Community Bank Case Study Competition

Team 2

~~Focus Bank~~: First Community Bank, Batesville, Arkansas

Confusing since there is a bank called Focus Bank.

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Final Conclusion?

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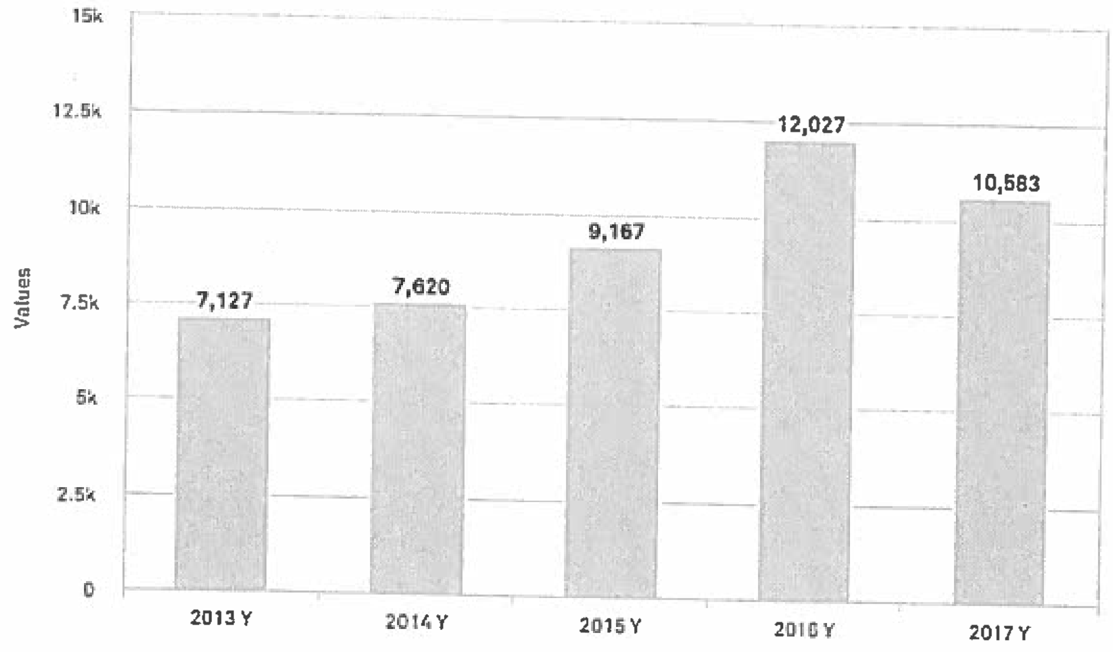
Financial Performance Analysis

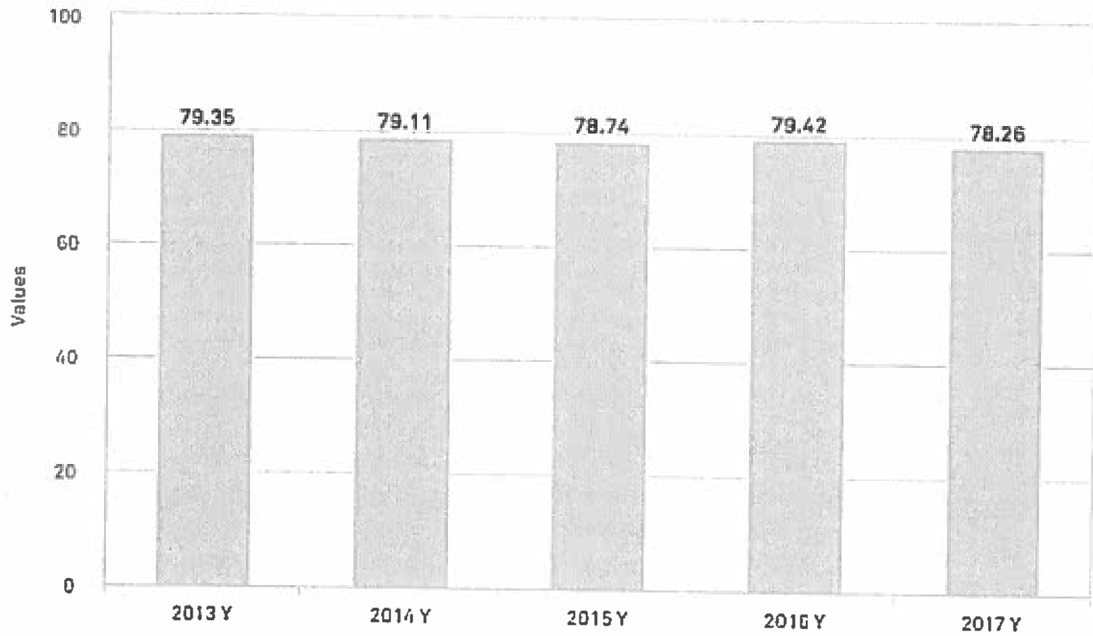
Earnings Performance

First Community Bank has been a very profitable bank since its beginning in 1997. Over the past few years First Community has shown strong growth. Year-over-year (YOY) since 2013, earnings have increased roughly 32.65%, recognizing a net income of a little over $10,500,000 in 2017. This is the second highest net income the company has recognized, behind the previous year, 2016 of $12,000,000 in net income. They did take a slight dip in net income from 2016 to 2017, however this is primarily due to an increase in total expenses. First Community had an increase of around $7 million in expenditures during 2017. If it wasn't for these added expenses, First Community would have seen a continued growth in net income.



A. Loan Portfolio Composition

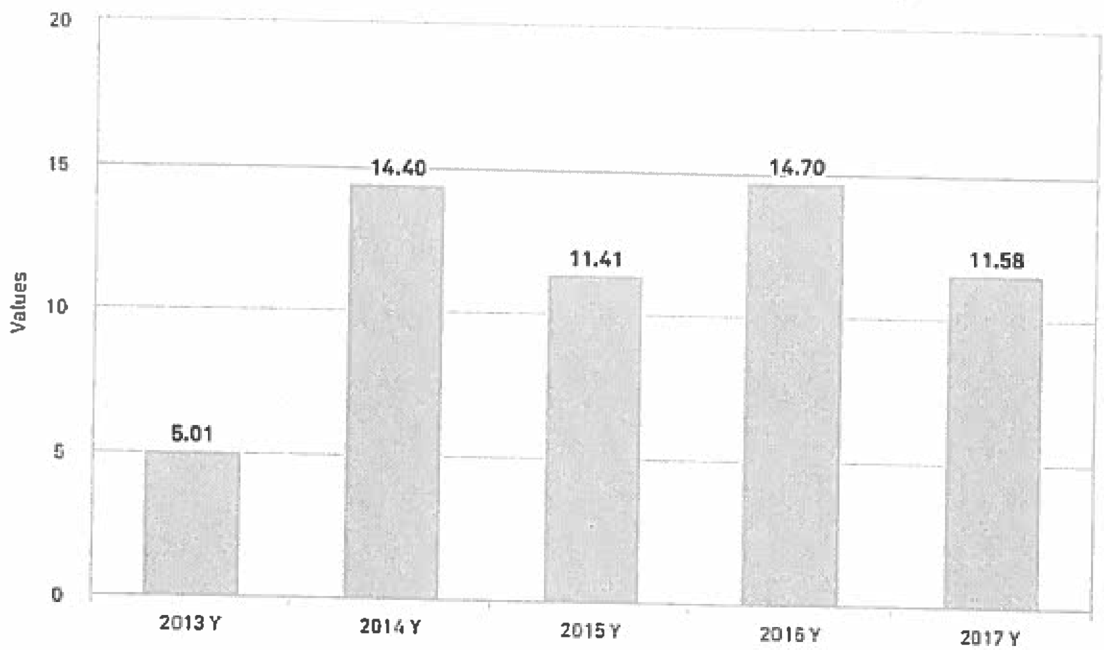
The majority of loans currently being serviced by First Community Bank are Real Estate Loans, currently making up 78.26% of their loan portfolio. Real Estate loans have nearly doubled since 2013. In 2017 First Community loaned out a little over $800 million just for real estate purposes. Commercial and industrial (C&I) loans is the next largest loan they service, making up 14.02% of the portfolio. The rest of the portfolio is completed with agricultural production and other consumer loans, making up 1.23 and 5.14 percent of the portfolio respectfully. Agricultural and consumer loans have remained constant over the past 5 years, which indicates that they are satisfied with this portion of their loan composition.



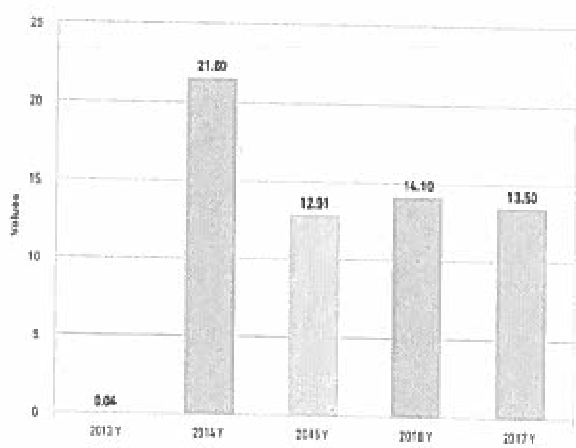
First Community's loan portfolio is highly concentrated in Real Estate Loans, which reiterates their commitment to prioritizing the communities they serve. This commitment is what inspired their slogan "Where communities come first". However, even though real estate is their primary focus, they have started to slightly shift focus more toward commercial and industrial (C&I) loans over the past few years, growing it from 11.83% to 14.02% of their overall loan portfolio. In 2017, they loaned out nearly $150 million in commercial loans, which is up nearly $80 million since 2013. It can be expected to continue to see growth in real estate and commercial loans over the next few years as the company continues to grow.

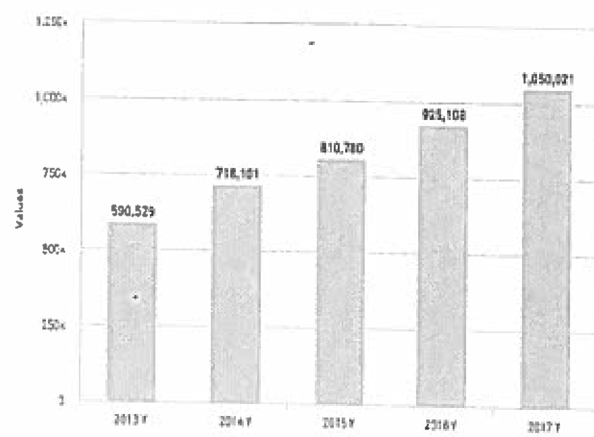
B. Asset Growth

First community has ~~had~~ shown substantial asset growth since their start in 1997, when they only had around $29 million in assets. Since their start they have had continuous growth, and have not slowed down much, nearly tripling their total assets since 2013. They have had some slight fluctuations over 3 years, but this is consistent with their ~~competitors,~~ peer group, which indicates the fluctuations are more than likely due to economic reasons.



The primary reason for First Community's substantial and continuous growth can be credited to its loan growth over the years. Loan growth has increased 43.76% since 2013. Increasing their loans from 590,529,000 to over 1 billion.





Another important attribute that has significantly contributed to their asset growth is their continuous expansion. Since they have opened in August 1997, First Community has opened 20 different locations throughout Arkansas and southern Missouri. CEO Dale Cole says they are always looking to expand anywhere they can. Since 2015, they have increased their real estate loans ~~owned by~~ over 25%. It is clear there is a direct correlation with their expansions and growth in revenues and total assets. Compared to ~~competitors~~ & similar in size and location they are dominating in deposits and total assets. Their biggest competitor which is Citizens bank, which is also headquartered in Batesville only has a little over 400 million in deposits and 700 million in total assets, compared to First communities 980 million in deposits and 1.2 billion in total assets.

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Real Estate Owned is Bad loans that has not increased but 25%

C. Capital Levels:

Over the past few years, First Community has held fairly consistent capital ratios. They did take a dip on their Return on Assets and Return on Equity from 2016 to 2017, but this can be explained by their large increase in expenses. Besides ROA and ROE they have maintained all other levels consistent, which implies that they are satisfied with their other ratios such as leverage ratio and efficiency ratio.

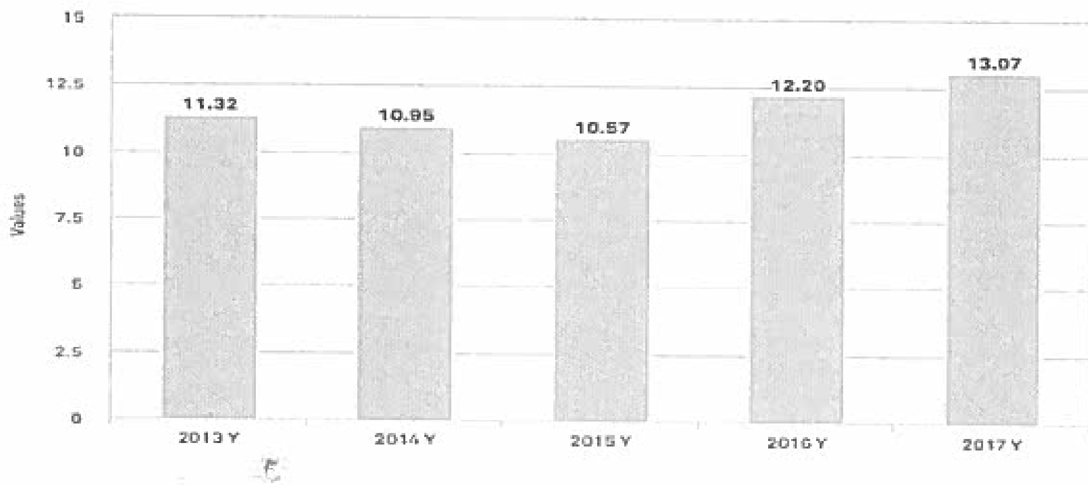
Quarterly Period Ended	9/30/2017	12/31/2017
Total Assets ($000)	1,304,655	1,338,956
NPAs/Assets (%)	1.61	1.47
NPA Excl. Rest/Assets (%)	0.91	0.79
Reserves/Loans (%)	1.21	1.14
Tang Equity/ Tang Assets (%)	8.29	8.27
B3 or GRB: Tier 1 Common Capital (CET1) RB Ratio (%)	9.81	10.06

Leverage Ratio (%)	8.56	8.52
Net Interest Margin, FTE (%)	3.92	3.89
ROAA (%)	0.96	0.58
ROAE (%)	11.30	7.00
Efficiency Ratio (FTE) (%)	61.55	61.94

First Community has shown the most success in their tier 1 capital ratio. This can be largely attributed to their loan growth over the past few years. Based off their capital levels, First Community can be classified as a well-capitalized bank. This allows us to determine that they will be able to continue operations and provide for their customers for the foreseeable future. Based off their history, we expect ROA to return back to around .95 and ROE to return to around 11%. (We also expect them to continue focusing on their tier 1 capital ratio over the next several years.) Why? not sure you need this statement

D. Liquidity:

First Community has stayed roughly around 11% to 13% liquidity ratio. This is about the average when compared to peer competitors. First Community currently has around $16 million in cash & cash equivalents. This is about $8 million less than what they held in 2016, which has their highest cash holdings in company history of $24 million. This allows us to assume that First Community decided to hold a little less cash, and put more toward investments.



Overall, First Community has been very sound financially. They are making smart decisions with their money and how they invest it. It can be safely determined from their financial statistics that they will be more than able to meet their customers needs and continue operations for the foreseeable future. It can also be safely determined that they will continue to invest and expand over the next several years.

The Community and Technology

1. How does the bank define their market?

Community Banks use the following marketing strategies and techniques to define their market and beat competitors:

Bank Technology transformation: Banks are making massive investments to transform their business into a digital service provider. This transformative process is impacting not only legacy systems but also decisions about which firms they invest in, partner with or purchase. In short term, banks that hesitate from taking this transformation could get a big challenge and in the new future, they will not have the opportunity to effectively and successfully compete in key segments without digital competencies. Not clear rewrite

rewrite

Banks getting more disciplined on resource allocation: Banks became more comfortable when operating in cost-contained environment needed to fund investment in digital transformation ? not clear As a result, resource allocation will shift to more disciplined and quantitative assessments of a market opportunity for growth.

Customer experience strategy: Banks who focuses more on putting their customers first and train their employees to value each customer, each account as a relationship. This helps customers to have trust in the bank and become lifetime customers.

not clear ?

Get involved: Banks secure market working with non-profits organizations that need your support. The banks can decide to support learning institutions, sports teams, and churches by participating in their fundraiser functions which creates good publicity for the bank.

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Approach new markets: Banks pursue new markets where their competitors don't operate and increase their market size.

Market segmentation: The bank segments its customers on basis of demographic, geographic or psychographic. They identify segmentation criteria to follow, conduct a market research and apply cluster analysis. Then they can decide to use multi-segment coverage where marketing effort is spread to more than one segment.

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Brand strategy: Community banks brand their services in such a way they align with the customer's unique value. Focuses on what the customer likes and their interests hence differentiating their products from competitors hence gaining competitive advantage.

conclusion for this section ?

2. Identify market trends within the banking market and extent to which banks participates in those trends?

rewrite

Integration of mobile: Banks are using online and mobile banking channels to advertise their product which saves time and resources. Also, customers can deposit money in their homes ? and working places without having to come to the bank.

Voice technology: Banks are moving basic dialogue and account inquiries to transactions using voice commands. This includes being able to make payments using voice commands as well as making account transfers.

this is not clear

Cross-departmental integration: Marketing today in community banks is about the consumer experience, a strategy that is integrated across multiple channels and departments where the IT department has to work together with the accounting department for effective marketing.

Content marketing: Banks today are hiring individuals who can generate a consistent stream of content for multiple platforms and purposes. For example, content strategists, copywriters, and digital storytellers.

a) Small business lending: There are two tech trends that are impacting on the small business market and growth and include the following:

Artificial intelligence; it refers to the development of computer systems that can perform tasks that usually require human intelligence. Artificial intelligence is causing a transformation in small business lending by improving credit assessment, financial product development and loan decision making. It also enables lenders to offer more personalized secure business loans.

Convergence; Marketplace lenders have brought speed, technological developments and lesser burdens of regulation to the table, while banks offer loan products and deposit customers with proprietary data. Combining their strengths enables banks and small business to profitably originate and process small loans efficiently. Lenders are able to process transactions more quickly while mitigating risk through big data analysis. Also, for small business searching capital, money can be obtained faster and at more attractive rates than that were offered by alternative lenders.

Is this correct ? Check your source

b) Agricultural lending: New trends in agricultural lending have effects on the bank. For instance; farm debt to equity ratios is increasing (more risk) while delinquencies and charge-off continue to decline. The several years of record in crop yields and high commodity has left farmers with little need for operating loans because they can sell the yields and get operating capital.

This may be old information FARM LOANS PAST due have been rising

c) Commercial Real estate lending: Market trends and new technology in the commercial real estate has increased over the past few years. Regional and local banks boost lending to CRE. If interest rates rise significantly the cost of borrowing and the value of properties will remain stable and all other things being equal.

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If Interest rates increase, the cost of borrowing will rise

d) Mortgage: Market on social media is one the emerging trends in mortgage marketing where banks can post on Facebook, instagrams on how to acquire new homes through a mortgage. Also, networking is another marketing technique in mortgage where banks can network with different business partners like real estate agents and builders and develop relationships that can turn into actionable leads. Moreover, content marketing is also used to market mortgage where banks provide information concerning mortgage, mortgages videos which will be useful to people who are looking for a mortgage.

e) Payments: Due to increased security measures and convenience banks are adopting digital payments with instruments such as cards, mobile devices. Markets are expected to issue more contactless cards in the mature market. Collaborative payments platform helps banks to generate new revenue streams by leveraging their data and monetizing API- value-added services. Also, payment infrastructure is globally being transformed to become faster and more accommodating to new players that will launch valuable offering for retail and businesses (Furst, 1998).

f) Deposits: Both margins and outright term have fallen over the past two years. Deposits offer investors a range of benefits over other types of investments in the current year where depositors are able to choose their investment term and deposit type and this allows the investors to effectively express a view on interest rates.

3. How does the bank utilize technology to meet local needs for product and services, and why was the technology selected?

Advances in technology are allowing banks to deliver their products and services more conveniently and effectively than ever before thus creating new bases of competition. Therefore easy access to information and ability to act quickly will distinguish the bank from other banks.

Banks has integrated different technologies to satisfy their customers. For example, implementation of self- inquiry facility for logging into self-inquiry terminals at the branch to inquire and view the transactions in the account. Also, anytime banking which is facilitated through an installation of ATMs which offer non- stop cash withdrawal, remittances, and inquiry facility.

The internet is a medium to allow banks to offer their products to customers outside the normal customer base. Through interactive videos, banks can interact with their customers while still lowering the expense of service delivery.

Electronic banking: This enables the bank to provide high-value customer with graphical user interface software on a pc to inquire about their financial transactions and accounts, cash transfers, chequebook issue and inquiry on rates without visiting the bank.

4. How has use of technology affected local customer relationships, particularly younger customers or customers that have moved away since opening an account?

Through self- service technology customer relationships have improved because customers values and respect the bank for its quality services. This is due to the fact that customers can do business at home or office without having to go the bank.

Technology will help customers will run away to resume using the banking services because the services are improvised and easy to access without spending much of your time and this will enhance close relationships between the banks and customers.

Technology is putting more emphasis on customer needs and this leads to customer satisfaction and a satisfied customer will remain loyal to the bank.

5. Has technology adoption brought new customers to the bank or customer demographics to the bank?

Adoption of technology by banks has attracted new customers to the banking sector as well as increased customer demographics in the banks because of the new market trends like market segmentation that focuses on segmenting customers according to their geographical area, age, gender and social class. This will enable the bank to have a wide coverage in a certain area compared to others hence increased customer demographics in banks.

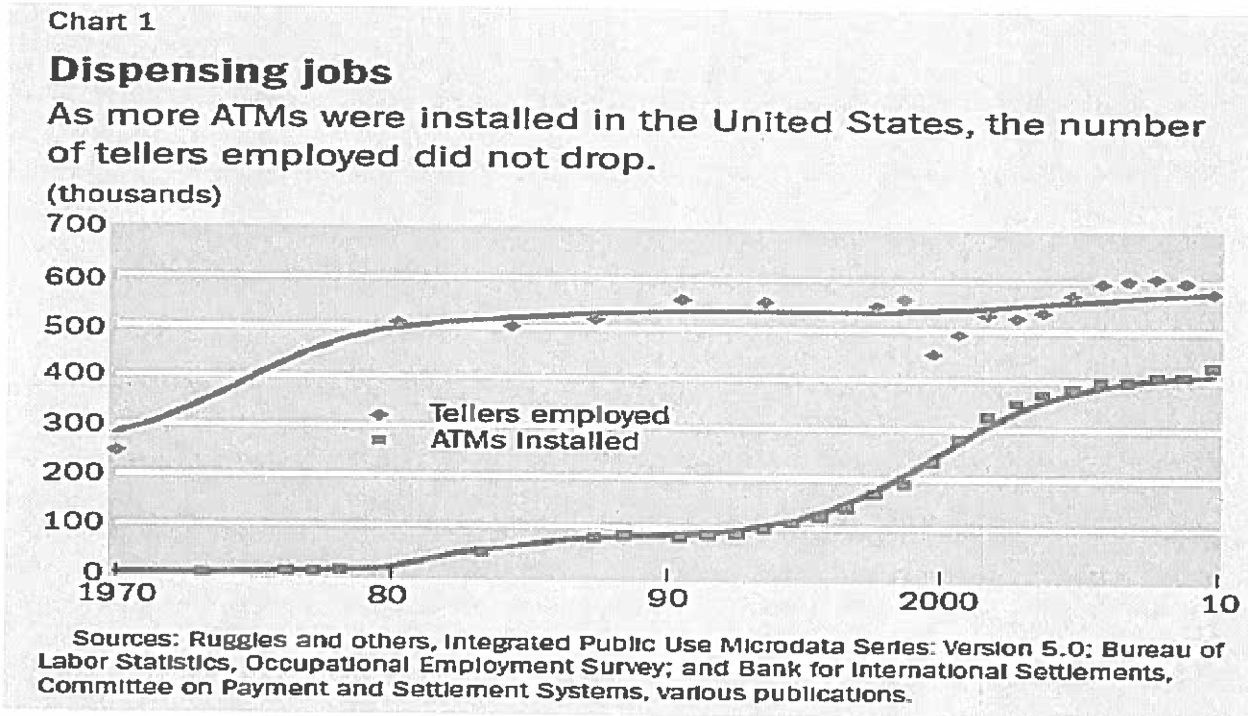
Despite the fact that new customers will be brought to the banks due to convenient and efficient services offered by the bank also a certain income class of customer will also increase because the bank has made the system easy and faster for them to use. For example, office managers will use their smartphones to pay their bills and transact business using mobile banking where they can inquire their account balances, cheque status enquiry, and credit/debit alerts.

Customer demographics in banks has also increased due to the use of internet i.e. social media as a strategy for advertising because young people are spending most of their time on internet hence finding it comfortable to use online banking services hence the bank having a large customer base of young people aged between 18-30 years.

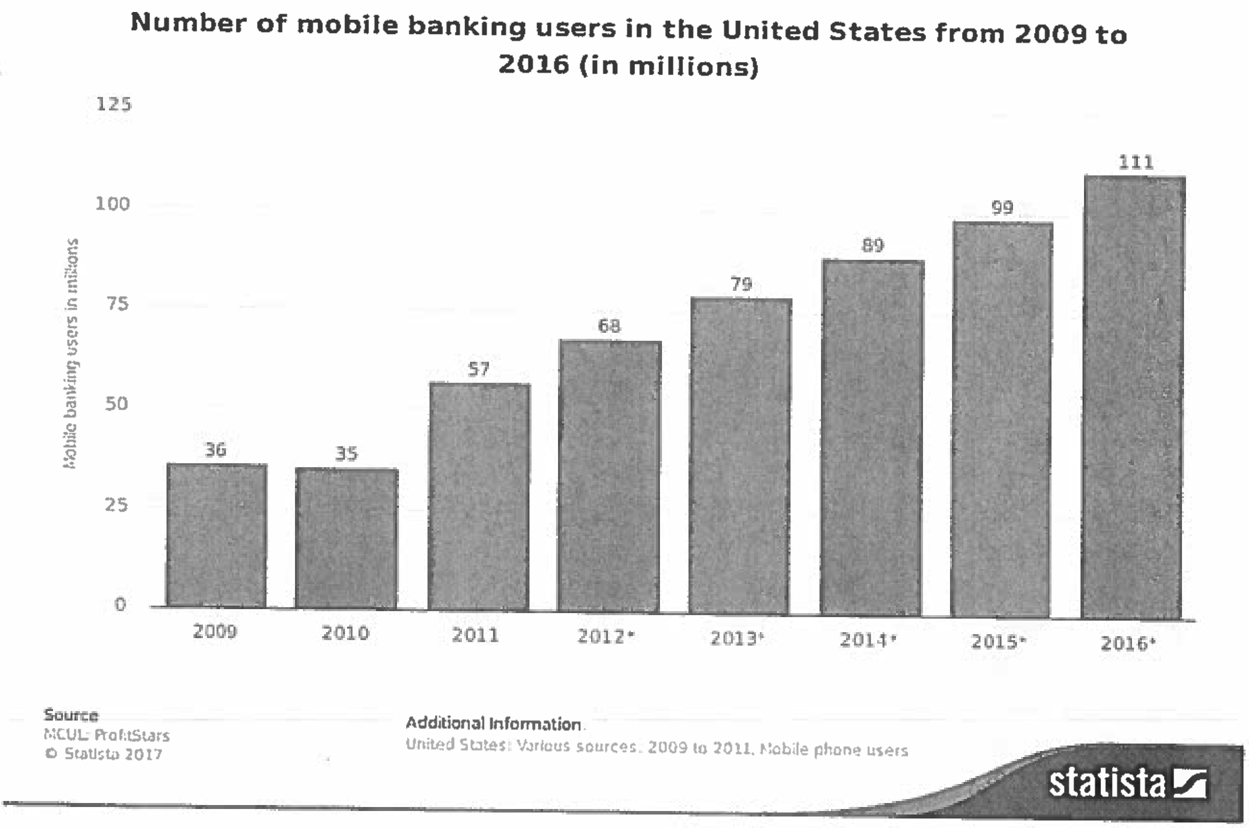
Customer demographics in banks are increasing if the bank focuses on the education level of their customers. For instance; you may find a bank having a lot of master degree holder's customers because the bank uses content marketing strategy which matches with the customer perceptions and lifestyles.

Management and Technology at First Community Bank

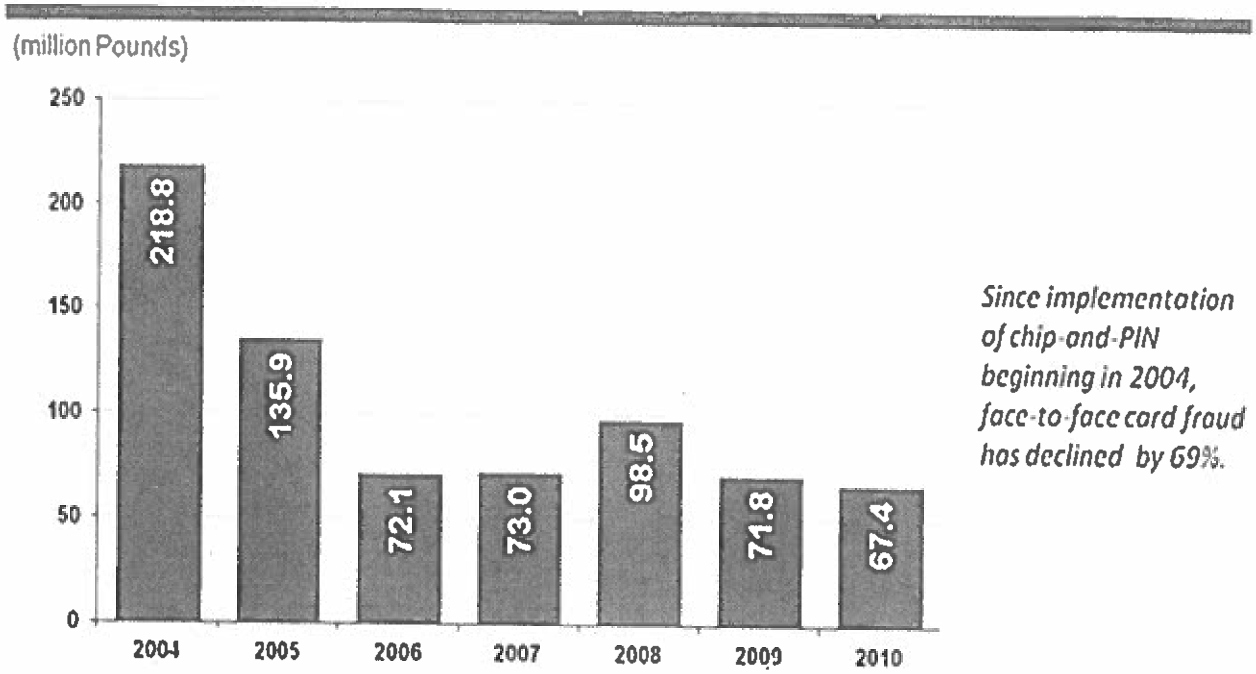
Technology in banks has not always been what it is now. Way back when in 1795 at 120 South Third Street in Philadelphia, Pennsylvania the first bank opened for business in the United States. The bank was commonly known as "The First Bank of the United States". As you can imagine the technology that was used back in 1795 was far and away different from what we have today. At this time in banking history the most technological piece of equipment that a bank used was probably pencil and paper considering everything was done by hand back then. For many years' tellers in the bank were the only way that a person could get their money out of the bank. This meant that the teller knew the customer on a more personal level and the customer had a more personal banking experience leading them to be more trustworthy in their bank. In 1967 the first cash machine was installed by the Barclays Bank allowing people to have the second option for getting their money out of the bank. They could now avoid getting out and going inside the bank and could pull up to the machine and get their money out in an instant. You would think that the downfall to this is that after these machines were installed many tellers would be out of a job due to less foot traffic inside the bank. The chart below shows the relationship between the amount of ATMs installed compared to the number of tellers that have been employed over time.



As you can see starting in the 1990s banks started to install a very large number of ATMs in banks. Right now there are over 400,000 ATMs installed in the United States. At first you may have thought that a lot of people would have lost their job due to the installation of these machines is a bad thing but that isn't the whole story. After management teams decided to put in these machines the number of tellers required to run the bank was almost cut in half. That meant that it was cheaper to operate a branch and therefore made it easier for a bank to open more branches. This was the first technological revolution for banks but it clearly wasn't the last. The next advancement in banking technology was online banking which was first became popular in the 80s that referred to the ability for someone to use a terminal, keyboard and television or computer monitor to access their bank account using a landline telephone. Now the idea of internet banking includes any form of electronic system that a customer of a bank can use to conduct financial transactions through that financial institutions internet-enabled website. Ever since the introduction of internet banking the popularity of it has grown significantly and the amount of users has grown greatly. Especially over the past ten years where technology has been the catalyst of our economy. Below the graph shows how much the number of internet banking users has grown over the past few years.



I have explained a little bit of how far technology has come in banks, now I am going to talk about how management at First Community Bank in Batesville, Arkansas has utilized the advancement of technology in banks and how they plan to keep growing in the technological part of banking. Along with the use of ATMs and internet banking, the First Community Bank uses ACH processing for the posting of transactions on customer accounts that can be seen online. When the ACH was first adapted the bank could use this service for posting transactions that a customer would have and the customer could see these transactions on their online statement within the next couple of days. Also the service is used for the posting of direct deposits on a customer's account. Recently the bank has upgraded its ACH system that allows for the same day posting, so now when a customer uses his/her debit card they an logon to their account and see the transaction on their statement almost immediately after the transaction happened. Another advancement in that management has brought to this bank is the "chip" in the debit card. The old style of debit card has a mag strip on the back of the card that contained six pieces of information that would be linked to the customer's account. This made it easy for hackers because all they needed was to get those six pieces of information and they could use your card without you knowing it until the transaction was posted to your account and by then its too late. With the new chip technology, the chip on your card contains one hundred pieces of information and every time the card is used six pieces out of that one hundred are selected at random and its different every time the card is used. This has cut down debit card fraud significantly and considering First Community Bank has lost over $109,000 within the last year on debit card fraud, this switch to the new chip cards will be greatly beneficial to them in the future. Below I have inserted a graph that shows how much debit card fraud has declined since banks started using chip cards.



We asked executives of the bank if they thought all the advancements in technology would damage customer relationships and they seemed to think that no matter how much the bank grows technologically there will always be a need for that face to face interaction in the bank. Also we asked if with the growing of technology if they have seen a higher number of younger customers come through the bank and they said yes. People these days like things to be as easy for them as possible and the less amount of interaction with other people the better. The ATM has taken that away for people that want to withdraw money from their account and internet banking has also reduced the face to face contact for people who want to see their account statement. As of right now at the First Community Bank if you want to deposit money into your account you have to go inside the bank and talk to a teller or you can go through the drive through window and talk to a teller that way. I the very near future the First Community Bank will be adding a new technology to their ATM system that will allow customers to deposit cash and checks through the ATM and the money will be available immediately. Management at

First Community Bank say that with all the advancement in technology in the world we live in today they believe that the technology in banks will continue to grow just as fast. In the future they plan to adapt to all the new technology in the banking world and want to try to stay up to date with new things as fast as possible, that will keep customers happy while giving every age group the ability to learn and use the new technology that they expect to see in the future.

Third Party Vendors and Technology Service Providers

First Community Bank really stressed how important technology has been in the banking industry. They explained that customers are really starting to look for quick and easy ways to bank. The solution for this growing trend is through technology advancement. First Community explained that the biggest issue with third party vendors and technology service providers is mitigating the risk to protect their customers. If they cannot keep customer information safe they will lose trust with everyone they do business with. If customers can't trust them, they will lose customers quickly. Cyber security is a major risk to a bank and they must have it in order to survive. This requires that they mitigate the risk with their third party vendors as well as the technology services that they provide.

Twenty-five to thirty years ago banks had to physically check for signatures and fraudulent checks while now there are machines and programs that check. Technology in the banking industry has also allowed for First Community to process checks a lot faster. According to First Community it used to take roughly one to two weeks to process a check because they were required to send them to Little Rock. Technology has now allowed for the process of checks to be a lot quicker. The government has allowed that the physical check no longer, physically exchange hands, but the check must be imaged. Banks now have the ability to scan checks through a machine that uploads them into their software.

We also learned that ATM's have really started to change banking and offer technological services that are new. There are now "smart" ATM's that allow customers to deposit cash and checks into their bank accounts without having to go inside. First Community noted that there are still a great deal of customers that prefer the personal relationships instead of the new style of banking, but a lot of banking is now done online as well as through machines. These ATM's require the ability to review checks. Normally tellers have been the front line defense when it comes to identifying fraudulent checks. In order for these ATM's to function properly they need a program that will automatically be able to decipher between a good check and a bad one. Banks still fight a major fraud problem with checks using employees to process them, so these machines will have to be certain a check is legitimate before it deposits or cashes it.

ATM's are not the only technology driven machines that have given banks a third party vendor to do business with. Automated loan machines are currently in the works as well. They explained that they are basically ATM's, but they are designed to have an approval process for unsecured loans under a certain amount. These machines are capable of running a background check and credit analysis based off of a potential customer's credit score. It takes into consideration the size of the loan as well as the customer's credit score to make its decision to be approved or declined. First Community explained that these machines will never be able to replace commercial lenders, but it would give customers the ability to get really small, straightforward loans a lot easier.

A lot of the bank's third party vendors today are the companies that provide these technology services. They have to rely on the ATM, loan machine, check scanning, and software companies to provide safe and efficient products that will keep the bank and the customers safe from criminals. Every machine and software program is susceptible to malfunction at any given point. During times they are in need of repair or maintenance, the bank must rely on the third party vendors to get them going again. First Community has an IT department, but they can only do so much. They are the bank's greatest line of defense against cyber security through a sturdy firewall that they build, but they have to mitigate the risk with the technology providers as well.