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Serving the Financial Services Industry
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17TH ANNUAL

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BANKING
CONFERENCE

TO PRODUCTIVITY AND BEYOND

Linking the Line and the Small Business Loan Center

Aligning Credit and the Sales Team

Dan Carmichael

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President, MZ BIERLY CONSULTING, INC.



The Credit and Sales Team Partnership

1. As an industry, we have been ineffective in **providing clear direction** to our Bankers.
2. At many banks the “**direction**” **provided is unclear**, encouraging bankers to bring in any “opportunity”.
3. We have invested time and money on sales reporting, CRM, contact management systems, compensation strategies, etc. to improve loan growth. But, across the industry **45 to 50% loan applications** are not approved or closed.
4. Sales Teams without industry or product specialties are desperately competing against banks that have **a competitive advantage**. . . A clearly defined focus in the market.

When we see **high approval rates** and **high closing rates**. . . We see a **close partnership** between Credit and the Sales Team



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Focusing the Business Development Process

Buck Bierly

President, MZ BIERLY CONSULTING, INC.



A Definition or Two

1. Defining Small Business
 - a. Small Business: Businesses with less than \$2,000,000 in Sales
 - b. Business Banking: \$2,000,000 to \$20,000,000 in Sales
2. Defining Sustainability
 - a. Sustainable Top Line Revenue Growth in Segment
 - b. Sustainable Profitability in Segment
 - c. Sustainable Asset Quality in Segment
3. Wallet Share
 - a. Capture 65% of the Relationship (“Relationship” includes both the Business and Consumer Opportunities)
4. Relationship Manager (RM)
 - a. Branch Manager
 - b. Small Business Representative
 - c. Business Banker (< \$20,000,000 segment)



Building Sustainable Growth in a Crowded Market

1. If the economy remains in a slow recovery, **loan demand will remain “tepid”** as Business Owners use “retained earnings” for capital expenditures and look for “efficiencies” in their operational processes
2. The industry’s continued “reduced dependence” on investor real estate lending will create increased competition for **well run operating businesses**
3. “Re-pricing” loans **will become a constant** as Banks use pricing to build market share or to survive
4. Liquidity continues to be important; **low cost deposits** remain key
5. Revenue replacement is still **a critical issue**, replacing lost fee business
6. The acquisition [and then expansion] of **new clients** remains a focus
7. Successful “Business Development” Processes will focus on **“differentiation” in the market.** (Bank and RM differentiation!)



A Changing Environment. . . with Opportunities

1. Banks require increased discipline on resources and segmentation to drive profit growth:
 - a. 85-90% of profits driven by 10% of clients
 - b. “High Value” companies (high profit accounts) require high touch, distinctive service
 - c. “Low Value” companies require good cost effective service that instills loyalty but does not over-serve

2. Advice remains a critical need, a notable opportunity remains for banks to successfully differentiate and win/retain business acting as a partner.
 - a. Only half of banks provided “advice” and that the advice currently provided is typically a thinly veiled product sell.



Building Relationships, Growing Recurring Revenue

Professional Practice: 10-years, \$800,000 in sales

65% of the
“Relationship”

Business	Owner
DDA	DDA
MMA	MMA
Internet Banking	Short-Term/Long-Term Investments
Line of Credit	Retirement Planning/Retirement Plan
Equipment Loan/Lease	Mortgage
SEP	HELOC
Liability Insurance	Term Life Insurance
Employee Relationships	
Total: 8	Total: 7



Building Relationships, Growing Recurring Revenue

Business Services: 15-years, \$3,500,000 in sales

60% of the
“Relationship”

Business	Owner
DDA	DDA
MMA	MMA
Web-Based Banking/Cash Management	Web-Based Banking
Line of Credit	Investments
Equipment Loan/Lease	Retirement Planning/Retirement Plan
Commercial Mortgage	Jumbo Mortgage
401(k)	HELOC
Liability Insurance	Life Insurance
Key Man Insurance, Buy/Sell Agreement	
Total: 9	Total: 8



Building Relationships, Growing Recurring Revenue

Professional Practice: 18-years, \$18,500,000 in sales

65% of the
“Relationship”

Business	Partners(s)
DDA/Cash Management	DDA
MMA	MMA
Line of Credit, Acquisition Financing	Web-Based Banking
Equipment Loan/Lease	Private Banking
Commercial Mortgage	Investment Management
Merchant Account	Retirement Planning/Retirement Plan
401(k)	Jumbo Mortgage
Liability Insurance	HELOC
Key Man Insurance, Buy/Sell Agreement	Life Insurance
Total: 9	Total: 9



A Changing Environment. . . with Opportunities

The Focus prior to the Recession

- “Excellent customer service. . .”
- “Highly responsive to opportunities and requests”
- “Faster turnaround than our competitors”
- “Give you what you ask for. . .”

Today, these are some aspect of a “brand” that your competitors are already focused on. These are now **the price of entry**, not a “differentiator”.



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Adding Value is not a Concept

In a highly competitive (or re-pricing) environment...

1. What value is your RM adding?
2. As a “Line of Business”, does the Sales Team have a “Plan” for Adding Value?

Everything has changed, in Today’s Environment. . .

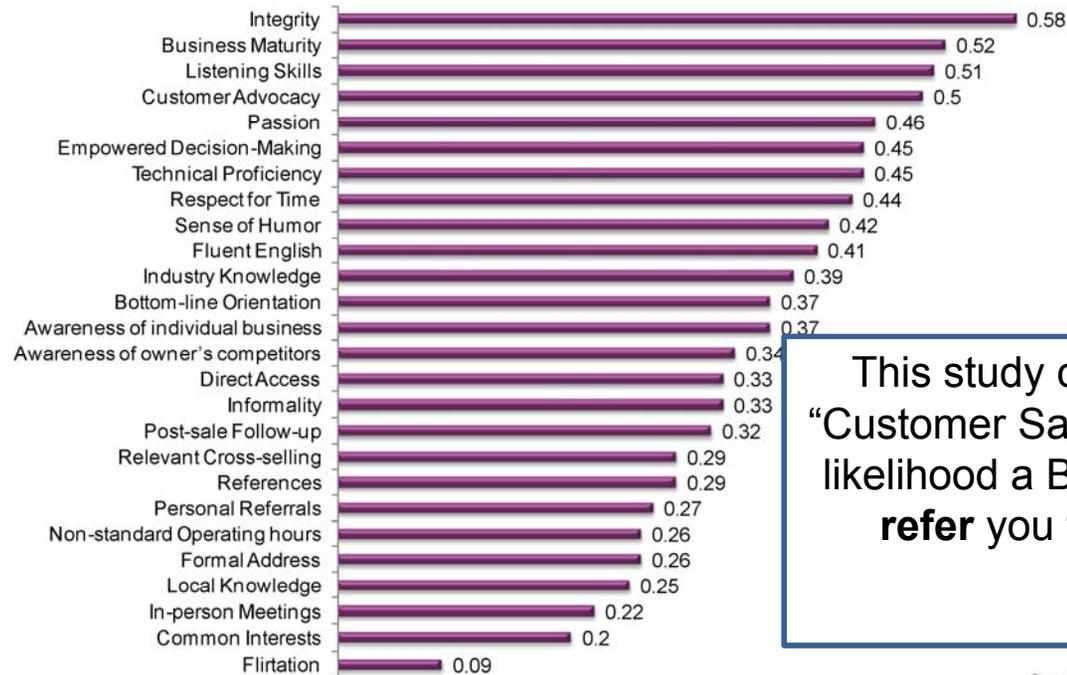
Sales Team Leaders and **Sales Team Members** need clear direction and on-going guidance.



Business Owners and “Value Added”



26 Skills Ranked by Correlation – Satisfaction and NPS

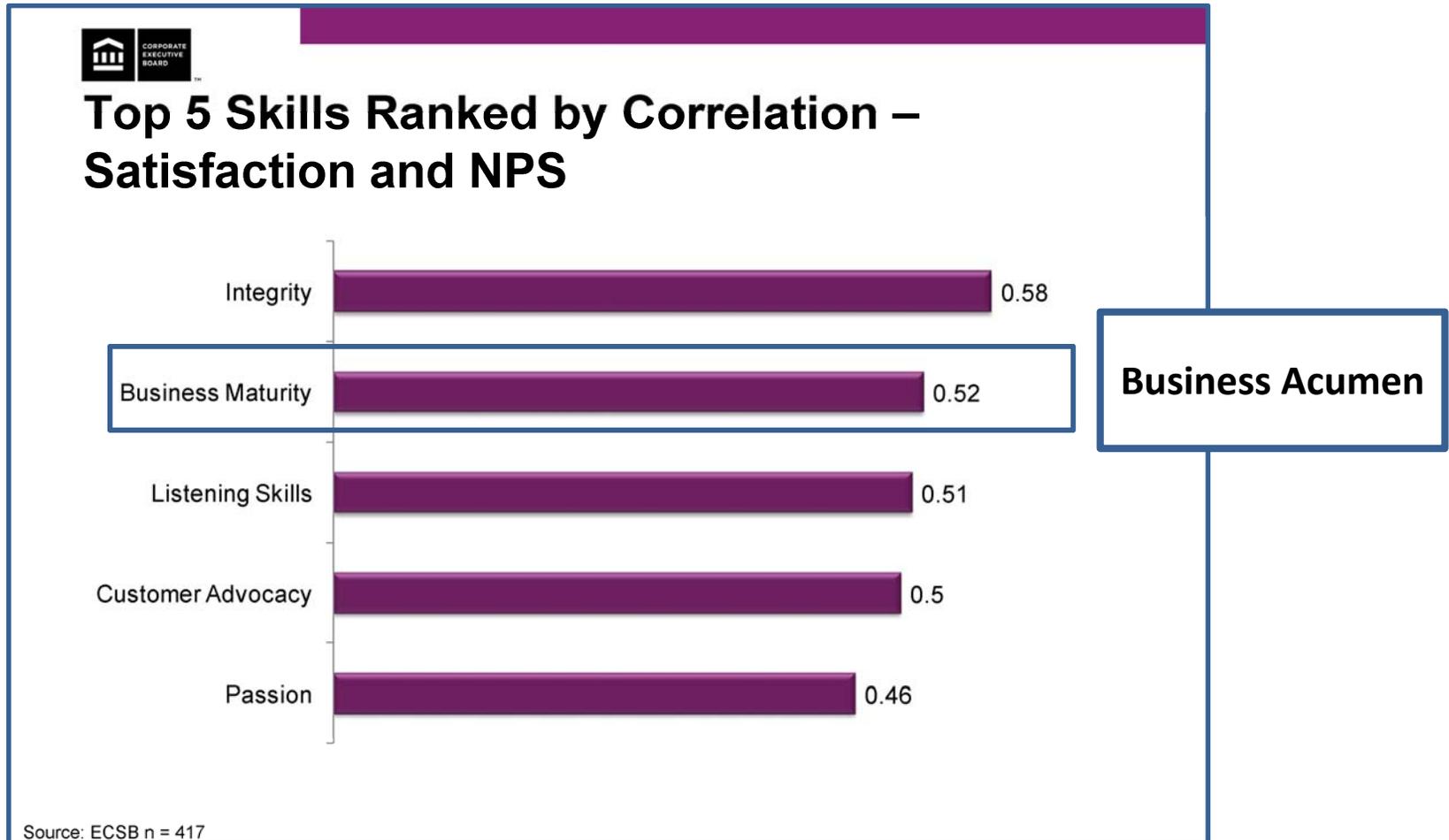


This study correlates **skills** with “Customer Satisfaction” and with the likelihood a Business Owner would refer you to **other Business Owners**.

Source: ECSB n = 417



Business Owners and “Value Added”



Data from the Corporate Executive Board



Business Owners and “Business Acumen”

The Questions that drive results and satisfaction.



Long List of 40 Questions

GOALS

- Questions around progress, metrics and growth potential
- Examples:
 - *What are your top 3 priorities?*
 - *In what ways do you hope to expand your business?*

FINANCIALS

- Questions about cash flow, profitability and legal structure
- Examples:
 - *How do you make a profit?*
 - *How does your business get paid?*

PRODUCTS/CUSTOMERS

- Questions relating to product and service lines, competition and types of customers
- Examples:
 - *Why would someone choose you over your competitor?*
 - *Why do customers buy your product?*

CHALLENGES

- Questions regarding obstacles, potential pitfalls and required skills
- Examples:
 - *What factors that affect your business are out of your control?*
 - *How do you see the future of your industry?*



Business Owners and “Business Acumen”



Top 10 Questions



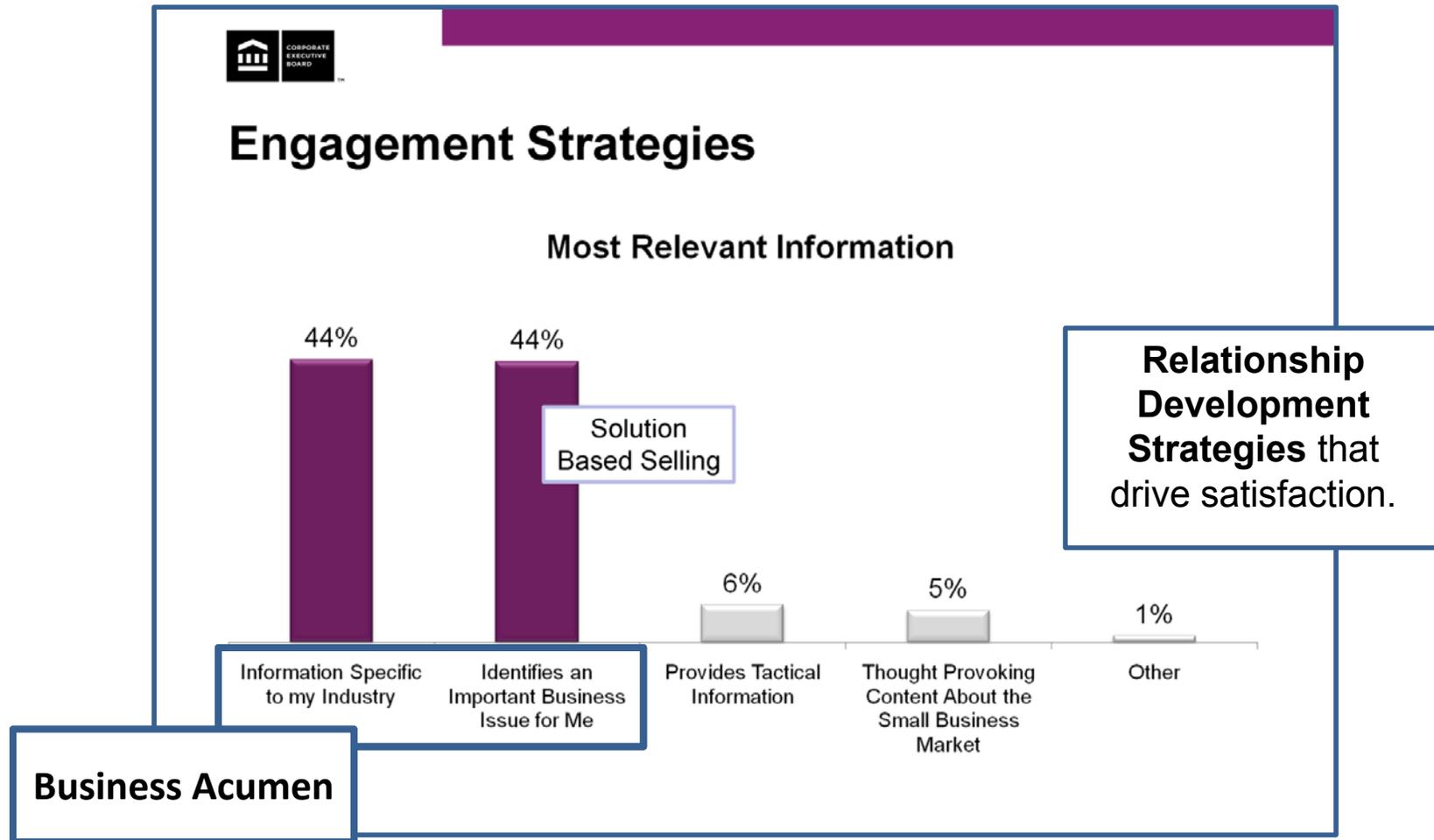
Business Acumen

**The Key Questions
that drive
satisfaction.**

Source: ECSB, n = 489



Business Owners and “Business Acumen”



Data from the Corporate Executive Board



Adding Value: Business Acumen vs. Product Acumen

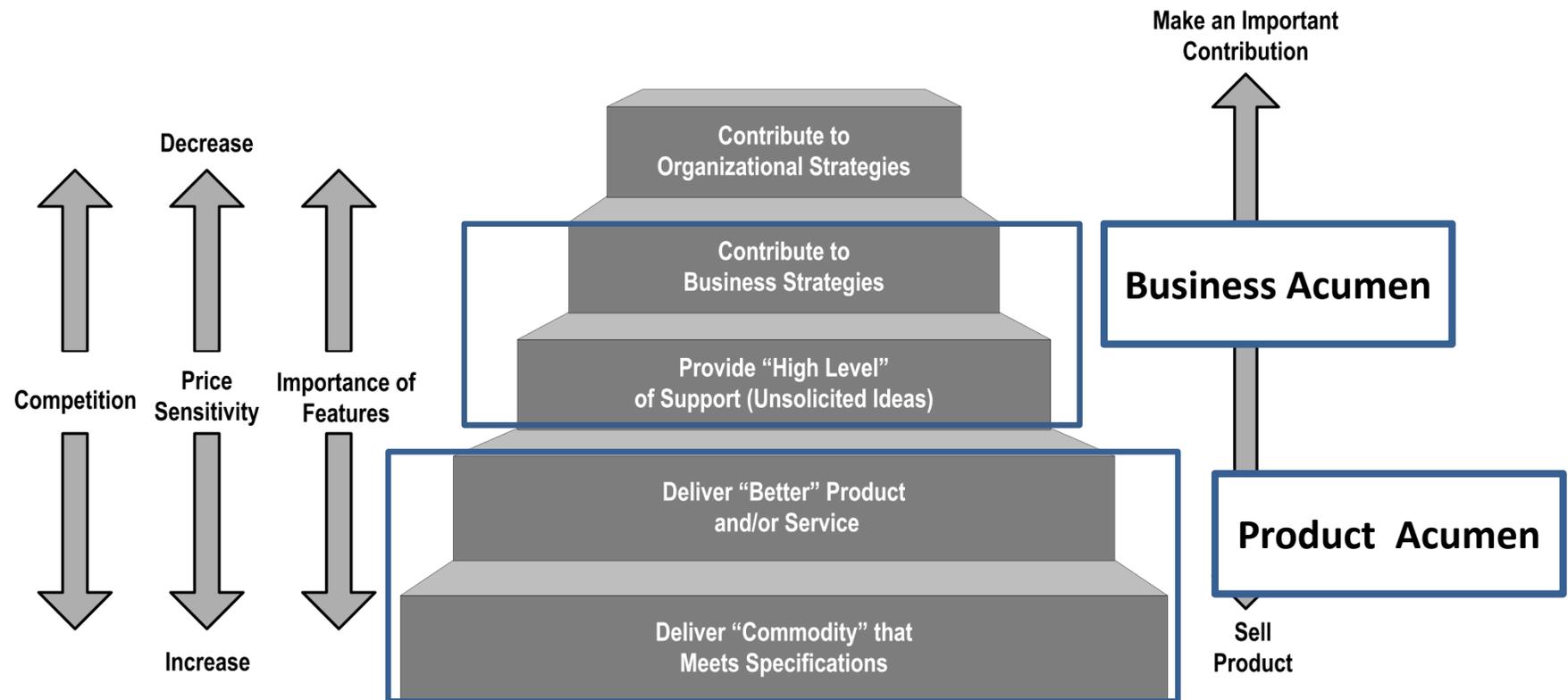
- 1. Business Acumen*** is bringing Business Issue Insights and Unsolicited Financial Ideas to the table. It is a significant “differentiator” in a competitive marketplace and is highly effective in proactive situations.
- 2. Product Acumen** is important in reactive situations. It is less of a differentiator in proactive situations.

*Business Acumen is **Conversational Competence** in Business Issues; it is not the same as a “Business or Industry Expert”. Business Acumen, as we are discussing it, is Conversational Competence around “Industry and Business Issues”.



Levels of Relationship and Relationship Development

1. Not all Decision Makers **want the same level** of relationship with an RM.
2. Not all RM can build **all levels** of relationship with a Decision Maker.





Levels of Relationship and Relationship Development

Level 3: Providing a High Level of Support

What gets you to Level 3 is the Client's understanding that you are providing **more "financial ideas" than your competitors are providing.**

Identifying opportunities to support the short-term, mid-term and long-term business objectives of a decision maker is a **well established method** for building Level 3 relationships.

Putting together a team of Business Partners, presenting an overview of a Client or Prospect's current and future plans and looking for ways to help them get to where they want to go. . . **before they request your ideas** gets you closer to this level.

Many banks are capable of doing this **but few do it consistently.**





Levels of Relationship and Relationship Development

Level 4: Focusing on Business Issues

The **Level 4** Relationship is focused on **business Issues**. Clients know that you provide better service and support than competitors; what they see now is that you understand their industry, trends within their industry, and “business issues” those trends are creating for their businesses.

At **Level 4**, you generate ideas for addressing more than explicit financial needs; you focus on topics like efficiency, productivity and market strategies. At **Level 4** you provide [1] industry and business insights that help Business Owners see mid-term/long-term issues more clearly, [2] on-going education, [3] “benchmarking” of business/financial operations.



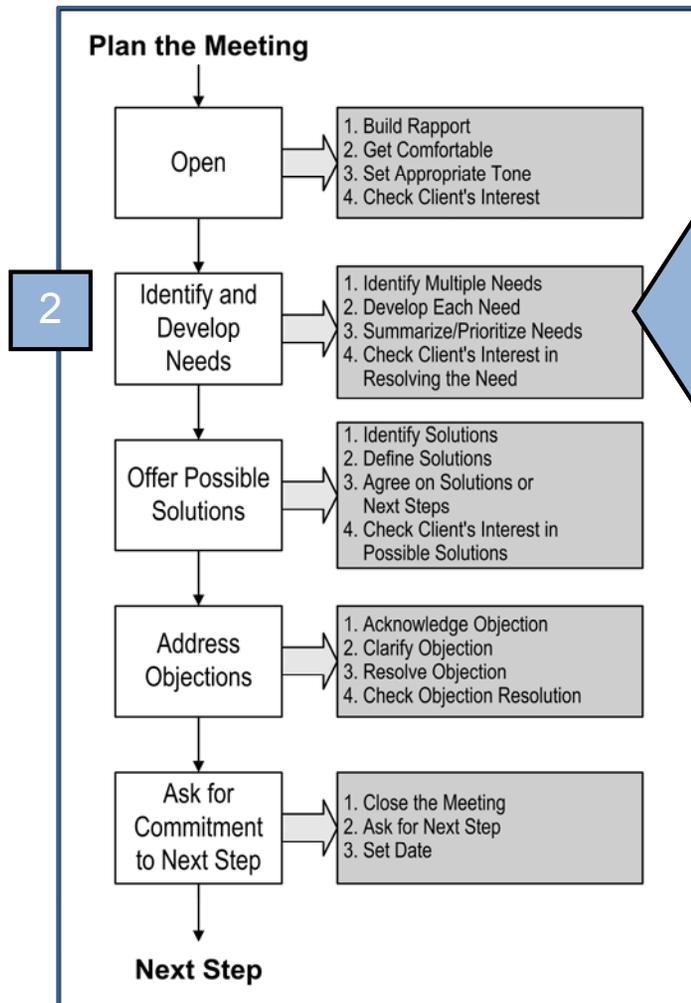


Changing the Conversation toward Business Acumen

Consider these Questions. . .

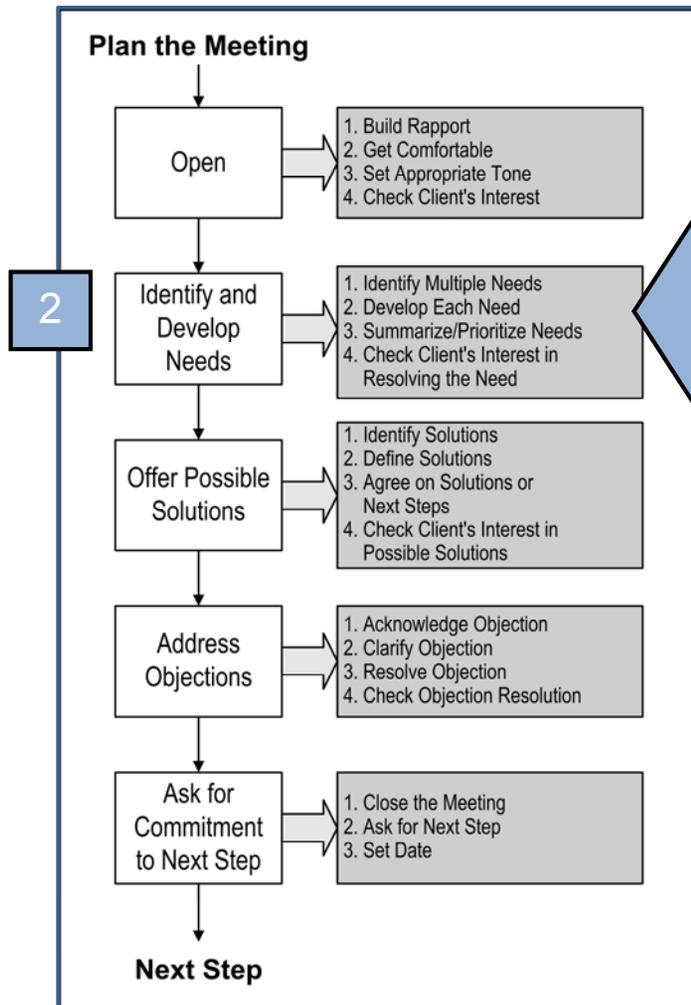
1. Where are you banking?
2. What **products** are you using?
3. How are they **priced and structured**?
4. What 2 things do you wish your bank was doing **but they're not**?
5. Can I have a **copy of your statements** to put together an offer of how we would handle your banking relationship?

Where are the Business Issues here? These questions focus on **products**; comparing your products with a competitor's. These questions demonstrate **product acumen!!**

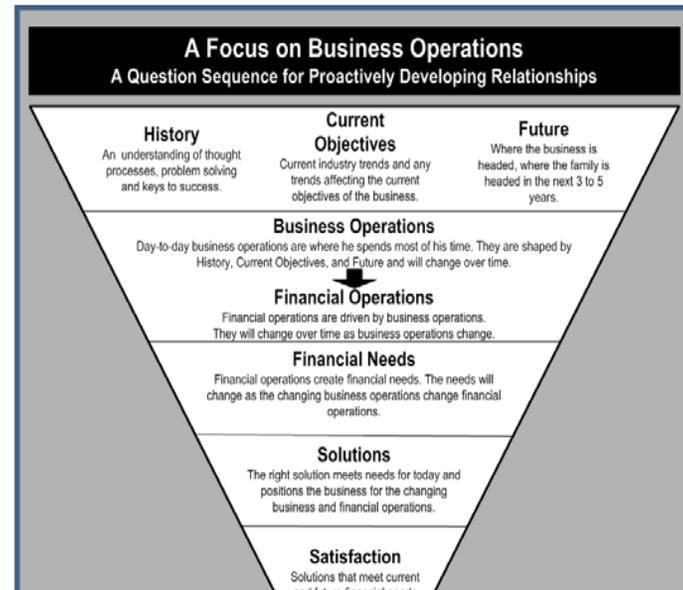




Changing the Conversation toward Business Acumen



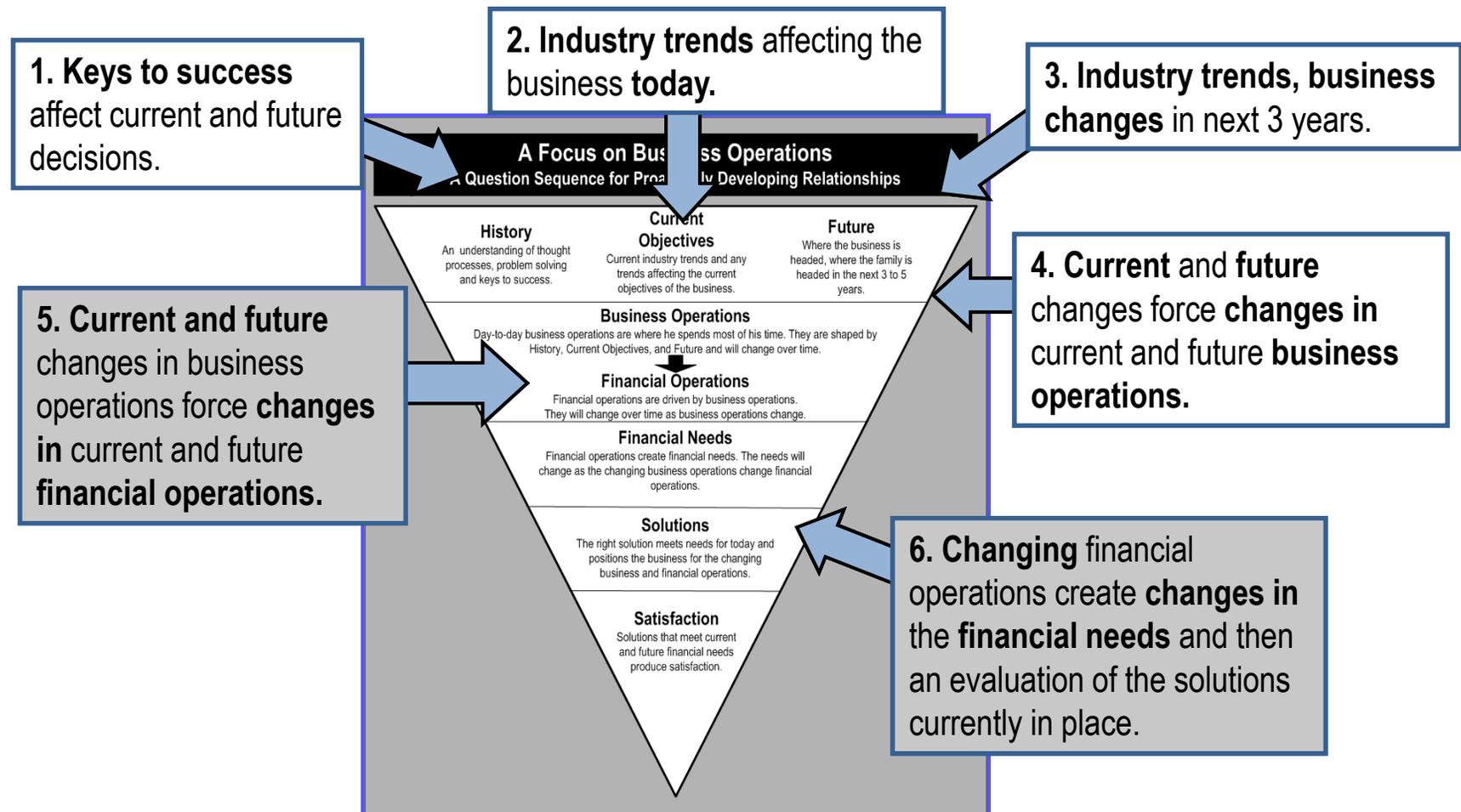
Use this **Question Set** to Demonstrate **Business Acumen** and Building **Relationship Momentum**.



These questions align with a **Business Owner's Business Strategy, Business Plan, Business Objectives, Business Operations**. These questions demonstrate **business acumen!!**

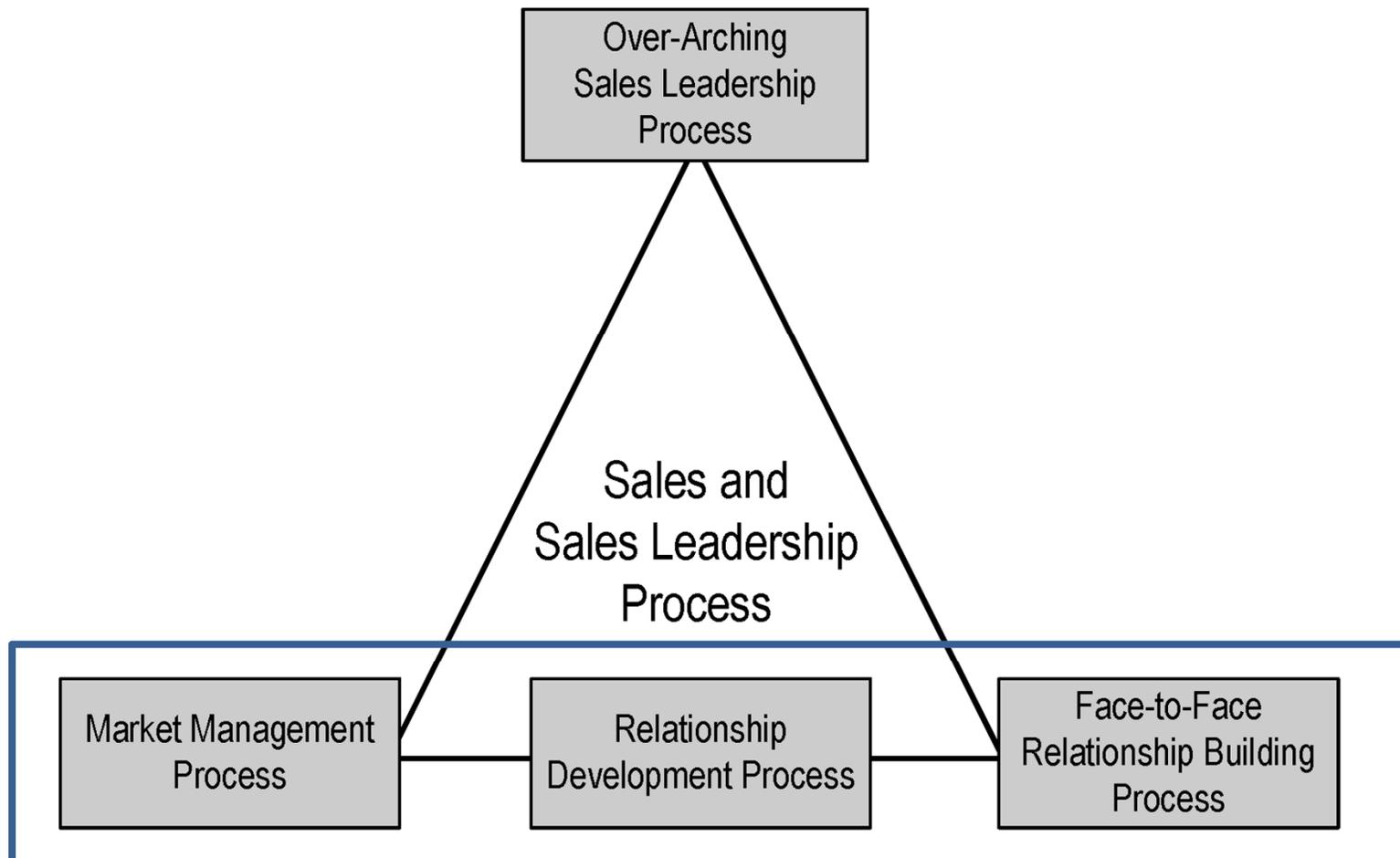


Changing the Conversation toward Business Acumen





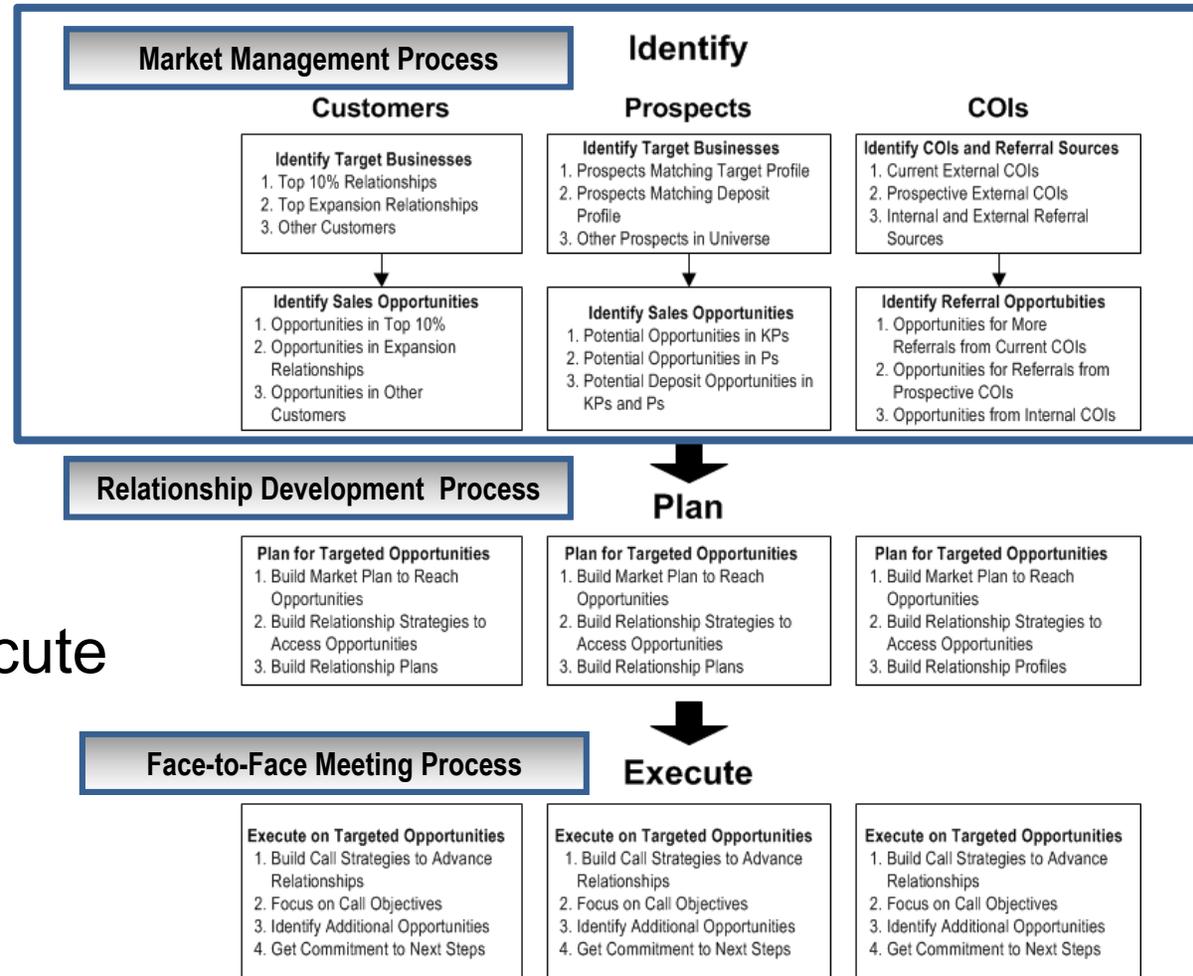
Relationship Development Process Overview





Relationship Development Process Overview

Three Sources of Business. . .



Three Steps:
 Identify, Plan, Execute



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Sustainable Performance is Driven by Leadership

High-Performing Sales Leaders . . .

1. Provide “Targets” to Team Members and
2. Keep a focus on the quality of the calls made on those Targeted Businesses



The Market Management Process

The Market Management Process “proactively” focuses on 3 sources of leads. . . Customers, Prospects and COIs .

Sustainable growth in top-line revenue (and asset quality) is driven by developing leads with “**targeted**” **relationships** within these lead sources. Typically. . .

1. Retention Relationships (Key Customers)
2. Expansion Relationships (High Potential Customers)
3. Acquisition Relationships (Key Prospects)
4. Current and Prospective COIs



Identify the Right Targets

Define the industries you want more business from.

Target Industries	Limited Appeal Industries
Distributors	Transportation Businesses
Law Practices	Trade Contractors
Architect, Engineering, and Business Service Firms	Real Estate or Construction Businesses
Financial Service Providers	Retail
Insurance Brokers or Firms	C-Stores and Gas Stations
Wholesalers	Used Car Dealerships
Medical, Dental, and Health Practices	Restaurants
Accounting Firms	Farming
Manufacturers	Mini-warehouses
Retail Trade	



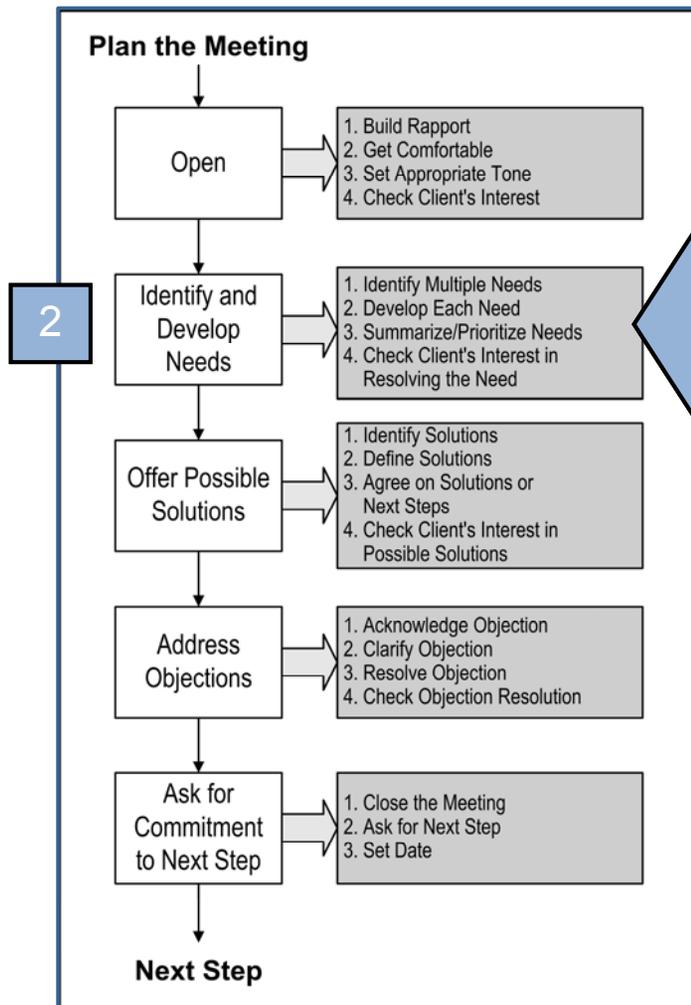
Identify the Right Targets

Define the businesses you want more business from.

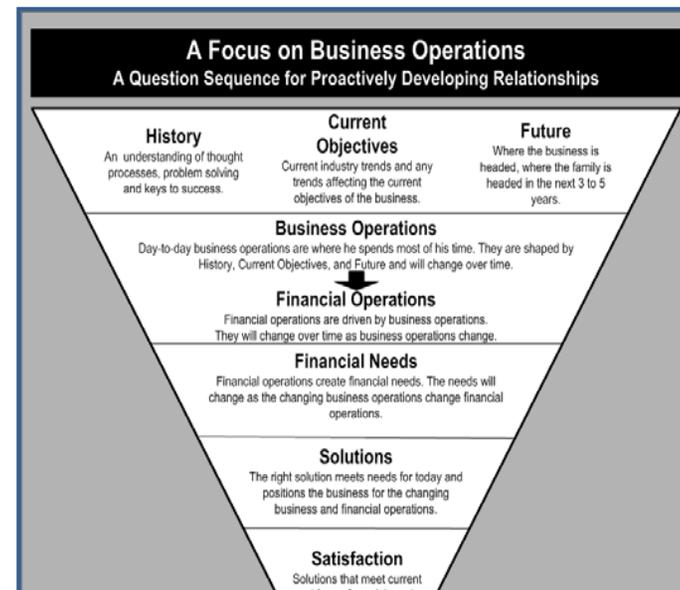
Business Characteristics
In business over 3 years
Sales revenue between \$750,000 and \$10,000,000
Employing more than 5 people
Plant located within 10 miles of a branch location
Privately held
Experienced management team
Borrowing needs greater than \$100,000
Satisfactory commercial borrowing-track record
Profitable (Net Profit After Tax) for at least two consecutive years
Tangible Net Worth greater than \$250,000
Leverage (Debt-to-Worth) less than 4 to 1
Deposit balances average more than \$50,000
Using or needing 5 or more business banking products



Defining the Conversation with the Business Owner



Use this **Question Set** to Demonstrate **Business Acumen** and Building **Relationship Momentum**.



These questions align with a **Business Owner's Business Strategy, Business Plan, Business Objectives, Business Operations**. These questions demonstrate **business acumen!!**



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A Model for a Common Process for Credit and the Sales Team

This is where the
Credit Partnership
is both Key and Necessary
for Sustainability



“Partnering” with the Sales Team

Building the Partnership, the Best Practices have been out there for years. . .

1. Involve **credit, risk management, finance and executive management** in building a model “targeting” and setting limits for specific industries, specific “business” characteristics and types of loans
2. Build **close communication** between the Sales Leaders and Credit Leadership so that each understands the other's concerns
3. Make approval rate percentages an important part of communication process credit Area and the Sales Teams
4. Provide **increased support to Branch Sales Leadership and Team Members** [they can be the greatest source of rejects]



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The Credit and Sales Team Partnership

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A Little Context. . . History

1. \$120 Billion Commercial Bank operating in 16 states
2. Business-to-business segments include Branch Banking, Business and Community Banking, Commercial Banking, CRE and Specialized Industries
3. Built the first “Business Loan Center” (BLC) in 1993; Focused on the <\$5,000,000 segment
4. Shifted to <\$10,000,000 in 2001
5. Shifted to <\$20,000,000 in 2008
6. Combined Regional BLCs into 1 BLC in 2010



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A Little Context. . . Transaction Size

1. Working Capital Loans <\$10,000,000
2. Term Loans <\$10,000,000
3. Owner-Occupied Real Estate <\$10,000,000
4. Other Credit Related Products <\$10,000,000

* Total Exposure



“Partnering” on the Branch Banking Profile. . . Current

Target Industries	High Risk Industries
• Distributors	• Transportation Businesses
• Law Practices	• Trade Contractors
• Business Service Firms	• Low-End Retail
• Insurance Brokers or Firms	• Gas or Service Stations
• Wholesalers	• Most Restaurants
• Medical, Dental and Health Practices	• Beauty Shops
• Accounting Firms	• Dry Cleaning and Laundry
• Manufacturers	• Lawn, Garden Services and Landscaping
• Retail Trade	• Mini-warehouses
• Agriculture	• Car Washes
	• IRE



“Partnering” on the Branch Banking Profile. . . Current

Business Characteristics
• In business over 3 years
• Sales-size between \$250,000 and \$2,000,000
• Typically employing 2 or more people
• Business located within 3 miles of a branch location
• Experienced management team
• Borrowing needs up to \$500,000 for deposit secured or Owner Occupied RE secured; up to \$250,000 for equipment and specialty vehicle; and up to \$100,000 for unsecured/soft secured
• Satisfactory commercial borrowing-track record
• Profitable (Net Profit After Tax) for at least two consecutive years
• Deposit balances average more than \$15,000
• Using or needing 5 or more business banking and consumer banking products



“Partnering” on the Business/Community Banking Profile. . . Current

Target	High Risk Industries
• Distributors	• Transportation Businesses
• Law Practices	• Trade Contractors
• Business Service Firms	• Low-End Retail
• Insurance Brokers or Firms	• Gas or Service Stations
• Wholesalers	• Most Restaurants
• Medical, Dental and Health Practices	• Beauty Shops
• Accounting Firms	• Dry Cleaning and Laundry
• Manufacturers	• Lawn, Garden Services and Landscaping
• Agri-Business	• IRE
• Agriculture Production	
• Franchise Restaurants	
• Public Institution/Not-for-Profit	



“Partnering” on the Business/Community Banking Profile. . . Current

Business Characteristics
• In business over 3 years
• Sales-size between \$2,000,000 and \$20,000,000
• Typically employing 5 or more people
• Business located within 10 miles of a branch location
• Experienced management team
• Borrowing needs >\$500,000 for deposit secured, Owner Occupied RE secured; >\$250,000 for equipment and specialty vehicle; and >\$100,000 for unsecured/soft secured
• Satisfactory commercial borrowing-track record
• Profitable (Net Profit After Tax) for at least two consecutive years
• Leverage (Debt-to-Worth) less than 4 to 1
• Deposit balances average more than \$50,000
• Using or needing 5 or more business banking or consumer banking products



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Business Loan Center Commitment

The Vision

To provide client-focused, value-added solutions for our internal and external customers in a timely manner, while maintaining a disciplined approach to the quality of underwriting, risk rating accuracy and overall credit quality



Adjusting for the New Economy, the Regulatory Environment

The Challenge

1. Given the state of the small business economy and portfolio amortization, quality loan growth is difficult to achieve.
2. Problem asset migrations are flat in this segment, while other segments are having significant reductions in migrations.
3. Competitive forces are impacting structure, terms and pricing.
4. There are a limited number of new, high-quality prospects seeking credit.
5. Internal focus on process improvements.

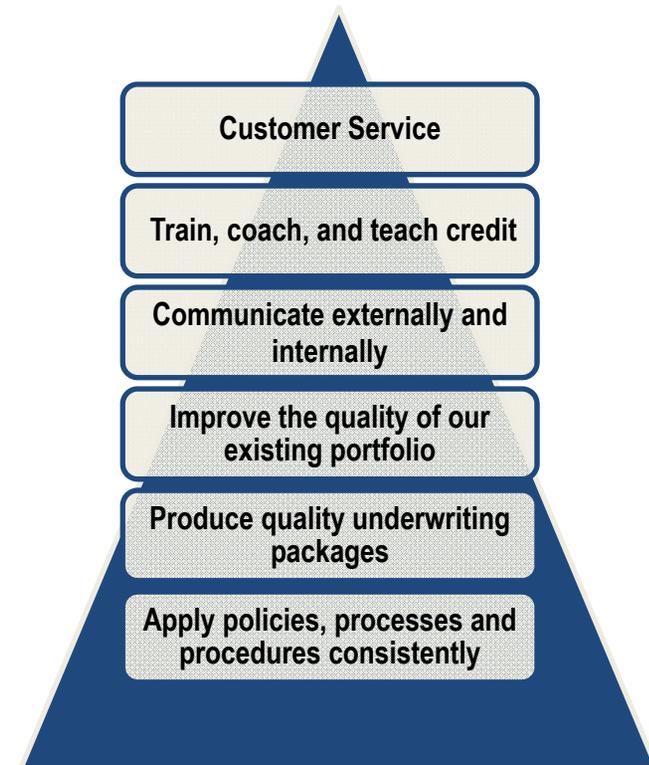


Adjusting for the New Economy, the Regulatory Environment

The Target State

To be successful in the new environment. . .

- Establish and maintain a common credit perspective
- Achieve “best in class” customer service
- Keep a focus on communication, internally and externally
- Consult, advise and educate
- Improve and execute underwriting and servicing policies and procedures





Adjusting for the New Economy, the Regulatory Environment

Clarifying the Target State

In accomplishing our strategies and to best serve the field, we have reorganized as follows:

BLC Segments and Functions	Geographic Scope	Organizational Responsibility	Structure
Custom	Regional	Regional teams focused on relationships > \$1.5MM from BCB bankers	Centralized
Standard	Regional	Regional teams focused on loans < \$1.5MM from BCB bankers	Centralized
Express	Company	Company wide teams focused on branch generated business loans	Centralized
Express Renewal Process	Company	Company wide teams focused on pre-approval renewal process for maturing loans	Centralized
Private Banking	Company	Company wide teams focused on all PB loans	Centralized
Specialty	Company	Company wide teams focused on Agriculture, SBA, PIN and Franchise loans	Centralized
Portfolio Administration	Company	Teams focused on credit servicing of entire portfolio	Centralized
Credit Administration	Company	Teams focused on monitoring adherence to policy, analyzing the portfolio, constantly re-evaluating the models and recommending updated process/policy, as appropriate	Centralized



Adjusting for the New Economy, the Regulatory Environment

The Strategies

We must constantly improve our service to the field while improving the quality of underwriting, credit servicing and overall credit quality.

1. Establish and maintain a common credit perspective among all constituencies.
 - a. Establish credit quality standards that support LOB profitability objectives.
 - b. Fully develop the BCBPB Credit Analytics function.
 - c. Implement a credit training program for BLC and field associates.
 - d. Link incentives to credit quality and service objectives.
 - e. Constantly evaluate changes in the portfolio and lead crisp resolution to problem customers, processes, industries and markets



Adjusting for the New Economy, the Regulatory Environment

The Strategies

We must constantly improve our service to the field while improving the quality of underwriting, credit servicing and overall credit quality.

2. Improve and execute underwriting and servicing policies, processes and procedures
 - a. Enhance servicing quality via the implementation of an “Early Warning” system.
 - b. Leverage flattened organization structure to provide deeper coaching and mentoring - internally and externally.
 - c. Improve the SAD transfer process and manage the PLR process.
 - d. Implement Quality Assurance process.
 - e. Evaluate a loss mitigation unit.



Adjusting for the New Economy, the Regulatory Environment

The Strategies

2. Improve and execute underwriting and servicing policies, processes and procedures (**Continued**)
 - f. Further develop industry expertise (PIN and Franchise).
 - g. Implement a structured oversight and governance process designed to review and approve changes to policy, process and procedures.
 - h. Re-write the Underwriting Manual and create an Analyst Manual.
 - i. Re-establish and monitor an underwriter/analyst turn time goal.
 - j. Provide comprehensive reporting to all constituencies.



Adjusting for the New Economy, the Regulatory Environment

The Strategies

We must constantly improve our service to the field while improving the quality of underwriting, credit servicing and overall credit quality.

3. Improve the quality and consistency of communication – internally and externally
 - a. Establish more consistent (monthly) calls with key BCBPB leadership.
 - b. Provide communication training to BLC associates.
 - c. Establish a pre-underwriting call on each standard and custom application.
 - d. Establish an aggressive field visitation schedule.
 - e. Provide valued information/reporting to the field (decline analysis, incomplete application analysis, pull-through analysis).
 - f. Establish a more formal pre-flight process.
 - g. Establish a more formal appeals process.
 - h. Implement a better service survey on all applications.



Adjusting for the New Economy, the Regulatory Environment

The Strategies

To achieve this vision, we must significantly improve our service to the field while improving the quality of underwriting, credit servicing and overall credit quality.

4. Consult, advise and educate
 - a. Host a credit “boot camp” for sales associates.
 - b. Train BLC associates to serve in a mentor-like capacity.
 - c. Develop “lessons learned” from credits transferred to PAM/SDL.
 - d. Provide field access to Underwriter/Analyst Manual.



Adjusting for the New Economy, the Regulatory Environment

The Strategies

To achieve this vision, we must significantly improve our service to the field while improving the quality of underwriting, credit servicing and overall credit quality.

5. Develop and retain BLC associates
 - a. Commit to training/developing our associates.
 - b. Establish “best partner” rewards and recognition program.
 - c. Create a vibrant work environment.
 - d. Provide LOB revenue and production reporting to BLC associates.
 - e. Present and monitor the results of this strategic plan to enable associates to understand and appreciate their value to Regions Bank.



Adjusting for the New Economy, the Regulatory Environment

Clarifying the Target State

In accomplishing our strategies, our Target State will be defined by the following:

We will:	We will not:
Enhance credit servicing, including an improved “Early Warning” system	Yield to the production pressure by booking inferior loans
Execute quality underwriting, including risk rating accuracy and justification	Underwrite credit with inadequate guarantor analysis
Re-evaluate policy, process and procedures	Underwrite credit without clearly identified primary and secondary sources of repayment
Develop the BCBPB Analytics function	Originate IRE credit
Develop comprehensive reporting and a comprehensive communication plan.	Accept mediocre underwriting quality
Execute our Quality Assurance program	Accept stale financials
Train (coach) internally and externally	Use email as the primary source of communication with the field
Improve SAD transfer and PLR processes	Lead discussions with the negatives of the credit
Re-write the Underwriting Manual and create an Analyst Manual	Display a loss of interest on turn downs
Make consistent field visits	Undervalue our associates
Establish a pre-flight and appeals process	Forget our vision of becoming the field’s “Best Partner”
Implement the recommended Ludwig and Credit Review recommendations	
Monitor and report our progress on the execution of this plan	