

THE COMMUNITY BANK STRATEGIC ROADMAP



TexasBankers
Association
Strong Banks. Stronger Communities.

September 2020

A COMMUNITY BANK TOOLKIT FOR BANK DIRECTORS, CEOS,
SENIOR MANAGEMENT EXECUTIVES AND DEPARTMENT LEADERS

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ACKNOWLEDGEMENTS

The Texas Bankers Association and its Future of Banking Task Force gratefully acknowledge the contribution of the following individuals and their organizations for sharing their time, knowledge and experience:

Subcommittee on RoadMap ToolKit

- J. Tanner Moore, MBA, Alliance Bank Central Texas, Waco
- Steven Martin, Marcato Advisors

Subcommittee on Core Provider Survey

- Scott Rogers, Alliance Bank, Central Texas, Waco
- Kenneth Early, Texas Hill Country Bank, Kerrville
- Bruce Zaret, CPA, Partner, and Matt Paske, CPA, CIA, Risk Advisory Services, Weaver

TBA Global Summit Report

- Tim Leonard, Commercial Bank of Texas, Nacogdoches
- Kenneth Early, Texas Hill Country Bank, Kerrville

Erik Roth, Senior Partner at McKinsey & Company



INTRODUCTION

Technology continues to change the lives and expectations of our bank customers. However, providing accessibility, convenience, and innovation is about more than just buying hardware and software. With fewer resources and personnel than larger institutions, community banks must take a deliberate and strategic approach to bank technology. This is an executive management and board imperative — not a delegated IT responsibility.

TBA's Future of Banking Task Force was formed to help Texas community banks not just remain competitive, but to thrive even amidst rapid technological, economic, and social change. The work of the Task Force — on this and other projects — is directed by Texas community bankers working collaboratively to identify common challenges and to develop ideas and solutions for their peers. The impact of the COVID-19 pandemic, which has significantly sped customer adoption of technology solutions, has made the work of the Future of Banking Task Force all the more critical.

Every community bank is unique. *The Community Bank Strategic Roadmap* has been developed over several months not as a prescriptive, one-size-fits-all document, but as a flexible template that community bank leaders can leverage to develop and deliver leading technological offerings by:

- Asking the right questions to understand your bank, customer and market needs;
- Evaluating a range of both opportunities and challenges;
- Staffing, planning, and budgeting effectively for these efforts, and;
- Supporting successful implementation and deployment.

TBA salutes the members of the Task Force acknowledged below for their committed work. We further recognize the leadership of J. Tanner Moore, MBA, Alliance Bank Central Texas, Waco on this project. Finally, we express deep appreciation to Steve Martin of Marcato Advisors for sharing his expertise in support of this member-driven initiative.

Sincerely,



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A CONTEXT FOR USING THIS TOOLKIT

To stay competitive, Texas banks need to deploy technologies that meet the needs of a diverse customer base. But many banks find this task daunting, and have many questions: Where do we start? How do we develop a strategic roadmap? How will we put this plan in action?

The TBA's Future of Banking Task Force is providing bank members a practical guide to developing their own bank's strategic roadmap. This resource is designed to be easy to understand and use, yet provide a roadmap that helps. It should be:

- Simple to use — for both the board and management
- Practical — not out of reach for busy bank management teams and staff
- Flexible — banks of any size should be able to use it

Who is this for?

Your fellow community bankers on the task force were adamant. This is not an IT toolkit. This is first and foremost an executive management and board tool.

The target audience is: Directors, CEOs, other Senior Management, Key Department Staff

How to best use this resource?

Use it as a guide to inspire conversation, thinking and debate. Tailor this to fit your needs. Document your ideas and choices and then turn that into a strategic roadmap to help manage the change.

This guide is divided into six sections.

- A. Current State of the Bank
This gets everyone on the same page
- B. Board Perspectives
What are top goals long term?
- C. Senior Management View
Near-term opportunities, challenges
- D. Strategic Alternatives
Review options, make choices
- E. Prioritize and sequence
A logical and achievable roadmap
- F. Putting the Plan in Action
People, plans, milestones, outcomes

A **Current State of the Bank**

This gets everyone on the same page

B **Board Perspectives**

What are top goals long term?

C **Senior management View**

Near term opportunities, challenges

D **Strategic Alternatives**

Review options, make choices

E **Prioritize and Sequence**

A logical and achievable roadmap

F **Putting the Plan in Action**

People, plans, milestones, outcomes

CURRENT STATE OF THE BANK

Before charting a course for the future, help all critical stakeholders understand the current state of your bank. Keep this “pre-work” simple and high level; do not spend a great deal of time on it. You may need to enlist several people to answer questions, preferably the people closest to the action. The current state of the bank should be a two to five-page document that can be easily understood by the board and management team.

A. CUSTOMERS

Know what customers want and need of a bank

- Describe the composition of your customers: numbers, tenure, age, demographics.
- How do they perceive your bank? (Tech-forward or lagging? First choice or last resort? Meets needs or hard to do business?) How do you know?
- What do your customers do? (Occupation, industry, recreation, retirement plans)
- List the needs your customers have, or pain points your bank solves.
- Why do they continue to bank with you?
- Why do they leave?
- Why do some never join your bank?

B. FINANCIAL

- Chart two years of revenue and expense trends with key ratios.
- What areas are most / least profitable?
- List three top financial risks, three top opportunities.
- List top five expense categories, and assess the productivity / efficiency of each.
- Describe the budget for bank-strengthening initiatives over the next few years.

C. TECHNOLOGY

- Describe core banking, branch technology, ATM network, mobile banking.
- Is your technology helping you be more competitive?
- Is it delivering the experience your customers and staff expect?
- Are you getting full value from the IT expense?
- Are you comfortable with business continuity?

D. INFORMATION SECURITY

- Assess your information security maturity with an [industry checklist like this](#).
- Do your vendors have strong information security standards? How do you know?
- Have you exercised or practiced to include participation by executive management?
- Are your playbooks up to date to manage incidents?
- Does your cyber insurance adequately match your vulnerabilities and the technologies you utilize?

E. TALENT

- Does staff have the skills, experience, and capabilities for your future bank?
- How will you manage any skill gaps (e.g. through new hires, consultants, or training for existing staff)?
- Are key succession plans in place?
- Does your board composition reflect your bank’s future?

F. EXECUTION

- What is the track record of the bank achieving success with new initiatives?
- What capabilities or resources are lacking to be more successful with initiatives?



STRATEGIC QUESTIONS TO GET BOARD PERSPECTIVES

The path to developing a strategy can take many turns. The board's role, however, is very clear. The board is responsible for reviewing and approving a written strategic plan that is consistent with the bank's risk appetite, capital plan and liquidity requirements. The board needs to review the Current State of the Bank, and highlight the top strengths, opportunities and weaknesses. Next, consider the questions below. Step back and take some time to discuss topics to help point the direction for the future. Not all questions may apply, and you may want to add topics.

A. SUCCESS

Mission, growth, profitability and risk

- a. How does your bank make a difference in your community?
- b. How successful have you been with your financial and strategic goals?
- c. How well does the current use of technology support the bank's financial and strategic goals?
- d. What risk should your bank take more of?
- e. What risk should it take less of?

B. LEADERSHIP AND VISION

- a. Does the board composition reflect the future of your bank?
- b. Is the senior management team capable to lead growth and change initiatives?
- c. Reflect on how priorities are set for strategic initiatives — is the board actively or passively engaged?
- d. Rank in order of importance your stakeholders: shareholders, management, employees, vendors, regulators, community, and customers.

C. OVER THE NEXT TEN YEARS

- a. How do you plan to ensure your success as an independent community bank?
- b. What trends do you forecast for the following: the economy, regulations, your customer base, your employees, competition, and technology systems/tools underpinning the bank?
- c. What is the biggest concern about the future of the bank?
- d. What business line would you start if risk was not an object?
- e. Is merger or acquisition something you would consider and under what scenarios (voluntary or involuntary) would this become an option?



STRATEGIC QUESTIONS TO DOCUMENT THE SENIOR MANAGEMENT VIEW

Consider the Current State of Bank first. What's working well that you want to grow? What's not working that should be fixed or eliminated? Next, consider the following:

A. SUCCESS

Growth, profitability, meeting customer needs

- a. For the top five metrics that define bank success, what are future goals?
- b. What are top performing segments or lines of business?
- c. What are the worst performing segments or lines of business?
- d. What products can your bank live without?
- e. Who are your bank's most profitable centers of influence?

B. CUSTOMER EXPERIENCE

- a. How do customers know you care about them?
- b. Describe the ideal customer — how do they get the most out of your bank?
- c. How might your bank offer an experience that "wows" your customer?
- d. Is your bank a "relationship" or "customer service" bank? What does that mean?
- e. What are the worst customer experience events that happen at your bank?
- f. How will your branches change over the next ten years?
- g. What would customers miss if you closed the bank tomorrow?

C. MARKET SEGMENTS

- a. Does your bank need to be the market leader, or in the top market share percentiles?
- b. What segment in your market is underserved or growing?
- c. What industries do you serve and what makes that niche strategic?
- d. List each industry you serve. Which industries should you add or drop?
- e. What technology do you need to expand without branches?
- f. List five products that you want your bank to have over the next five years.

D. TALENT

- a. Where can you improve succession planning?
- b. Do new hires admire or disdain your bank's technology?
- c. What can make your bank be the most desired employer in your community?
- d. How would outsiders describe your bank's culture?
- e. What talent and experience do you need within the bank to achieve your goals over the next ten years?

E. EXECUTION

- a. How well is bank strategy aligned to mission and goals?
- b. What technology should you have adopted sooner?
- c. What five technologies and/or products might be a good fit for you future bank?
- d. What is one major initiative that has dragged on for a long time?
- e. How do you strengthen cross-department relationships?
- f. Is your strategy dashboard with goals and actuals shared with employees?
- g. Are you open to partnerships or outsourcing to achieve your goals?
- h. If your bank were a person, how would you describe it to someone else?
- i. Take a process at the bank — how would you reduce operating steps by half?
- j. As the use of paper checks, coins and currency decreases, what changes will your bank take to adapt?

F. COMPETITIVE

- a. Who are your bank's principal competitors?
- b. What could you add to your bank that would make it unique?
- c. What unique needs does yourbank fulfill better than any competitors?
- d. Name bank strengths that your competitors cannot replicate?

STRATEGIC ALTERNATIVES

Now, consider the Current State of the Bank, plus the Board Perspectives and the Senior Management Point of View. This becomes the source of ideas — what can you add, change, or eliminate to your bank? And how can you accomplish this? The following questions can provide direction.

A. PEOPLE

- a. Are there talented staff members who can be given new authority or provided training?
- b. What new experiences or training can lift someone's contribution?
- c. What tasks can be outsourced, freeing up your team for higher order activities?
- d. Are there individuals or teams that you can hire?
- e. Are there some staff that need to find other opportunities outside your bank?

B. PROCESSES

- a. What function(s) needs to be re-evaluated and/or re-engineered?
- b. Which processes have paper that can be eliminated or digitized?
- c. Are there areas without standard processes that are creating problems?
- d. What processes can be automated easily?
- e. How will your core processor potentially help or hinder your efforts?

C. EXISTING TECHNOLOGY

- a. How do you evaluate the value received from your current core and technology stack?
- b. Are there easy / low cost upgrades to existing tech that might benefit you?
- c. Can your current vendors do more in terms of training or optimization?
- d. Are there redundant technologies, where one or more can be eliminated?

D. NEW TECHNOLOGY

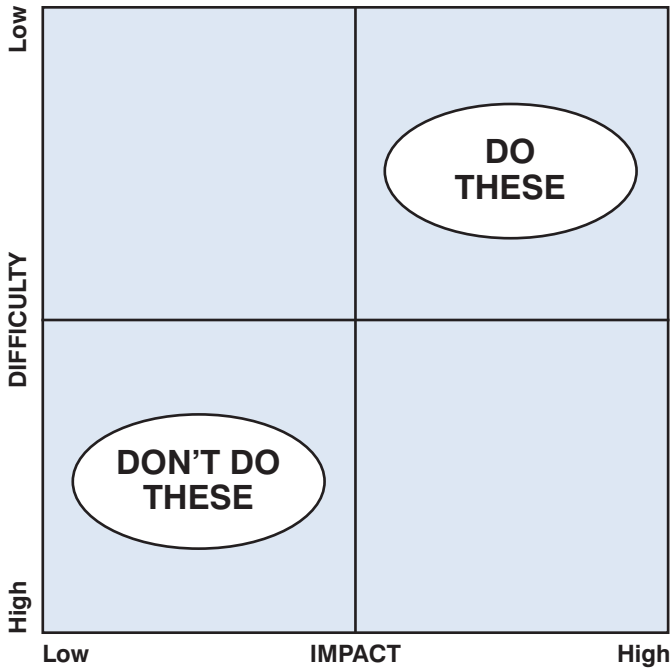
- a. What new technologies are peer banks adopting or evaluating?
- b. How do you track technology ideas from conferences, industry media, or from industry thought leaders?
- c. What challenges can you anticipate as you contemplate incorporating new technologies into your bank products and services?

E. PARTNERS

- a. How can partners (banks, core processors, fintechs, or others) help?
- b. If necessary, are you willing and able to outsource activities or change partners, even "critical" functions such as core processing, compliance or HR?

PRIORITIZE AND SEQUENCE

Once you completed the previous sections, you are finally at the point of prioritizing those few initiatives to work on. Why just a few? Because any single initiative takes a great deal of time and talent to accomplish, sometimes far more than you may expect. Some banks may be able to handle more than one initiative at a time, but, beware of the risks of stretching staff members too thinly across their day jobs and special initiatives. That is why prioritizing is such a key and often difficult task. How can you pick the top initiative that will have the greatest impact for your bank?



One way to help your team prioritize would be to place all the possible initiatives on a two-by-two matrix; for example, “Impact” by “Difficulty.” Without spending too much time analyzing, place the projects in their respective quadrants.

Another idea might be to organize all the potential initiatives by how critical they are to achieving your bank strategy: high, medium, and low. Then have senior staff debate and vote on each one, without spending too much time on each idea.

Once you've identified the top initiatives, consider laying them out over a three- to five-year time horizon. Start Initiative A this year, followed by Initiatives B and C, and so on. Use some logic to determine the sequence. The early initiatives may lay the groundwork for subsequent initiatives, or they may be required before the subsequent. Once you have priorities identified and sequenced, that becomes your road map, the guiding document for your transformation.

PUTTING THE PLAN INTO ACTION

In the development of this toolkit, Erik Roth, a senior partner with McKinsey and Co, advised: focus on delivery. That is, poor execution and lack of accountability will sink even the best of plans. How will you achieve the goals of each initiative? This part is all about planning for success.

A. APPROACH

How will you conduct the initiative?

- a. Do you have a documented list of everything the initiative must do?
- b. Set concrete goals for the project: revenue, expense, new customers, etc.
- c. Have you selected the approach — For example, is this an internal project, or are you acquiring new technology and changing some key processes?
- d. If going external, have you put the project out for bid?
- e. Staffing — If internal, can you free them up from their day job? Can the vendor help with staffing? Are there experienced external resources that can help?
- f. Pilot or “Big Bang” — A pilot might help uncover items to tweak before rolling out to the entire bank. A big bang approach, where the bank cuts over from old to new at once, might be most efficient.

B. ADOPTION

How can you make sure staff and customers use the plan?

- a. Test everything thoroughly, budget more time than you think is necessary.
- b. Train everyone impacted (including customers, if necessary), and give them resources to refresh their learning.
- c. Communicate what is changing and why; and communicate often in different ways.
- d. Turn off the old systems as soon as possible.

C. REPORT PROGRESS

Who will be the leader(s) internally to ensure accountability and progress?

- a. During the initiative, report progress on milestones to staff and the board.
- b. Celebrate wins along the way.
- c. Once the initiative goes live, report out progress against goals.

D. GETTING HELP IF YOU NEED IT

- a. Enlist your vendors to provide training resources or connections to other users.
- b. Talk to other banks that have done this; learn from their lessons.
- c. Seek out best practices or guides.

FINAL NOTES

Your new strategic document should be a living document. It should be reviewed and updated at least annually or when the environment changes. Share your strategic approach with staff, the board and other trusted stakeholders. Keep the energy up by reporting on progress at monthly meetings. And when you are comfortable with this approach, be a resource for other Texas banks looking to improve and strengthen their bank. Best of luck!

RESOURCES

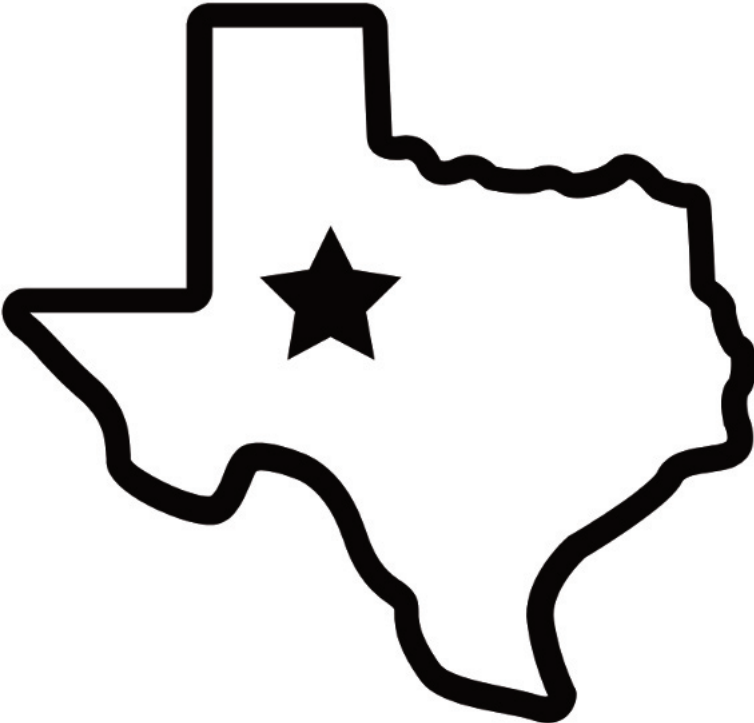
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APPENDIX

THE COMMUNITY BANK STRATEGIC ROADMAP



SAMPLE CASE STUDY: NEW EDGE BANK

CONTEXT

This **sample** strategy is for New Edge Bank, a fictitious bank in Texas. It was developed to support the *Community Bank Strategic Roadmap* from the Texas Bankers Association. The roadmap is a resource for bank executive management and boards to ask questions, assess their current position and think about the future. But it is also designed to be practical and lead to action.

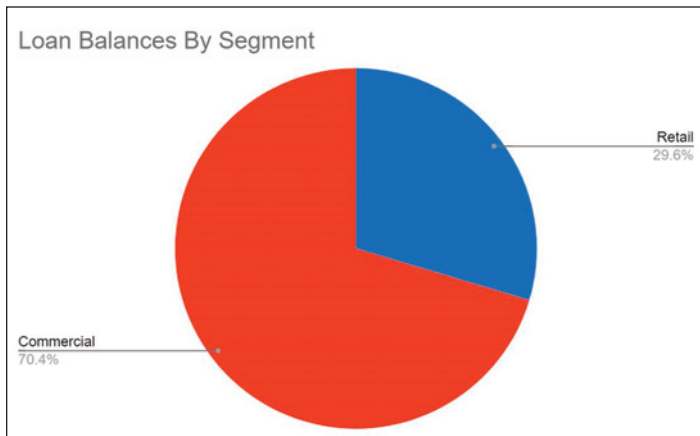
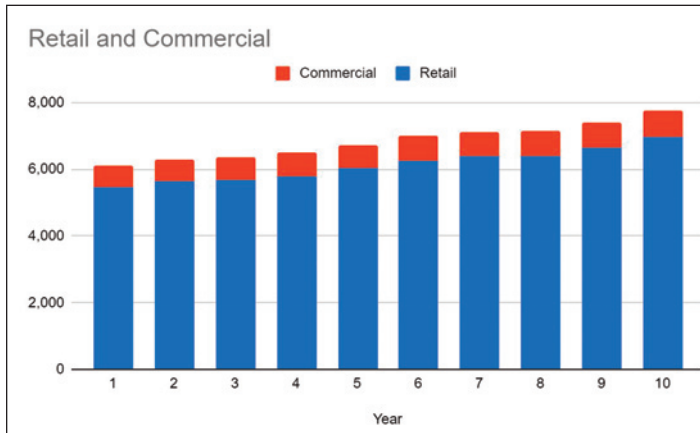
While there are many ways to present a bank strategy, this example is meant to provide context and rationale that can be easily read by board members, management, bank staff, and other stakeholders.

CURRENT STATE OF THE BANK

New Edge Bank was founded in 2000 to help its community grow local businesses and to serve the growing number of affluent individuals.

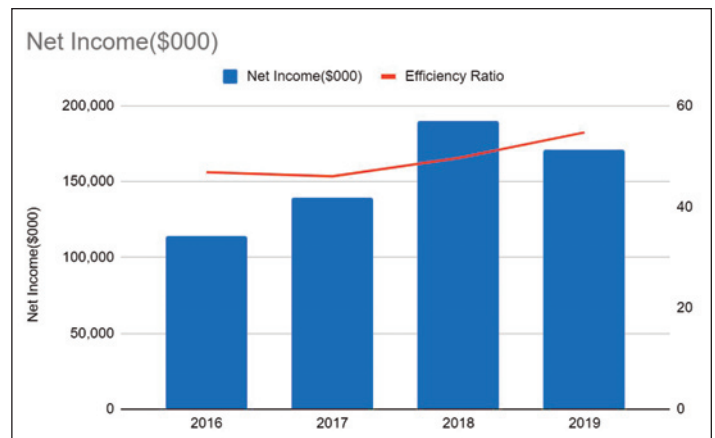
A. CUSTOMERS

New Edge Bank is based in Central Texas, along the I-35 corridor between Dallas and San Antonio. Our economy is a blend of business, agriculture, higher education and health care. Our individual and business customers represent a blend of industries in our market. In the last few years, we have found a successful niche in catering to the Hispanic community — both businesses and individuals. As language is key for this segment, we hire bilingual bankers and branch staff. Our most loyal and profitable customers are over age 40 and own a home; while they are quick adopters for technology, like check deposits on our mobile phone apps, they have told us we are too slow in rolling out new technology. They appreciate our focus on the community, and tell us our customer service is first rate. Customer attrition is worst in the student segment; we suspect that students leave us to go with a national brand. Our most reliable referral rate comes from our shareholders, so we continue to cultivate that base.



B. FINANCIAL

Our financial goals are to maintain profitability while we continue to invest and expand to make our bank strong for the long term. Our growing affluent consumer segment is, by volume, a major portion of our profitability. But our commercial lending offers the most promise, particularly with our Hispanic segment. Our worst performing segment is agriculture, as we have had trouble competing with larger players. We are proud of our efficiency ratio, which is due largely to a careful and lean staffing model. This gives us an opportunity to make selective investments as the opportunities are presented.



C. TECHNOLOGY

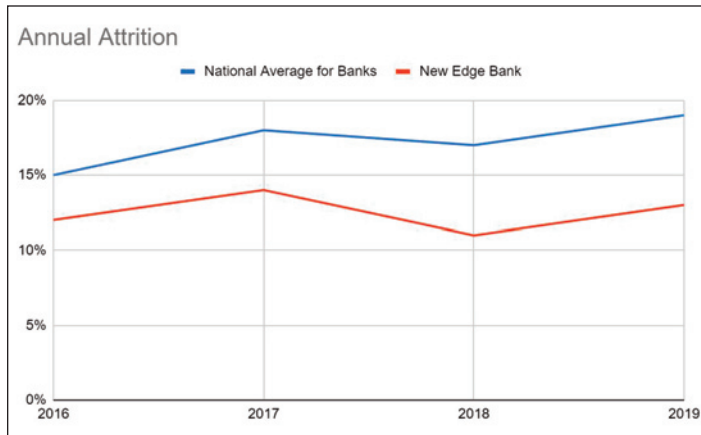
We outsource most of our technology, which is a mixed blessing. We are generally happy with core banking services, branch platform, and the ATM network. The mobile app, however, does not seem to be keeping pace with our customers' expectations, and this makes us far less competitive. Also, we are aware of many customer facing interactions that are out of date or otherwise uncompetitive. For example, we have not yet rolled out electronic signatures, and we do not yet have an easy and secure way for customers to upload and download documents. Finally, many of our internal technologies are viewed as dated or cumbersome, which may be okay in the short term, but will not allow us to scale as fast as we'd like and may turn off younger staff members. One example of this is found in commercial loan origination, where systems are not connected so staff are forced to rekey the same information into four systems.

D. INFORMATION SECURITY

As much of our technology is outsourced, that helps keep our information security up to date. We periodically test information security, and the results fall within our expectations. We can always do better, especially when considering how important security is to our sophisticated customers. We worry that a future event could damage the trust we have built up with our community.

E. TALENT

We find it easy to recruit mid-career people, especially those from larger banks who prefer working in a community bank. Mid-career hires help us bring best practices and modern banking techniques into our bank, and they tend to match our culture. Where we have difficulty, however, is in the more junior staff segment. Even though we are in a college town and in a good market, we find it difficult to attract and retain people in their twenties. One other stress we deal with is striking that balance between keeping our staffing model nimble and lean with our desire to grow and take on more business. As a result, we risk burning out some of our staff when the work burdens get too high. We have documented succession plans in place, but since our management team seems to be in it for the long haul, we view succession risk to be low now.



Overall national rates are 18.6%, and a LinkedIn study finds analysts stay in their positions for 17 months in 2015, compared to 26 months in 2005 and 30 months in 1995.¹

1. <https://gethppy.com/employee-turnover/the-millennial-turnover-problem-in-the-financial-services-industry>

F. EXECUTION

As a bank, we struggle with new initiatives and/or special projects. Where we are most successful seems to be with vendor-led initiatives, where the time demands on our staff are low. When we launch staff-intensive projects, however, we often experience delays, mistakes, burnout, and occasionally, project failures. We attribute much of this to our lean staffing model, and we acknowledge this to be a risk.

BOARD PERSPECTIVES

Our board reviews and approves the written strategic plan that is consistent with the bank's risk appetite, capital plan and liquidity requirements. Every year before we update our strategy, we conduct a working session with the board to provide management with high level themes. This year, we reviewed the current state of the bank, including our top strengths, opportunities and weaknesses. We then consider the questions listed below taking the time to discuss topics to help point the direction for the future.

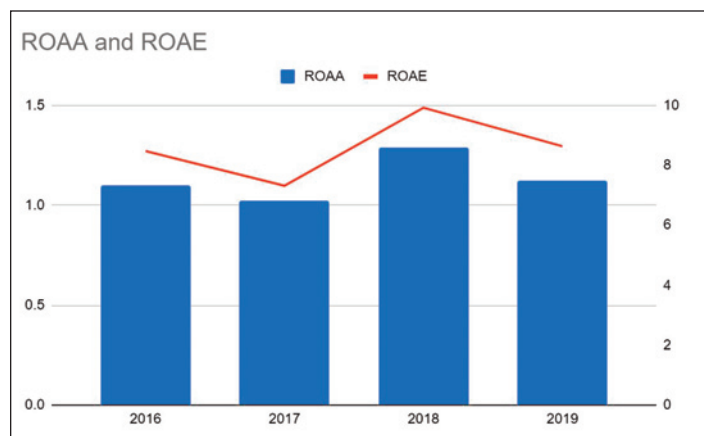
- a. Does your bank need to be the best, or just be among the best in your market?
- b. What segment in your market is underserved?
- c. What industries do you serve and what makes that niche strategic?
- d. List each industry you serve. Which industries should you drop?
- e. What technology do you need to expand without branches?
- f. List five products that you want your bank to have over the next five years.

A. SUCCESS

Growth, profitability, and risk

The board is committed to serving the community above everything else. There is no plan to sell the bank, and therefore no desire or urgency to make short-term decisions that could inflate the acquisition value of the bank at the expense of serving the long-term interests of the community. The board reaffirmed its commitment to serve the Hispanic community.

In addition, the board expects our financial and credit benchmarks to be in the range of peer banks across Texas.



B. LEADERSHIP AND VISION

The most recent board self-assessment identified that the composition of the board is a concern, particularly the lack of women and Hispanic board members. The board tasked the Nominating Committee to broaden and deepen the search and recruitment for candidates who could enhance the composition of the board.

Every year the board is briefed by the CEO and SVP Human Resources on the strength of the senior leadership at the bank. Individual performance is evaluated across financial, leadership and cultural dimensions. While the board has strong confidence in the management team, it highlighted a gap in leadership of strategic initiatives and asked management to consider strengthening in that area.

C. OVER THE NEXT TEN YEARS

The board has no interest in selling the bank, but rather aims to be the bank of choice for all businesses and individuals in our market. Since New Edge Bank is located within a vibrant economic market, the board believes that keeping customers happy with products and services will be the key long-term success.

One major concern involves the technology front. The board is not confident that the major vendors the bank currently uses will be as responsive with new technologies as those employed by larger banks and national players.

The board also believes that regulatory pressures on banks will continue to increase and that the compliance burden will be disproportionately heavy on banks of our size and position. Another concern is that new banks entering our markets will find ways to erode deposits or take market share from the loan portfolio.

SENIOR MANAGEMENT PRIORITIES

The senior management team has discussed strengths, weaknesses and opportunities based on where the bank is currently. In addition, the team has consulted with the board to get their priorities.

A. SUCCESS

Growth, profitability, meeting customer needs

For New Edge Bank, success starts with meeting our customers' needs. We prioritize customer metrics above all else. For example, our key metrics focus on customer retention, longevity and customer satisfaction. We also believe in delivering solid or better profitability and credit metrics as our Texas peers.

Our two most challenging areas are agriculture and wealth management. We simply cannot get to scale with agriculture, nor are we serving the market that well. And, in wealth management, we have learned this is not yet a capability that we can acquire or develop. We expect to exit both areas.

Our best source of new business comes from referrals: from our shareholders, from our Directors Loan Committee, and from current customers. We expect to capitalize on this going forward.

	Goal	Actual 2019
Customer retention	95%	96%
Loans / deposit ratio	98%	96%
NPAs/ Assets	0.87	0.77
# client referrals	2,500	3,200

B. CUSTOMER EXPERIENCE

Our best customers tend to be customers who start with simple products, then grow with us throughout their financial lives. For example, a college student gets a debit card from us, then they use direct deposit when they start a new job. After saving for several years, we help them get into their first home. And later, we help them start a business.

The most common — and best — positive feedback we get is when a customer receives special attention from our staff. Sometimes it is help resolving a problem, sometimes it is

advice, or just being there when times get tough. We believe these are the “wow” moments that help keep our customers coming back, so we publicly share these moments with the team at our all-hands meetings.

We fail our customers when we cannot be immediately responsive to them, particularly in helping with their lending needs. While we get it right most of the time, it is not uncommon to hear that it takes far longer to get a mortgage or a commercial equipment loan than it takes at other banks.

The 2020 pandemic-caused economic crisis taught us some lessons about the importance of a more digital experience for customers. We are convinced that while there will always be a need for face-to-face interactions, our customers will increasingly expect to do more of their banking on their phone or with their computer.

C. MARKET SEGMENTS

As mentioned earlier, we are doing well with our focus on Spanish-speaking customers, and we intend to cultivate and grow that segment. This means we will continue to hire bilingual staff members, and to keep Spanish language resources available throughout all our channels. Furthermore, we want to listen to the banking needs of this market segment and add any products and services that would strengthen our position with this group.

We are not yet satisfied with how well we serve the higher education market, from students to staff. We believe this market has high potential for our bank, but that we have not yet understood their needs well enough. We expect that we will need a combination of customer pleasing technologies (led by mobile phone apps) and changes to our products, primarily the deposit accounts (onboarding, fees, and convenience items) and credit card products (rewards).

One segment has consistently underperformed in terms of customer satisfaction, growth, and profitability. That is our agricultural market. When we started the bank, we had hoped to convert our expertise into a thriving segment. Over time, however, we realize that, while our team is strong, we lack the full suite of agriculture-related products needed to be more competitive. In the near term, we expect to exit this segment.

SENIOR MANAGEMENT PRIORITIES *(continued)*

D. TALENT

Our biggest opportunity for growth in talent is with hiring junior staff who can be groomed for various management positions. The talent pool in our area is quite rich, but the attractiveness to banking is low. Our bank fails to attract top talent from the area. We are committed to making several concrete changes, including reinstating an internship program for rising college juniors and seniors, creating a management rotation program for new junior hires for the first three years, and upgrading our internal workplace tools. We also are committed to sending promising junior talent to banking schools.

We will continue to hire Spanish-speaking staff at all levels of the organization. In our community outreach and marketing messaging, we are making it clear that our bank welcomes Spanish speakers. We believe that hiring more Hispanic bankers can help us recruit more customers and job candidates.

E. EXECUTION

While we get everyday banking tasks done quite well and we keep our customers happy, we often stumble when it comes to new initiatives or projects. As mentioned earlier, we believe this is a function of our lean staffing model; current staff simply do not have the capacity to devote to new initiatives. While we are committed to our lean staffing model, we recognize the need to dedicate more resources to special projects. This may come in the form of one or two mid-level hires to join our staff, plus earmarking additional money to supplement with contracted expert assistance.

One example was our initial sluggishness on introducing the mobile phone app, and our failure to drive customer adoption. While we think we are currently on par with customer expectations and our competitors in terms of technology, we are not happy with customer adoption and use. To help address this gap, we are asking one of our branch managers to split his time between managing his existing branch and the mobile branch.

Knowing we cannot tackle too much, but wanting to improve where we can, senior management has prioritized five projects to tackle next, and we are putting a hold on all other projects. We discuss this later in this strategy.

F. COMPETITIVE

We believe our Spanish-speaking capabilities are a major competitive advantage, and we will continue to invest there. We also believe that our commitment to the community is recognized and valued by our customers.

At the same time, we feel threatened by larger financial institutions. They have large advertising budgets and use them successfully to attract new customers, particularly on the deposit side. If we were to identify our nemesis, it is the nationwide bank. We take pride in winning back customers who leave us for one of the nationwide banks; we celebrate these victories at the branch level and at our all-hands meetings. We encourage our staff to stay close to customers in general, but also to stay in touch with customers who have closed their accounts with us.

PRIORITIES AND ACTION PLANS

We realize there are 100+ things we can change to improve our bank for the near future, but also to strengthen the bank for the long term. Yet, there is no way to tackle 100 projects at once, especially since our track record on completing projects is not yet where we want it. We are not willing to abandon our lean staffing model, and believe we can make some targeted and strategic investments to help us achieve our goals. We have discussed the merits of all the possible project ideas that would improve our bank.

From that discussion, we are picking five projects that we will focus on for the next two quarters. As each project is completed, we will consider launching a new project. Here are the five projects:

1. Implement electronic signature across all products, services and channels.
2. Introduce and deploy “chat” on our website during normal branch business hours plus extended weekday and all-day Saturday.
3. Hire and onboard three more Spanish-speaking experienced bankers in adjacent markets.
4. Develop a proper internship and junior banker rotation program complete with assignments, resources, timetables, recruiting, mentoring and evaluation.
5. Assign a branch manager to manage the mobile app, and assign goals for customer satisfaction, usage and profitability.

We have created a new full-time position titled, VP Strategy & Integration. This position reports to the Chief Financial Officer. This person will be responsible for project initiation, scoping, sourcing, testing and monitoring. This person will be assisted by bank staff as required, to help with ideas, direction, and oversight, but not the heavy lifting. Also, this person will have limited budget to use to bring in vendor, consultant, or temporary help, if needed.

We are also elevating the visibility of new projects, which will be reported on throughout the bank at our all-hands meetings and will be included in the board packets. A one-page project dashboard will convey progress, issues, and results against the plan. Each project will have measurable goals, timelines, and a budget, so that success can be easily understood.

This strategy will be updated now on a more continual basis, so that the next tranche of projects can be identified and initiated.



TexasBankers Association

Strong Banks. Stronger Communities.

The strategic roadmap to the future of community banking

By Mary Lange



When the TBA Future of Banking Task Force completed its tool kit implementing the Strategic Roadmap for Community Banks in September 2020, the world of banking had already changed dramatically with the galloping pace of technology and the way banks were interacting digitally with customers.

Banks were six months into a pandemic of epic proportions that upended the global economy and accelerated basic changes to the very core of bank operations. The PPP lending process was under full steam with first and second waves of supporting local small business through the dark days.

The TBA Task Force brought together some of the best leaders and minds in Texas community banking to

create a series of questions that if asked, answered and followed would enable community banks to thrive into the middle of the 21st Century and beyond. The Roadmap — Version 1.0 was designed to accelerate thinking and strategic decision making within a community bank and enable it to keep pace in today's digital world. It was designed to be flexible because every bank's situation is different.

Everyone knows a roadmap (or navigation apps like Google maps) can sit unused and unreferenced or it can guide travelers to the places where they want to go.

In 2022, the TBA Taskforce will share the roadmap progress as it is incorporated into various bank's strategic planning process. This is Roadmap — Version 2.0.

Through member stories, readers will see HOW banks are choosing to focus. Using peer-to-peer examples, Texas banks will demonstrate how they are adapting and employing their own roadmaps to their particular situations — sometimes cruising down the highway, sometimes turning off-road into unfamiliar territory — to achieve sustainable and successful community banking.

Over the next six issues of Texas Banking magazine, look for explanations in how Texas bankers have put this tool kit to work. Many Texas community banks, like First National Bank of Bastrop, are well down the road in executing their planning processes and budget projections. It is our hope that these stories will inspire other banks to act.

Chapter 1: First National Bank of Bastrop: Preparation is key

The first step on any journey of this magnitude, is creating an inside team that will guide the bank as it undertakes modernization of its systems.

Even before COVID-19 took hold in March 2020, bank management knew that it was time to modernize with significant investments in technology and people.

"We always feel that we are behind where we should be, even though we probably are not," said Reid Sharp, president and CEO.

This bank is no stranger to innovation. From the days when Sharp took the reins as president of the \$120 million bank at the age of 34 to some 30 years later with assets approaching \$1 billion, this country bank grew in tandem with the town of Bastrop. It sits along TX Hwy. 71, a major road that heads East from Austin toward Houston.

Over these years, the bank has:

- Cultivated a strong and loyal customer base.
- Strategically invested in available real estate.

- Chosen to relocate its headquarters from downtown to the expressway frontage road.
- Included a Starbucks to its drive-thru facility to increase traffic and exposure.

Internally, the bank increased its capacity for growth with relevant products and services, along with internal systems and software, some of which worked well and, quite frankly, some that never fired on all cylinders. Sharp is not shy about recounting past experiences where technology solutions might have been overpromised and underdelivered.

Moving on to 2019, in a pre-pandemic mindset. Sharp and his team wanted to prepare for additional growth that would take the bank over the \$1 billion asset line. For their next growth phase, he wanted fresh eyes looking at opportunities and challenges ahead.

The bank took this approach because, as Sharp said, one word, Survival.

“Our goal has long been to grow as our community grows. Our area has grown but the definition of ‘our community’ has changed over the years. Our community is no longer just Bastrop. To continue to grow with our community we must stay relevant. While the big banks are remaking themselves as technology companies which happen to be in the banking business, we believe there is a future for community banks offering the technology and tools our customers want,” said Sharp.

“We want to be both high tech and high touch. This means meeting community expectations, such as being able to open an account — either online or in branch — in a matter of minutes. This means, simplifying the home loan process. Customers want to be able to conduct business through apps and they want bankers to be there in person when there’s a problem.

However, we had some hesitation to go all in with new technology due to prior experiences with previous tech that didn’t pan out as intended. That’s when we decided to bring in personnel with a fresh perspective and an understanding of technology to collaborate with a very capable and tenured management team.”

Based on First National Bank of Bastrop’s journey thus far, Sharp and his innovation team provided Texas Banking three starting recommendations:

- Create the role of Innovation Officer and include this role within the organization chart if innovation or innovative technology is part of your mission statement.

- Invite a trusted third-party consultant to work with the innovation team to evaluate current processes in high volume practices to find places where automation can really help the most.
- Encourage the “old guard” to step back while encouraging mutual respect and patience as the innovation team does its work.

Time will tell if this approach will work but there is a lot of optimism. We look forward to sharing lessons learned and what we also believe will be a roadmap to success for community bankers in a rapidly evolving industry.

In our next issue of Texas Banking magazine, we’ll cover Chapter 2 that highlights NexBank’s experience with their Roadmap. 📖



First National Bank of Bastrop relocated its headquarters from downtown Bastrop to TX Hwy. 71 frontage road.



First National Bank of Bastrop added a Starbucks to its drive-thru facility to increase traffic and exposure.

FNB Bastrop Innovation Team



Reid Sharp, President and CEO



Chase Anderson, Chief Financial Officer



Michael Hancock, Chief Credit Officer



Dianna Kana, Chief Operations Officer



Natalie Hayes, Vice President, Innovation



Brandon Daniels, Business Analyst

The Strategic Roadmap to the Future of Community Banking

By Mary Lange

Chapter 2: NexBank Capital, Inc.: Efficiency

Would you agree that it is an exciting time to be a community banker?

Some might say yes, others no. Your answer may depend on what kind of bank and bank structure you have.

In this chapter on the Strategic Roadmap series, we will explore how NexBank, a commercial bank in Dallas, with 86 employees and virtually no branches, designed its institutional-focused national lending and deposit strategy.

This bank was chartered in 1922. John Holt became chief executive officer and president of both the Company (NexBank Capital, Inc.) and the Bank (NexBank) in 2011 when he was 47 years old. Assets then were \$600 million; over the next 10 years

assets grew to touch the \$10.8 billion line; the employee count stayed at 86. John anticipates continued growth for NexBank in 2022.

As John reflected on strategy, he highlighted five tips that covered his bank's evolution encompassing two different management approaches:

Managing to stay strong, but under \$10 billion vs. deciding to cross the \$10 billion line.

He accepts the added scrutiny that comes with crossing this line. Regulators will require him to move away from annual monitoring to continuous monitoring. This change may affect his efficiency model as he anticipates adding staff for continuous stress testing and business modeling.

Five tips from John Holt

TIP 1

"We use technology and third parties as drivers for efficiencies," said John. As the bank grew, it created an efficient platform with streamlined processes and no legacy infrastructure.

What differentiates NexBank from other banks is the organizational structure. Clients have access to the executives. Four officers make credit decisions. This avoids the need for committees and committee managers and makes the bank more efficient than a regional bank with a sales model.

TIP 2

"We make the strategic plan a living document — not for annual review. We review it quarterly and recast our projections. This is a working document that we share with our team, our regulators and our investors. Every quarter we rework the business plan — looking forward to the next five years. We study where did we hit the mark, where did we miss it and why. We understand



things change — technology changes, consumer preferences change, pandemics changed the world — and we evolve our strategy continually,” said John.

In addition, NexBank is structured to respond effectively to the shifting needs of institutional clients and financial institutions.

“We know we cannot be everything to everybody. We are an institutional-focused organization that is centered on efficiency above most things.”

TIP 3

“I believe in getting involved with the industry and the issues that confront us all. We bankers must help mold the conversations and outcomes, share best practices, get to know one another and better understand the various business models we work with. We need to make the trips to D.C. and Austin for legislative awareness that can shape your bank’s progress and that of the entire industry. By being involved, you will be at the forefront of who is helping your community and your industry,” he said.

John got involved by serving on the TBA Board of Directors when Compliance Alliance was formed in response to the Dodd-Frank Wall Street Reform and Consumer Protection Act. This Act created a series of federal regulations to prevent a future financial crisis, including the formation of the Consumer Finance Protection Bureau. He was also the Co-Chair of the TBA Future of Banking Task Force, along with being a member of several TBA committees.

TIP 4

John attributes a change in the bank’s incentive plan, recommended by NexBank’s chairman, as a way to retain and reward his team. He noted there has been virtually no staff turnover in 18 months. The incentives are based on risk management considerations, not quotas. He added, “We don’t say ... grow the portfolio by XX new loans; that mindset can bring in risky loans to meet a quota.”



We are an institutional-focused organization that is centered on efficiency above most things.”



NexBank is located in the heart of Dallas.



John Holt, President & CEO, NexBank Capital, Inc., and Jessica Pelache, Executive Vice President, First National Bank, Texas, lead the 2020 Future of Banking Task Force meeting at TBA Headquarters.

TIP 5

John is also a big proponent for having a succession plan and an exit strategy. He recognizes he is on the downward slope of his career. "It is time for the next generation to take over. If you don't step back, your institution's pro-

gress will be usurped. New eyes, new skill sets are good. You've got to have a succession plan in place and execute it at the right time. Decisions need to be made in the best interest of the organization. Let the next person carry the ball." ♦

The evolving banking universe

The community bank model

One of the hardest concepts for non-bankers to grasp about banking is that there is no "one size fits all" in the world of community banking.

Different types of community banks are designed to create fairness and provide access to capital while taking in deposits and distributing loans, managing risk and making a profit. Some are retail banks, some are institutional-focused banks, some are mortgage banks, some are small business-focused banks, some are hi-tech banks, some are commercial real estate banks.

The "one size fits all" model is difficult to apply across the board:

- when opening a deposit account;
- when lending money;
- when helping customers grow their businesses;
- when selecting trusted third party vendors who try to anticipate every possible question and variable answer;
- when building a board of directors and a management team; and
- when determining what your bank focus is and what size it might be.

In every situation, the refrain will be ... it depends.

Regulatory scrutiny

Non-bankers are sometimes unaware of how highly regulated our industry is. More so, most do not know that banks are subject to oversight by multiple regulators. State and federal regulators supervise banks to ensure their safety and soundness. While state and federal regulators work toward establishing and applying a single set of rules, this is often not the case, resulting in multiple layers of regulations, which sometimes conflict. Furthermore, while proposed regulations may make sense from an office in a state capitol or Washington, D.C., the practical implications of those regulations once implemented is often very different. And yet, they will still apply to banks and impact all their future exams.

Why isn't banking like a utility? Let's review a few ways these for-profit businesses vary:

- Banks have different customers with different needs.

- Banks have different corporate, tax and regulatory structures.
- Banks have different ownership models and business motives.
- Banks have different ways of measuring their progress and success.

Non-bankers need to recognize that there are different banks for different needs in the economy. Just as you wouldn't go to a dentist for a broken arm, you wouldn't go to an institutional-focused bank to get a personal home loan.

As the world of banking, payments and currencies continues to evolve — with more consumer and small business requests and choices along with financial technology firms partnering with banks — a focused strategy is needed to help banking leaders step into the future.

Remember John Holt's refrain: "We are an institutional-focused organization that is centered on efficiency above most things. [...] We make the strategic plan a living document — not for annual review. We review it quarterly and recast our projections." ♦

The strategic roadmap to the future of community banking

By Mary Lange

Chapter 3: Community Bank & Trust, Waco: Customer connection

When you begin a strategy conversation with David Lacy, his opening words won't be profits or efficiency ratios, although both words figure prominently in his bank's plan.

No, David, who is president and chief executive officer of Community

Bank & Trust based in Waco, will start with the employees and the customer experience. To David, without customers, there is no bank. So what can he do for his customers now to assure a strong foundation that endures to 2035 and beyond?

Origin story

Community Bank and Trust was chartered in 1952 as Waco's first suburban bank. Its founders (including David's father) envisioned a new kind of convenience in banking in the post-World War II period of growth and development. It would feature installment loans on automobiles, major appliances, furniture and residence remodeling and repair. It would also offer convenient parking and accommodate the needs of small businesses. Today, that has evolved to "technology and personal service."

Over its 70-year history, the bank has achieved steady organic growth. Today, the bank has \$550 million in assets, while the bank's trust department is about twice that size.

David, a fourth-generation banker who was well-steeped in community banking, became the fifth president and CEO of the bank in the summer of 1999. He came into his new role with 24 years of banking experience — nearly 10 of those years at Community Bank and Trust. He was 40 years old, and the first challenge was navigating the Y2K (Year 2000) computer dilemma. The technology investments have only gone up since then.

Reflecting on strategy

"What differentiates our bank from others in our market is that we combine great personal service along with state-of-the-art technology — compared to the larger regional banks," said David. Here are three examples:

Customer onboarding

"It typically takes a few months to bring on a new customer. If you think about it, the first act of opening a new account is basically police work. We need to check off the mandatory compliance scrutiny, verifying identity and cross-



checking histories with OFAC and driver's license and more. But, once we have completed that process, then we try to kill our customer with kindness with 1-2 contacts per month. We teach them about all our products, especially the protections provided in SecurLOCK on the debit card side, FDIC insurance coverage, technological products and more. Our customers are eager to learn, and we add a personal touch to teach them."

Attitudinal change

"There needs to be an attitudinal shift about banking among kids, parents, teachers, small businesses and community leaders. I believe we can demonstrate how the local banker is a trusted advisor through many of life's decisions. I've always been interested in new technologies and I see the competition for our customers coming in from mobile apps like Kabbage with checking accounts and small business funding — I pay attention to Lending Tree and other online loan providers. To me, helping kids understand banking is key — and having a good relationship with their banker is step one. We want young folks to feel comfortable with their bank and to know us personally."

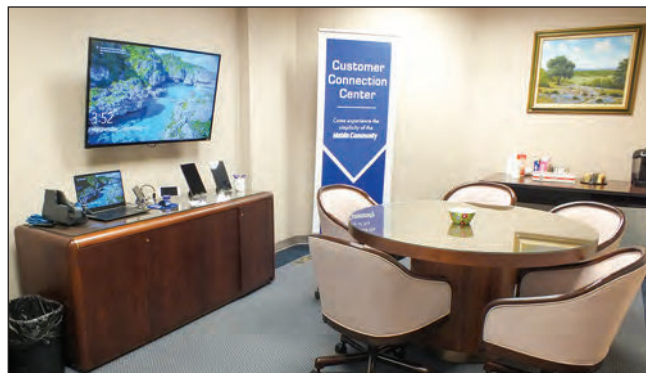
Innovation

"Since its founding in 1952, our bank has always explored innovative solutions for running operations and lending functions. Most recently, we've set up Customer Connection Centers at each of our locations with actual hardware for Apple, Samsung and Microsoft devices. While we may not have a designated innovation officer, we encourage all of our team to listen to our customers and to hear where their pain points are — no matter if it is in savings and checking accounts, lending options or even a better understanding of their own technology.

"Our typical visitor to the centers is a 35-45-year-old mom with kids. She comes in weary from her kids peppering her with questions about how to use certain apps and not having the answers. Our team sits down with her to help build up her confidence in using her own technological devices, accessing our bank applications and any



To me, helping kids understand banking is key — and having a good relationship with their banker is step one."



Customer Connection Centers can be found at each location with actual hardware for Apple, Samsung and Microsoft devices.

other popular apps for her phone, smart pad or computer. Our customers like this personal service."

The future

When you read the history of Community Bank & Trust, the founders were asked by the Texas Banking Commissioner in 1952, "How large do you think your bank might become if it is allowed to open?" Raymond Ford Jr., acting as spokesman, replied, "I believe this bank will grow to a level of \$5 million in assets." The bank reached the \$5 million level just after its third anniversary.

Today, David poses different questions: What will your bank look like in 2035? What will your customers seek from their trusted advisor? What technology will we offer to our customers, and how?

Celebrating 70 years strong, this community bank demonstrates that its strategy focusing on technology and personal service continues to serve it well. 💎

The strategic roadmap to the future of community banking

By Mary Lange

Chapter 4: A single department strategic focus vs. whole bank focus

In this chapter, we'll see how one area of a bank chose to use the Roadmap for its departmental strategy.

Who better to lead this discussion than Jessica Pelache, who in addition to serving as EVP-director of customer experience at First National Bank

Texas, also co-chairs the TBA Future of Banking Task Force. In her capacity as co-chair, she has been a tireless advocate for making the Roadmap flexible and accessible as a planning tool for any department within a community bank.

Customer experience

If you google the bank title, EVP-Director of Customer Experience, you will find many references to the customer journey and how customers engage with a bank and make purchasing decisions.

Pelache leads her team using the Roadmap as part of her departmental planning and execution processes. The customer experience within an in-store location, like a supermarket, is very different from a traditional bank lobby. With its easy accessibility, customers may stop by the in-store branch whenever they are grocery shopping, making it easier to have direct customer conversations. By using the Roadmap questions as part of her department's process, she never worries about forgetting her focus on the customer and what they want or need from the bank.

In her role, Pelache heads up a team of bankers whose job is to listen to the customer, then develop products, provide service, build relationships, collect business intelligence and communicate and engage effectively.

5 tips from Jessica Pelache on how a department can use the Roadmap

1. Cross checking

Pelache guides her team using two sections of the TBA Community Bank Strategic Roadmap to cross check their actions.

Section A: Current State of the Bank

This is pre-work that is simple and high level. It covers questions focusing on the customers' wants and needs from the bank, financial risks and opportunities, technology, information security, talent and how to achieve success with any new initiative.

Section F: Putting the Plan in Action

Everyone knows that poor execution and lack of accountability will sink even the best of plans. This section asks how will you achieve goals, how will you plan for success?





Jessica Pelache

By using the Roadmap questions as part of her department's process, (Pelache) never worries about forgetting her focus on the customer and what they want or need from the bank."

Pelache noted, "My team always begins with the impact to the customers. We constantly ask, 'who are our customers, and how will they experience our bank? When will they come in, why are they there, what will they do?'"

2. Customer feedback

Pelache uses formal/informal assessment tools such as surveys of both customers and internal staff. The questions are informal to evoke responses following the five aspects of customer experience — who, what, where, why and how.

"These are simple surveys with limited questions to evoke participation and we use multiple channels to obtain customer feedback. We stand in the lobby with clipboards or tablets to capture intelligence, we seek feedback while assisting customers with routine requests and we utilize our technology applications to engage customers' feedback," said Pelache.

"The collection of our customer feedback is paramount and it is the task of the team to carefully analyze the information so that we build the right strategies to support how they want and when they want to bank."

3. Educating customers on bank products

Many times customers ask for things that we have already developed in the app — we just need to find better ways to educate and demonstrate how to find the answers they seek. Our team will review our education tools that promote the app, testing customer responses and relaunch a product information tool when necessary.

4. Internal pilot groups

When rolling out a product — enterprise wide — we leverage a pilot group: our own employees.

As we collect information from the pilot group, we may redesign the menu options to improve ease of use

in our digital solutions. As we work through a product rollout, we partner across departments to support a comprehensive and collaborative approach to ensure we collectively address critical project components — should we buy or build it, how should we price it, when and where do we make it available. Most importantly, never lose our focus on delivering the best value to our customer.

Then we track the adoption of the user experience (both the internal staff and external customer) and respond accordingly. We set timelines and, if needed, allow for a Plan B to provide more education and communication.

5. Roadmap Section F: Putting the Plan into Action

Pelache is mindful that the Roadmap stresses regular reporting and communication and are keys to successful project management. Her team provides daily, monthly and six-month reassessments.

"We focus on deliverables — this is ingrained inside our strategy," said Pelache. "Internally, we may have multiple projects in play at any one time, so discussions on what takes priority are key. We use a project tracker to allow for tracking programs. These reports allow us to see project status and where additional resources are needed.

As Pelache reflects on her team and its work with the Roadmap, she noted, "From a bank's perspective, we have a strong relationship with our compliance teams to ensure we are monitoring the regulatory landscape, meaning, how can we comply and minimize the impact of regulations, and delivery on customer needs. The Roadmap reminds me to review the risks and the opportunities.

"By using the questions included in the Roadmap, we are able to crosscheck our processes. It is all part of the life of a community banker." ❖

The strategic roadmap to the future of community banking

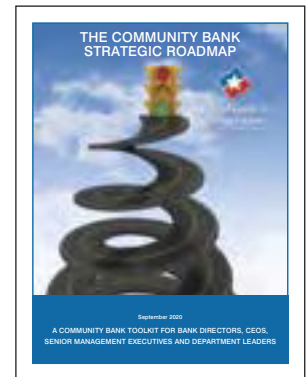
By Mary Lange

Chapter 5: Investing in a loan origination system

In the last four issues of Texas Banking, we've highlight specific ways banks have put the TBA Community Bank Strategic Roadmap Toolkit to use within their organizations. (www.texasbankers.com/2020Roadmap)

- January/February: First National Bank (Bastrop) showed how the bank focused on preparation by forming an Innovation Team.
- March/April: NexBank Capital, Inc. (Dallas) showed how the bank focused on efficiency measures.
- May/June: Community Bank & Trust (Waco) showed how the bank focused on customer connection metrics.
- July/August: First National Bank Texas (Killeen) demonstrated how one department could cross-check the question matrix contained within the toolkit.

In this issue, we will explore how Texas Hill Country Bank used the Strategic Roadmap to focus on a single issue — the need for a loan origination system — and how the process of exploring options lead to a much broader solution with significant savings.



Download the Toolkit at
www.texasbankers.com/2020Roadmap

The Hunt for A Loan Origination System (LOS)

Kenneth Early is a community bank leader through and through. Like many TBA members, Kenneth grew up in community banking and acquired many skill sets that propelled him into the C-Suite, with expertise in both lending and operations and a confidence to communicate at all levels of the bank, from customer facing, to back room to the board of directors. This specialized background also served him well when he volunteered to be a founding participant in the TBA Future of Banking Task Force and helped design the Strategic Roadmap Toolkit.

The issue(s)

Should Texas Hill Country Bank invest in a loan origination system? Should they purchase a system that plugged into their core system or build one from scratch using their core provider or was there a third approach? How should the team frame the case when presenting the options to the board? What facts would be needed to help the board make a wise decision.

Ken laid out a process that follows the Strategic Roadmap steps. First, he prepared by forming a committee that he called the Customer Experience Team. It was made up of customer facing staffers who understood their customers, who listened well and who continued to lean into technology. By



Kenneth Early

If we could get the customers more involved in recommending and testing technology, we would have a better chance to make these relationships ‘sticky,’ meaning they would be less likely to swap banks.”

Involving the customer in a series of surveys to better determine customer needs, the bank hoped to engage their customers even more with their decisions.

“If we could get the customers more involved in recommending and testing technology, we would have a better chance to make these relationships ‘sticky,’ meaning they would be less likely to swap banks,” noted Early.

Second, Early invited his committee members to look beyond the Texas Hill Country Bank and be aware of all the changes raining down on banking. He helped them understand the current state of the bank and the industry. He provided them copies of *Bankruptcy* by John Waupsh and encouraged multiple discussions to challenge the book observations versus what was happening in Kerrville. This helped create a level set and sense of urgency with everyone on the team.

The team considered how their existing bank products and customer solutions may not work in the rapidly changing landscape. After studying this book and a series of articles that Early provided showing how banking was quickly evolving, the team began new discussions on the issues confronting banking. Too often, the solution to the issues came back to technology. And the word technology seemed to indicate a large expense that the board of directors was loath to take on.

Third, the committee explored their options. They asked: Could our solution be found within our existing core provider? Jack Henry had been the bank’s core for many years and was in the process of sunsetting some older systems. In this process, the bank was offered the opportunity to upgrade. “So we upgraded — and then customized the upgrade to meet the needs of our customers,” said Early.

Mission accomplished? Not quite.

Early and his team provided the board research from their surveys, articles about the future, along with metrics and

charts making a case for investment.

Around the same time, the bank holding company was considering a merger among three commonly owned banking organizations — all using Jack Henry as the core system. The merger of these three institutions would not only make a larger and stronger single bank but would eliminate some costs associated with operating multiple IT systems. One of the banks already had the LOS and the decision was made to use that system.

In the end, the exercise for finding an LOS and the associated cost for Texas Hill Country Bank further solidified the decision to merge the banks (Texas Partners Bank) and eliminate the duplicated core processing system expenses.

Within the new merged core system, Early and his team will be able to mine data more easily and have access to a good loan origination system.

Here are three things other community banks might consider going through their own process:

- Recognize that the world has changed after COVID-19. Employees and customers are accessing the bank remotely and there are different ways of storing and accessing data.
- Pay close attention to what you are signing up for with your core processor contract.
- Put in language so you can add features without fees.

Next Up: Cryptocurrency

“We have used the roadmap toolkit for IT projects — but it can be used for other things,” noted Early.

Early passed along the Strategic Roadmap Toolkit to his IT team to help create a process to analyze the benefits and risks of cryptocurrency. From their work, they learned most of their customers did not understand what cryptocurrency is. Until the size of the customer base wanting cryptocurrency grows, they will hold off on investing time and treasure. 💎

The strategic roadmap to the future of community banking

By Mary Lange

Chapter 6: Keep it simple

Using fintechs to optimize your bank's business

In this ongoing series, we've been exploring how community banks are approaching the changing landscape of digital solutions through their strategic plans. For some, the solution is integrating with legacy systems; for others, it is starting anew; and for most, it is a hybrid of both. Using the TBA Community Bank Strategic Roadmap as a guide, we've looked at what successful banks are doing differently. The answer comes back to laser focus, consistent communication, asking the right questions and nimble systems.

This month we focus on a newcomer in Texas, Encore Bank. Encore is based in Little Rock, AR, and quietly entered the Austin market about two years ago, led by a veteran Austin-based banker, Allan Rayson.

The origin: Encore Bank's background

The commercially focused Encore Bank had a digital and "branch-lite" focus from the start when the founders rebranded and recapitalized it from Capital Bank in Little Rock in 2019. Rayson noted, "We do not enter a market blindly; we find a person who knows the area, can raise capital and then we open an office."

The bank has grown considerably, despite its small brick-and-mortar presence. It went from \$159 million in assets and seven employees in 2019 to \$1.8 billion in assets and about 250 employees as of Q1 2022. There are currently nine full-service branches, yet Encore operates in 20 markets across nine states.

Allan Rayson was recruited in October 2020 to develop a comprehensive technology plan and launch the privately held bank in the Austin market. That makes the bank's technology choices and Rayson's job even more important since that is what draws customers in and keep them enterprise-wide.

"We are not trying to be the biggest bank in every market," said Rayson, who built Encore's technology stack from the ground up in 2021. "We are trying to deliver the best experience in every market."

The puzzle: How to deliver the best experience in every market?

According to Rayson, banking is all about products and transactions with customers. This differs from another commonly held viewpoint that banks have simply become technology companies.

He stays laser focused on three things:

1. Commercial lending
2. Sourcing core deposits to fund lending needs
3. Non-interest revenue to drive the return on equity (ROE)



We must learn to use the fintechs to better optimize the business of banking.”

Allan Rayson
youtube.com/@finov8r

With his energies so focused, he can cull anything that distracts him from these three things.

“We use fintech companies to optimize our business,” he noted. For example, Smiley Technologies Platform has an application programming interface (API) infrastructure that is vetted, built-out and easy to “plug and play.” Rayson added, “We don’t need Smiley’s approval every time we introduce a new app. The core is aligned with all that we are doing and moves at the same pace. For me, it is all about prioritizing and reprioritizing.”

The two-year journey

Ask Rayson about process and he starts to laugh, “Community banks are where real banking innovation is taking place. We truly are the sandbox for fintechs because of the limited risk scale. Community banks are totally different animals from mega banks. For example, I was visiting with the chief technology officer of a very large institution about ways to make commercial lending faster, from application to completion. I can shrink the time in process from 100 days to 10 days. The large bank CTO observed, ‘You can do that because you have \$150 million of volume coming through your pipeline daily; we have \$3 billion coming through daily. Our risk level is too high for that level of experimentation and beta testing.’”

Still, when you scan the side bar listing of the software Encore Bank vetted, installed and implemented during 2021, you cannot help but marvel at the rate of adoption.

Encore technology stack sample 2021-2022

- Smiley Technologies, Core Processor
- Hawthorne River, Loan Operations System
- Compliance Systems, Digital Documents
- Simplicity Mobile Product, Compliance Documents
- Mantl, Digital Account Openings
- Z-Suite Technologies, Escrow, Sub-Accounting
- Collateral Edge, Credit Profiles, Corporate Lending Tool

Rayson noted, “We put our sprint team in place — individuals who are excellent in compliance, audit, risk management, deposits, lending, etc. — and meet weekly. We want everyone on the team informed on what we are considering, and we want helpful discussions and to hear varying perspectives before we pull the trigger on any new software.”

Rayson’s advice to community bankers

- Legacy platforms are hard to overcome.
- Modernizing your API is half the battle. The infrastructure must be nimble. You must be able to mine your own data from your system.
- Integration to the core versus integration to the API layer is a game changer. It opens the opportunities to move efficiently and integrate processes.
- How does the staff keep up? We all wear wigs to cover up the hair we are tearing out.
- Encourage more collaboration among bankers as we all learn about fintechs and their capabilities. We must learn to use the fintechs to better optimize the business of banking. 🦄

Allan Rayson Resume

- Texas Tech University, BA in Marketing, MBA in Finance
- Comerica-Dallas, Analyst
- Bank of Texas-Dallas, Corporate Banking, Private Wealth Management
- BBVA Compass-Austin, Commercial Banking
- Regions Bank-Central Texas, Specialty Finance Business
- 2020 Encore Bank, Chief Innovation Officer, Chief Technology Officer, Austin Market President
- 2022 American Banker: Digital Banker of the Year (June 2022)
- 2022 reprioritized his focus. James Klingman, EVP, named Austin Market President
- 2022 Encore Bank, Chief Technology Officer and Chief Innovation Officer