period
- ❖ Loan Amount
- ❖ Fee
- ❖ Risk
- ❖ Expected Life
- ❖ Origination Cost
- ❖ Servicing Cost
- ❖ Utilization
- ❖ Value of Other Relationship Components

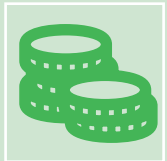
How Do I Establish Discipline and Consistency?



Standardized assumptions



Benchmark funding curve



Target profitability



Require all loans regardless of size, type, etc. to meet or exceed the targets

What is Consistency?

- ❖ Consistent pricing so that every decision is made following the same process using the same set of factors and assumptions
 - ❖ Lender to lender
 - ❖ Customer to customer
 - ❖ Product to product
 - ❖ Most importantly...from one point in time to the next



Relationships Matter

- ❖ Universal agreement on this theory
- ❖ But do we have a way to factor the **VALUE** of a relationship into our pricing equation?
- ❖ Do we know what the economic value is?
- ❖ What is the definition of a 'good' customer?

Factors Considered in Relationship Value



Size of loans
and size of
deposits



What type of
deposits – non-
interest bearing
or interest
bearing?



Is Profitability on
loans evaluated
based on the
rate
environment
that existed
when the loan
was booked?



Number of
loans and
number of
deposit
accounts – large
numbers of
accounts =
higher
operating
expense

Our Biggest Challenge



Most community banks overprice their largest most profitable customers and underprice their smallest least profitable customers



Overpricing the largest most profitable = losing our best relationships and possibly missing our best opportunities



Underpricing the smallest least profitable = a waste of our limited resources

Fear of Losing Customers

- ❖ The #1 reason we hesitate to implement new pricing strategies
- ❖ We all worry about the wrong customers
- ❖ Typically price small, unprofitable relationships similar to large, profitable ones
 - ❖ The 'little acorn theory' is often used as the justification
- ❖ Remember: the '80/20 rule' is alive and well in banking!

What's it Take to be Competitive at \$1M+?

Term	Fixed Rate	Floating Rate	Max LTV*	Max Amortization**
3 Years	6.22% - 8.22%	5.87% - 10.50%	85% - Owner-Occupied / 75% - Investment	30 Years
5 Years	5.99% - 7.99%	5.87% - 10.50%	85% - Owner-Occupied / 75% - Investment	30 Years
7 Years	5.96% - 7.96%	6.37% - 10.50%	85% - Owner-Occupied / 75% - Investment	30 Years
10 Years	5.88% - 7.88%	6.87% - 10.50%	85% - Owner-Occupied / 75% - Investment	30 Years
15 Years	6.38% - 8.88%	6.87% - 10.50%	85% - Owner-Occupied / 75% - Investment	15 Years

Loan Amount \$1,000,000+

Source: [Commercialloandirect.com](https://www.commercialloandirect.com)

Allocating Capital and Targets for Risk

- ❖ The 'Big Bank' sophistication mentioned earlier
- ❖ Deploying tools to price more aggressively for larger credits and best credit risks

\$1MM Commercial Real Estate / A+ Credit, 10% Cap				
ROE				Yield
	Loan	Deposits	Relationship	Mon
Net Interest Margin	2.43%			
Annual Net Income	\$15,365.72	\$0.00	\$15,365.72	
Capital	\$74,807.93	\$0.00	\$74,807.93	
Projected ROE	20.54%	0.00%	20.54%	
Target ROE	18.00%		22.00%	
ROE Rate	6.51%		6.82%	

\$1MM Commercial Real Estate / A+ Credit, 8% Cap				
ROE				Yiel
	Loan	Deposits	Relationship	M
Net Interest Margin	2.43%			
Annual Net Income	\$15,365.72	\$0.00	\$15,365.72	
Capital	\$74,807.93	\$0.00	\$74,807.93	
Projected ROE	20.54%	0.00%	20.54%	
Target ROE	16.00%		22.00%	
ROE Rate	6.35%		6.82%	

Loan Type Matters

- ❖ All loans are not created equal
- ❖ Terms loans have different profit characteristics than LOC or construction loans
- ❖ On LOC fee protect against low usage

\$500K Commercial Real Estate / No Fee			
ROE			
	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	\$9,389.36	\$0.00	\$9,389.36
Capital	\$47,016.69	\$0.00	\$47,016.69
Projected ROE	19.97%	0.00%	19.97%
Target ROE	18.00%		22.00%
ROE Rate	7.31%		7.70%

\$500K LOC / Low Usage, No Fee, Prime			
ROE			
	Loan	Deposits	Relationship
Net Interest Margin	3.70%		
Annual Net Income	\$782.58	\$0.00	\$782.58
Capital	\$15,000.00	\$0.00	\$15,000.00
Projected ROE	5.22%	0.00%	5.22%
Target ROE	18.00%		22.00%
ROE Rate	9.76%		10.16%

Fixed or Floating?

- ❖ Type of rate structure matters too
- ❖ Not so much in current environment...but current environment will change

\$500K CRE / Fixed

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.88%		
Annual Net Income	\$8,428.21	\$0.00	\$8,428.21
Capital	\$46,840.68	\$0.00	\$46,840.68
Projected ROE	17.99%	0.00%	17.99%
Target ROE	18.00%		22.00%
ROE Rate ?	7.06%		7.46%

\$500K CRE / Floating

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.92%		
Annual Net Income	\$7,896.45	\$0.00	\$7,896.45
Capital	\$43,854.17	\$0.00	\$43,854.17
Projected ROE	18.01%	0.00%	18.01%
Target ROE	18.00%		22.00%
ROE Rate ?	8.11%		8.51%

Size of Loan

- ❖ Large loans – more NII \$'s
- ❖ 'I can spend the dollars...not the percents'

\$200K CRE / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.24%		
Annual Net Income	\$3,389.56	\$0.00	\$3,389.56
Capital	\$18,783.19	\$0.00	\$18,783.19
Projected ROE	18.05%	0.00%	18.05%
Target ROE	18.00%		22.00%
ROE Rate ?	7.42%		7.81%

\$1MM CRE / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.84%		
Annual Net Income	\$16,899.11	\$0.00	\$16,899.11
Capital	\$93,654.87	\$0.00	\$93,654.87
Projected ROE	18.04%	0.00%	18.04%
Target ROE	18.00%		22.00%
ROE Rate ?	7.02%		7.41%

Small Loans

- ❖ Fees are critical on small loans
- ❖ Impossible to make money on installment loans <\$2,500
- ❖ Raise loan fee to minimum of \$150 and minimum loan amount to \$2,500

Small Installment Loan / \$2500 Example

ROE

	Loan	Deposits	Relationship
Net Interest Margin	13.58%		
Annual Net Income	(\$47.24)	\$0.00	(\$47.24)
Capital	\$139.58	\$0.00	\$139.58
Projected ROE	-33.84%	0.00%	-33.84%
Target ROE	18.00%		18.00%
ROE Rate	22.84%		22.84%

Small Deposits Too

- ❖ Minimum deposit requirements have not changed materially in 25 years
- ❖ Consider raising minimums and implementing maintenance fees on DDA

Small CD / \$2500 Example

ROE

	Deposits
Annual Net Income	(\$68.88)
Capital	\$50.00
Projected ROE	-137.76%
Target ROE	
ROE Rate	

Small DDA / \$2500 Example

ROE

	Deposits
Annual Net Income	(\$198.16)
Capital	\$50.00
Projected ROE	-396.32%
Target ROE	
ROE Rate	

Fee Income

- ❖ Fees are important...but not in every loan case

\$500K Commercial Real Estate / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	\$9,389.36	\$0.00	\$9,389.36
Capital	\$47,016.69	\$0.00	\$47,016.69
Projected ROE	19.97%	0.00%	19.97%
Target ROE	18.00%		22.00%
ROE Rate	7.31%		7.70%

\$500K Commercial Real Estate / 1/2 Point Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	\$9,889.36	\$0.00	\$9,889.36
Capital	\$47,016.69	\$0.00	\$47,016.69
Projected ROE	21.03%	0.00%	21.03%
Target ROE	18.00%		22.00%
ROE Rate	7.20%		7.59%

Some Fees are More Important than Others

- ❖ In what cases do fees really drive profitability?
- ❖ Do your lenders know the difference?

\$500K Commercial Real Estate / No Fee			
ROE			
	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	\$9,389.36	\$0.00	\$9,389.36
Capital	\$47,016.69	\$0.00	\$47,016.69
Projected ROE	19.97%	0.00%	19.97%
Target ROE	18.00%		22.00%
ROE Rate	7.31%		7.70%



compliance
profitability
growth

\$500K LOC / 60% Usage, No Fee, Prime			
ROE			
	Loan	Deposits	Relationship
Net Interest Margin	3.70%		
Annual Net Income	\$5,200.16	\$0.00	\$5,200.16
Capital	\$30,000.00	\$0.00	\$30,000.00
Projected ROE	17.33%	0.00%	17.33%
Target ROE	18.00%		22.00%
ROE Rate	8.57%		8.96%

\$500K LOC / 60% Usage, 1/2 Point Fee, Prime			
ROE			
	Loan	Deposits	Relationship
Net Interest Margin	3.70%		
Annual Net Income	\$7,700.16	\$0.00	\$7,700.16
Capital	\$30,000.00	\$0.00	\$30,000.00
Projected ROE	25.67%	0.00%	25.67%
Target ROE	18.00%		22.00%
ROE Rate	7.74%		8.14%

Consistently Price for Risk

- ❖ Get more from the highest risk customer you are willing to lend to
- ❖ Give your 'A' customers the best possible deal

\$500K CRE / A+ Credit

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.53%		
Annual Net Income	\$8,400.34	\$0.00	\$8,400.34
Capital	\$46,723.43	\$0.00	\$46,723.43
Projected ROE	17.98%	0.00%	17.98%
Target ROE	18.00%		22.00%
ROE Rate ?	6.71%		7.11%

\$500K CRE / C Credit

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.13%		
Annual Net Income	\$8,447.62	\$0.00	\$8,447.62
Capital	\$46,922.49	\$0.00	\$46,922.49
Projected ROE	18.00%	0.00%	18.00%
Target ROE	18.00%		22.00%
ROE Rate ?	7.31%		7.71%

Expected Life is a Key Assumption

- ❖ But be careful...a bad expected life assumption can have a significant impact on profit

\$500K CRE / 120 Month Expected Life

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.81%		
Annual Net Income	\$7,728.28	\$0.00	\$7,728.28
Capital	\$42,843.91	\$0.00	\$42,843.91
Projected ROE	18.04%	0.00%	18.04%
Target ROE	18.00%		22.00%
ROE Rate ?	7.20%		7.59%

\$500K CRE / 60 Month Expected Life

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.88%		
Annual Net Income	\$8,428.21	\$0.00	\$8,428.21
Capital	\$46,840.68	\$0.00	\$46,840.68
Projected ROE	17.99%	0.00%	17.99%
Target ROE	18.00%		22.00%
ROE Rate ?	7.06%		7.46%

Origination and Servicing Cost must be Considered

- ❖ Not just variable costs
- ❖ Fixed costs – buildings, furniture, fixtures, lights, equipment, etc.
- ❖ Cost should vary based on type of loan
- ❖ Cost should vary based on size of loan
- ❖ Complexity relative to a particular loan type should also be considered

Utilization is Key on LOC and Construction Loans

- ❖ Base these assumptions of actual past experience wherever possible

\$500K LOC / 80% Utilization - No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.21%		
Annual Net Income	\$7,182.75	\$0.00	\$7,182.75
Capital	\$40,000.00	\$0.00	\$40,000.00
Projected ROE	17.96%	0.00%	17.96%
Target ROE	18.00%		22.00%
ROE Rate ?	8.40%		8.80%

\$500K LOC / 20% Utilization - No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	5.94%		
Annual Net Income	\$1,799.43	\$0.00	\$1,799.43
Capital	\$10,000.00	\$0.00	\$10,000.00
Projected ROE	17.99%	0.00%	17.99%
Target ROE	18.00%		22.00%
ROE Rate ?	11.13%		11.53%

One Final Word on Consistency

- ❖ Today's interest rate environment is a perfect example of a consistency 'disruptor'

\$500K Commercial Real Estate / 5/31/2024 Rates				6/2/2024	
ROE				Yield Curve	
	Loan	Deposits	Relationship	Months	Yield
Net Interest Margin	3.02%			0	5.47%
Annual Net Income	\$8,436.79	\$0.00	\$8,436.79	1	5.47%
Capital	\$46,919.24	\$0.00	\$46,919.24	3	5.50%
Projected ROE	17.98%	0.00%	17.98%	6	5.48%
Target ROE	18.00%		22.00%	12	5.25%
ROE Rate	7.20%		7.59%	24	4.99%
				36	4.81%
				48	4.73%
				60	4.66%
				84	4.78%
				120	4.87%
				180	5.07%
				240	5.25%
				360	5.37%
				prime	8.50%

Strunk

compliance
profitability
growth

\$500K CRE / 6/18/2021 Rates				6/27/2023	
ROE				Yield Curve 6/18/2021	
	Loan	Deposits	Relationship	Months	Yield
Net Interest Margin	2.90%			0	0.38%
Annual Net Income	\$8,247.35	\$0.00	\$8,247.35	1	0.35%
Capital	\$45,788.21	\$0.00	\$45,788.21	3	0.34%
Projected ROE	18.01%	0.00%	18.01%	6	0.33%
Target ROE	18.00%		22.00%	12	0.31%
ROE Rate ?	4.20%		4.60%	24	0.60%
				36	0.84%
				60	1.30%
				84	1.71%
				120	2.01%
				180	2.41%
				240	2.81%

What is the Value of the Relationship?

- ❖ We need an easy way to evaluate relationship value
- ❖ Accessible by every lender

			Logistics LLC			6/27/2023	
Summary							
	Berg / 9795- LOC	Logistics / 2417-Shop	Logistics / 2741 - Forklift	2819-2023 Landoll	Berg / 22987980 Home LN	Deposits	Total
Loan Type	Commercial Operating LOC	CRE	C&I	C&I	Residential Mortgage		
Amount	\$750,000.00	\$194,000.00	\$100,100.00	\$55,151.50	\$235,000.00	\$242,681.00	\$1,334,251.50
Expected Life	12	84	36	36	72	N/A	N/A
Net Interest Margin	4.3058%	3.8067%	2.6789%	5.3351%	2.0019%	N/A	3.1040%
Annual Net Income	\$11,797.31	\$3,530.49	\$418.88	\$723.64	\$2,786.76	\$8,184.21	\$27,441.29
Capital	\$45,750.00	\$15,776.36	\$7,405.15	\$3,967.51	\$22,637.91	\$4,853.62	\$100,390.56
Projected ROE	25.79%	22.38%	5.66%	18.24%	12.31%	168.62%	27.33%
Targeted ROE	18.00%	18.00%	18.00%	18.00%	15.00%	N/A	N/A
ROE Rate	8.72%	3.64%	8.50%	9.23%	6.75%	N/A	N/A

Profitable vs. Unprofitable Customers

- ❖ It's not always a bad thing to lose a customer relationship...if you are not able to price up

Strunk Financial III		Larger Profitable Client			6/2/2024
Summary					
	CRE Example / Example	C&I Example / Example	LOC Example / Example	Deposits	Total
Loan Type	CRE	C&I	Commercial Operating LOC		
Amount	\$2,500,000.00	\$50,000.00	\$750,000.00	\$450,000.00	\$3,300,000.00
Expected Life	60	60	12	N/A	N/A
Net Interest Margin	2.7218%	3.7361%	3.7041%	N/A	2.7689%
Annual Net Income	\$43,542.90	(\$200.05)	\$11,385.25	\$12,888.99	\$67,617.09
Additional Relationship Income					\$3,750.00
Total Net Income	\$43,542.90	(\$200.05)	\$11,385.25	\$12,888.99	\$71,367.09
Capital	\$234,264.79	\$2,709.58	\$45,000.00	\$9,000.00	\$290,974.37
Projected ROE	18.59%	-7.38%	25.30%	143.21%	24.53%
Targeted ROE	18.00%	18.00%	18.00%	N/A	N/A
ROE Rate	6.94%	10.43%	7.78%	N/A	N/A

Strunk Financial III		Smaller Marginally Profitable Client			6/2/2024
Summary					
	Small C&I Example / Example	Small C&I Example 2 / Example	Small LOC Example / Example	Deposits	Total
Loan Type	C&I	C&I	Commercial Operating LOC		
Amount	\$50,000.00	\$65,000.00	\$100,000.00	\$10,000.00	\$215,000.00
Expected Life	60	60	12	N/A	N/A
Net Interest Margin	3.7361%	3.7361%	4.2110%	N/A	3.8128%
Annual Net Income	(\$200.05)	\$42.63	\$941.60	(\$92.08)	\$692.10
Capital	\$2,709.58	\$3,522.45	\$6,000.00	\$200.00	\$12,432.02
Projected ROE	-7.38%	1.21%	15.69%	-46.04%	5.57%
Targeted ROE	18.00%	18.00%	18.00%	N/A	N/A
ROE Rate	10.43%	9.62%	9.23%	N/A	N/A

Gaining Lender Buy-In

- ❖ It all boils down to confidence
 - ❖ Validate assumptions
 - ❖ Show favorable results on larger deals
 - ❖ Identify 'lost loans' that could have been won
 - ❖ Show how small loans often cannot achieve profit targets regardless of assumptions used
 - ❖ Use real examples of real deals

QUESTIONS?

Dan Roderick

CEO

Strunk

droderick@strunkaccess.com

404-641-3879