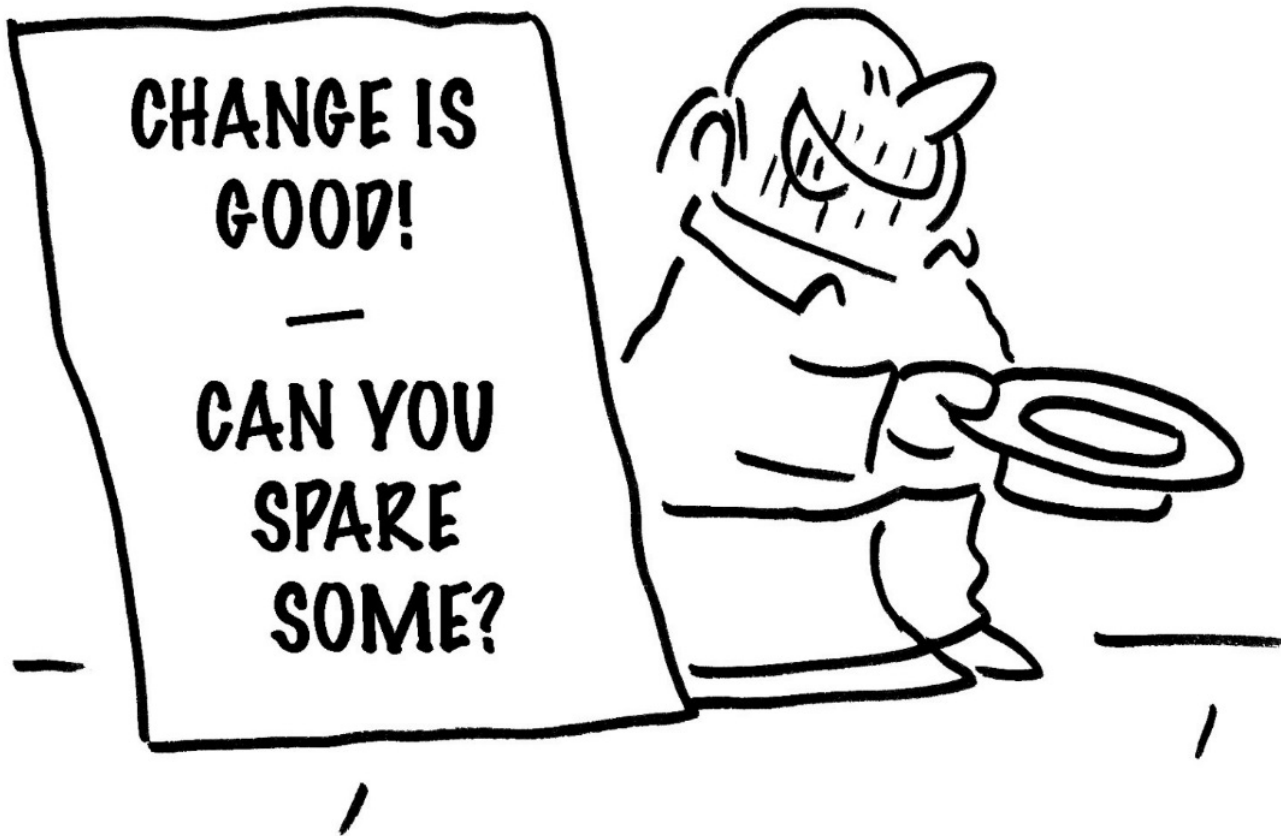




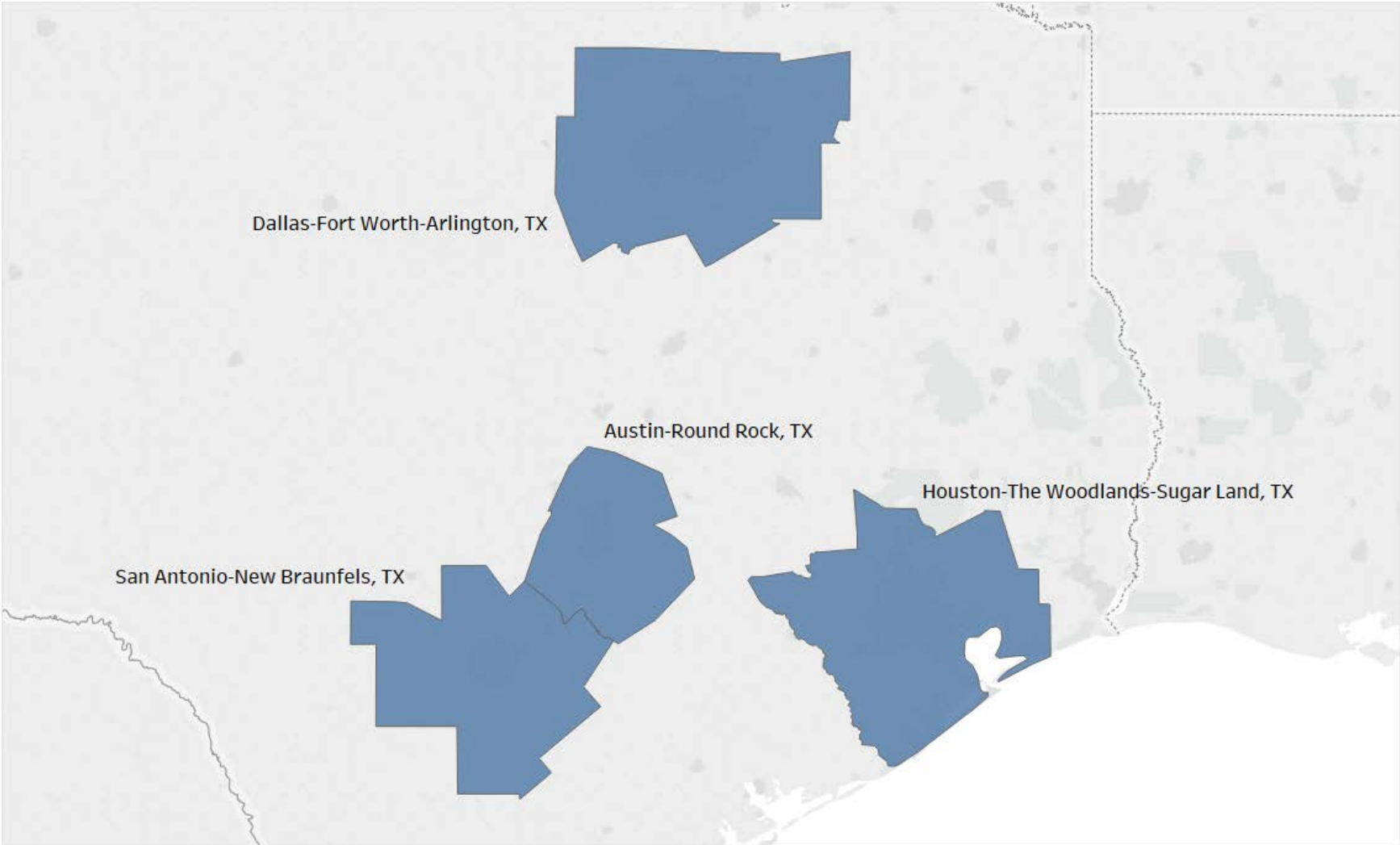
RMA Texas Spring Conference:
Thursday, April 19, 2018

STRATEGIES FOR GROWING BUSINESS BANKING AND LOWERING THE COST OF LENDING



CartoonStock.com

Bank originations of less than \$1M in selected metropolitan statistical areas (MSAs) across Texas



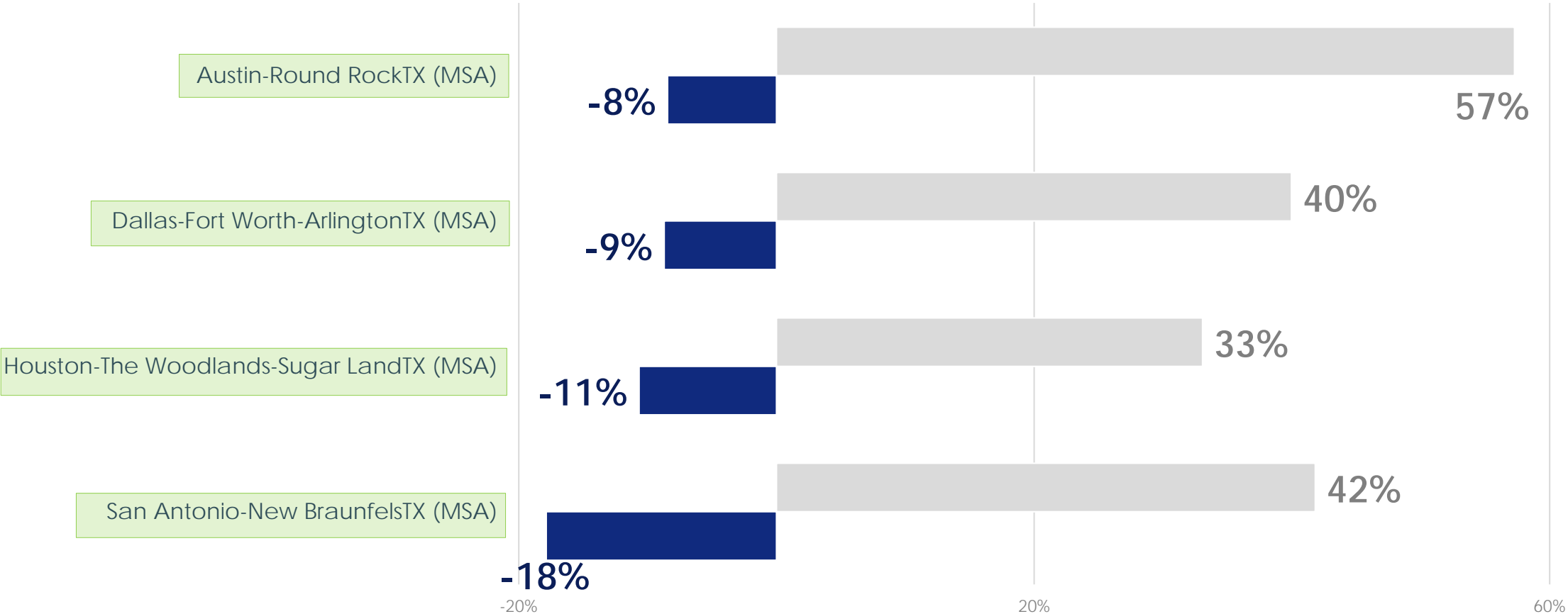
In several MSAs, Bank's C&I loan growth has not reflected local economic conditions, suggesting that geographic targeting could be improved.

Local GDP Growth vs. Bank's C&I Loan Origination Growth

By MSA, 2008 - 2016

Opportunity Over-Concentration

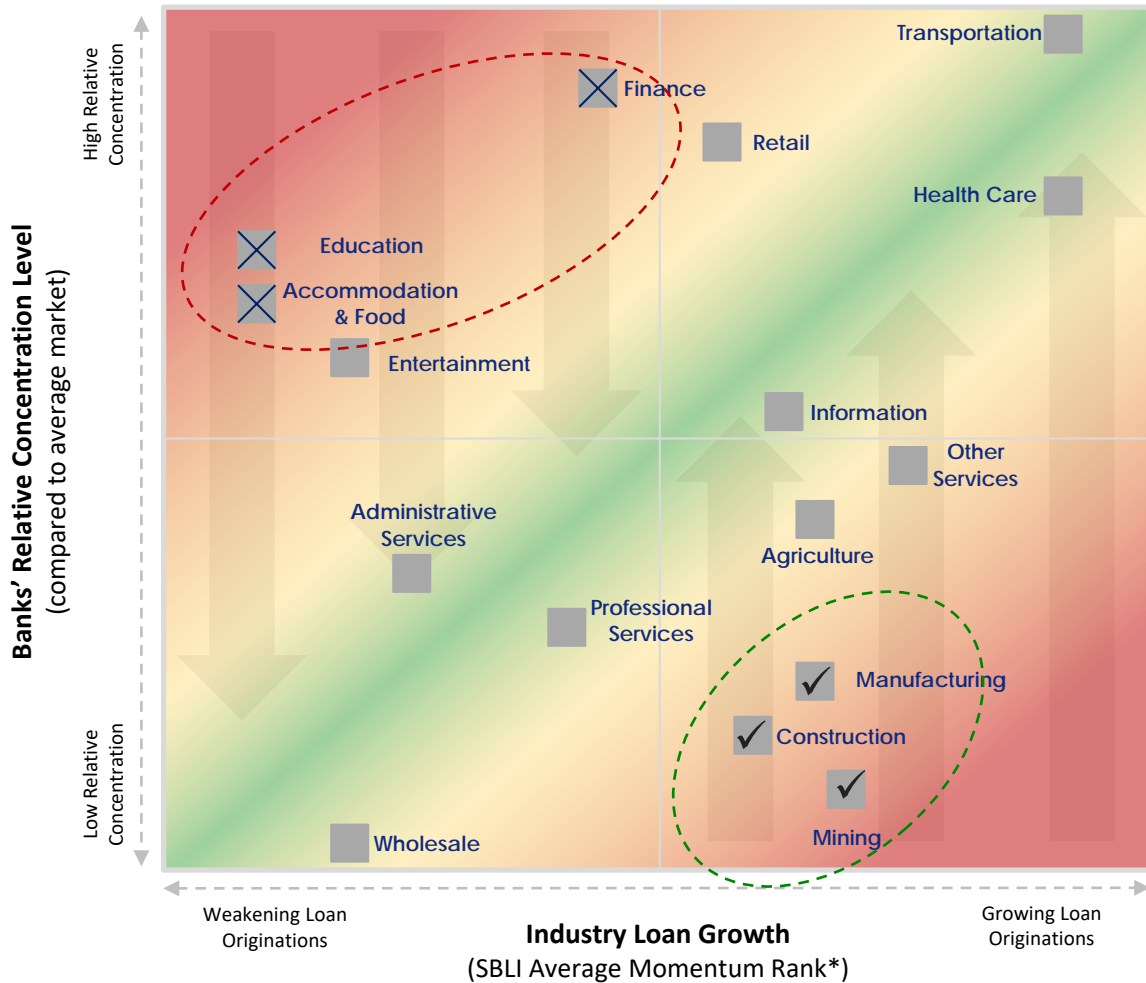
Banks Growth Local GDP Growth



Banks could also improve their lending portfolio by targeting industries with uncaptured loan originations growth . . .

Industry Opportunity Matrix

Concentration and Growth of Bank Lending Portfolios by Industry



Opportunities

Industry	Industry Loan Growth	Bank Share	Market Share
Mining	3.0	0.96%	6.64%
Manufacturing	2.5	3.61%	8.23%
Construction	1.5	5.65%	10.42%

Over-Concentrations

Industry	Industry Loan Growth	Bank Share	Market Share
Education	-6.5	1.11%	0.98%
Accommodation & Food	-6.5	5.24%	5.11%
Finance	-1.0	17.26%	9.48%

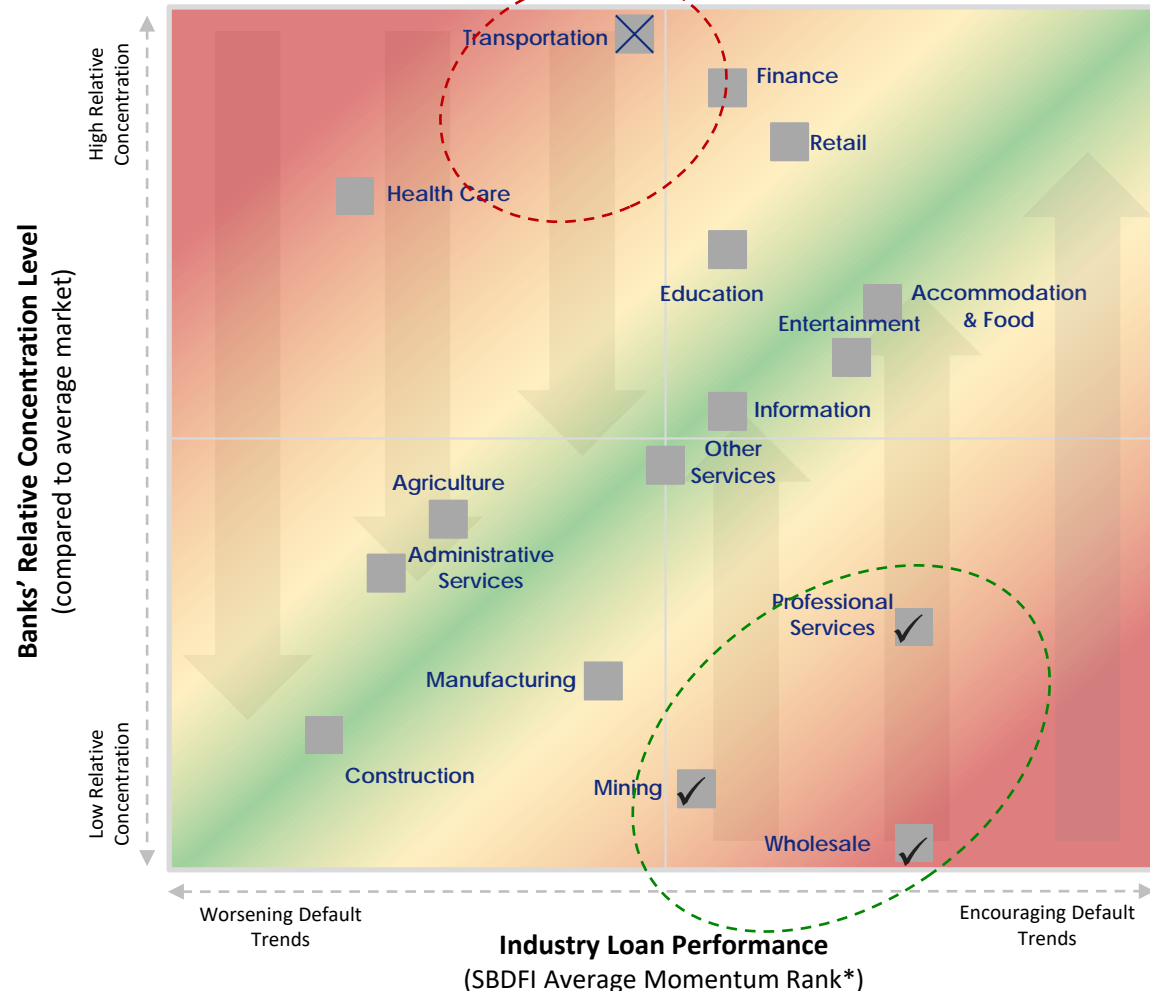
*Note: SBLI Average Momentum Rank = Average of Difference Between 6 Mo (annualized) and year-over-year growth rank and Difference Between 3 Mo (annualized) and year-over-year growth rank in the local market (Centered)

Source: PayNet; Census Bureau; BEA; SBA

... and by pursuing industries with strong loan performance.

Industry Opportunity Matrix

Concentration and Performance of Bank Lending Portfolios by Industry



Opportunities

Industry	Industry Loan Performance	Bank Share	Market Share
Wholesale	4.0	2.45%	8.59%
Professional Services	4.0	10.13%	14.35%
Mining	0.5	0.96%	6.64%

Over-Concentrations

Industry	Industry Loan Performance	Bank Share	Market Share
Transportation	-0.5	21.32%	3.60%
Health Care	-5.0	13.38%	11.35%
Finance	1	17.26%	9.48%

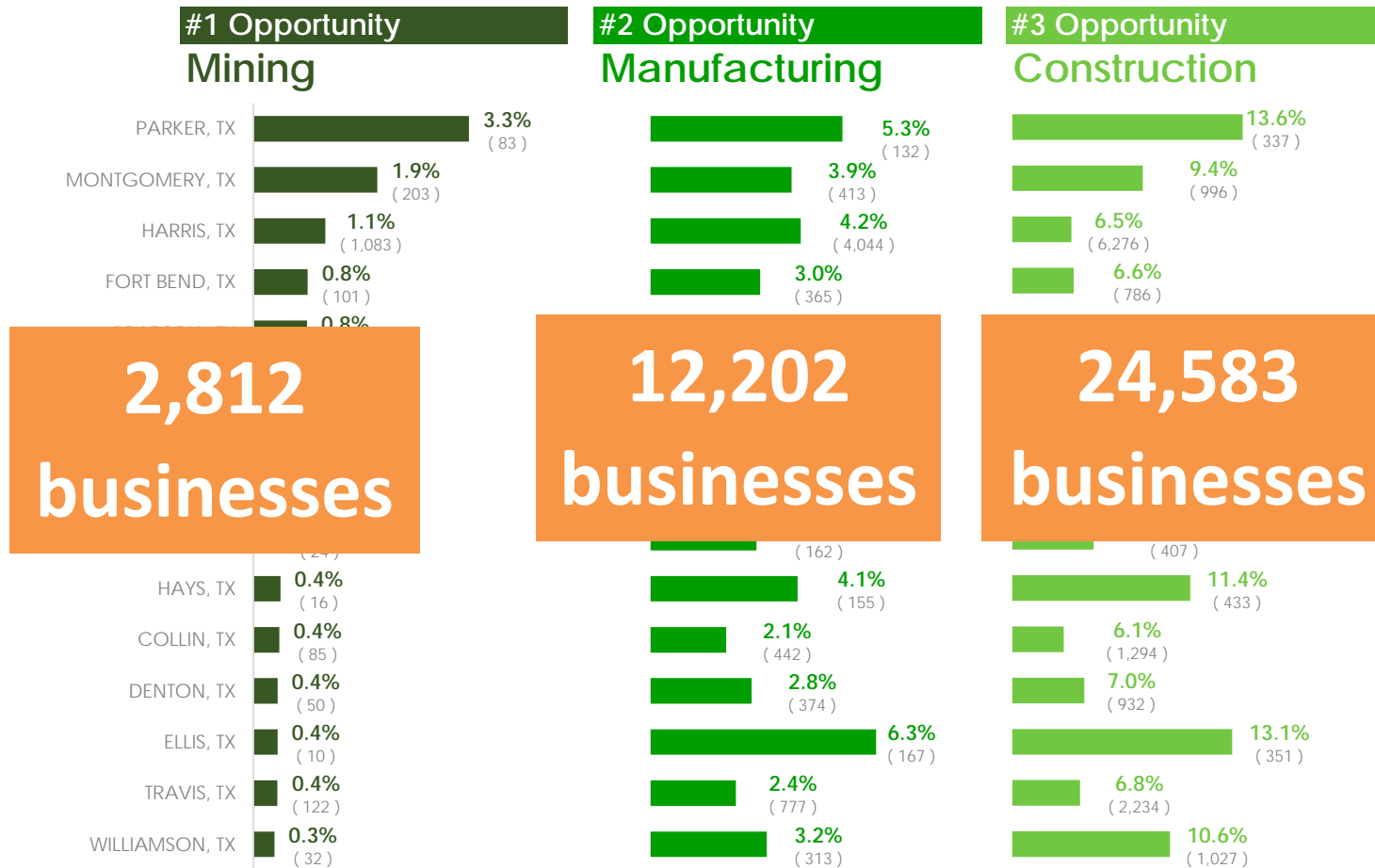
*Note: SBDFI Average Momentum Rank = Average of Change in Default Rate Over Last Three Months rank and Current SBDFI Level rank in the local market (Centered)

Source: PayNet; Census Bureau; BEA; SBA

To take advantage of industry opportunities, banks should target counties in the U.S. where underutilized industries have a strong presence . . .

Geographic Distribution of Opportunities

Share and Number of Establishments in Top Opportunity Industries*, by County



*Note: The top opportunity industries are determined via a composite score that accounts for the industry's loan growth, loan performance, and banks' relative concentration level in the industry.

CURRENT Underwriting and Review Process

Commercial Underwriting Process

30 Days
10 loans/Month
\$5,000/application

Credit Review Metrics:
2 days to complete 1 loan
 Analyst can produce 120 loans/mo.

Challenger Bank

Business Borrower

Manager

- Collect F/S
- Build Relationship via "Centers of Influence"

Spreading Dept.

- Conduct F/S spreads

Credit Dept.

- Underwrite
- Credit Write-Up

Approval

- President \$2m - \$5m
- Credit Cmte \$5m - \$10m

Data/Tools:

- Moodys spreads
- FICO personal score
- Lexis Nexis Public Records

Underwriting:

- Uses spreads to do Cash Flow Analysis
- Add PN and DNB to analysis
- Get Behind the Numbers to Tell the Story
- \$4m deal used 52 pg. write-up
- \$500k deal used 5 pg. write-up

Credit Review

- Same Underwriting Process
- All credits Quarterly
- All Credits Annually

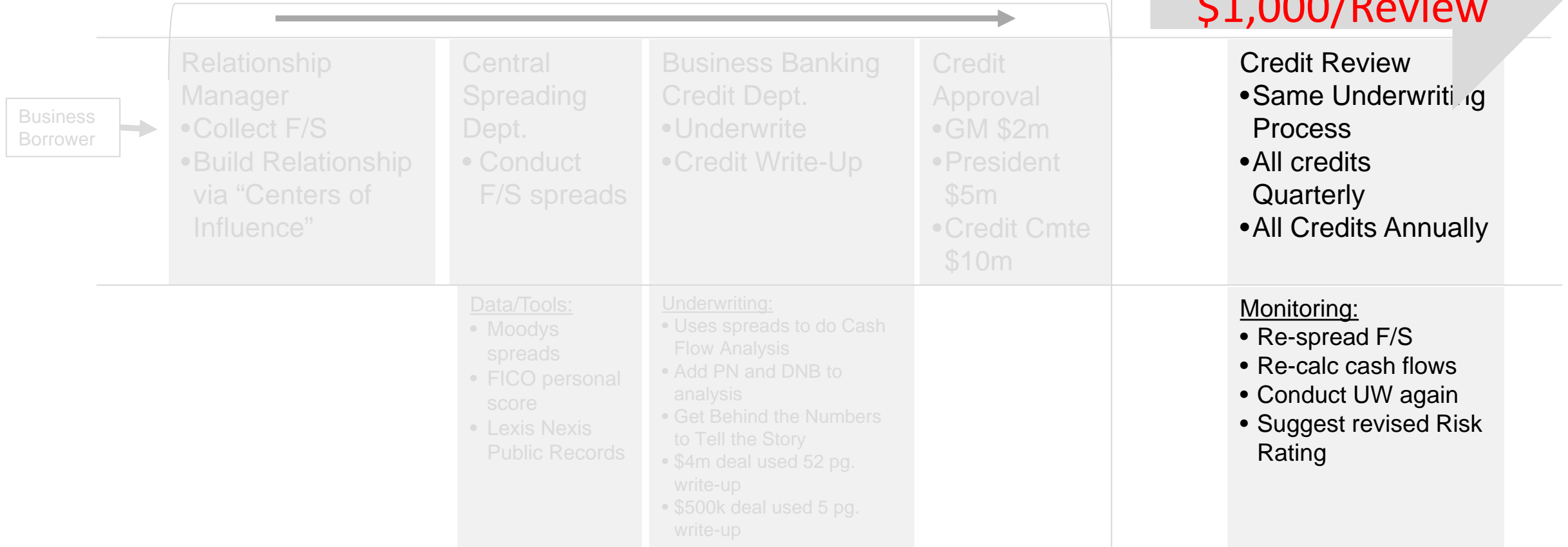
Monitoring:

- Re-spread F/S
- Re-calc cash flows
- Conduct UW again
- Suggest revised Risk Rating

CURRENT Underwriting and Review Process

Challenger Bank

Underwriting Metrics:
7-30 days to complete 1 loan
 Analyst can produce 10 loans per month



Application Only 0 - \$100k

Lite Underwriting \$250k to \$1M

STREAMLINED COMMERCIAL LOAN PROCESS

DECISION PROCESS FOR BANKS



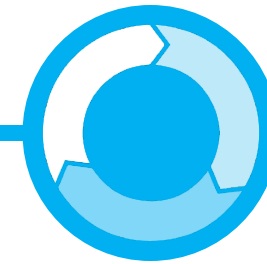
PORTAL

Application



DECISION ENGINE

Data Gathering &
Automatic Adjudication



CREDIT POLICY/ PROCESS

Automated Review
Manual Review

DECISION PROCESS FOR BANKS

PORTAL

CREDIT APPLICATION



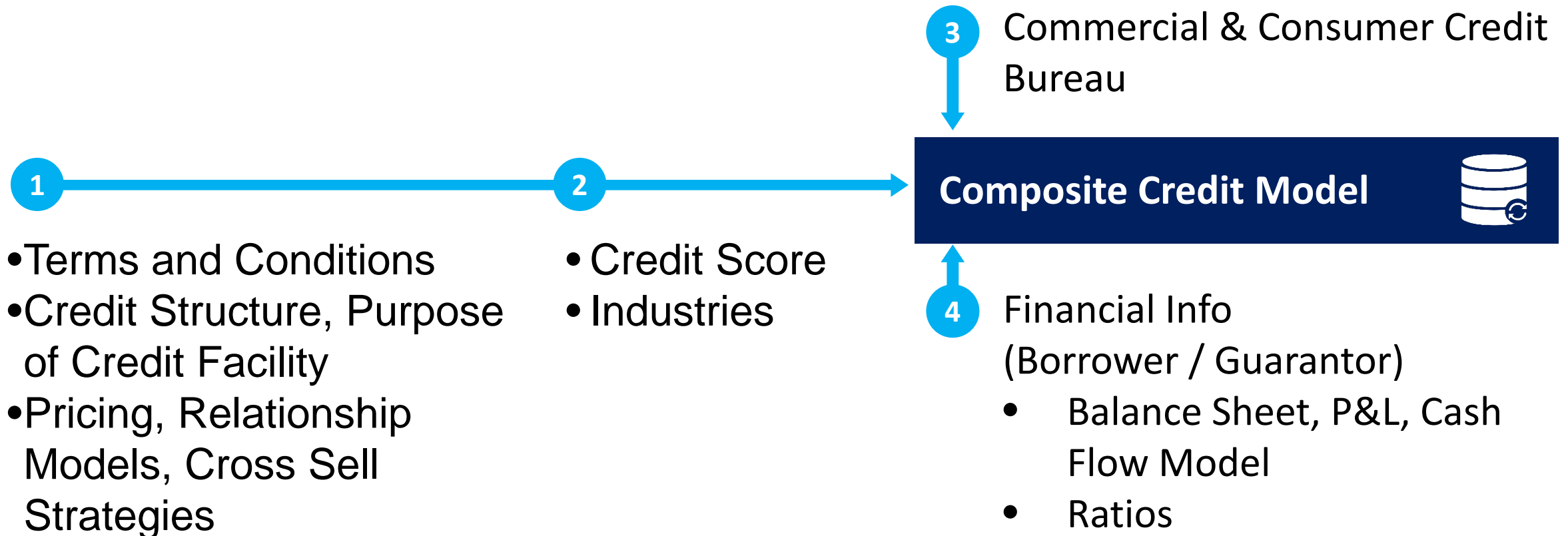
Borrower/Guarantor:

- Name, Address
- Years In Business
- Legal Structure
- TIN
- History
- Business Description
- Management Team

DECISION PROCESS FOR BANKS

DECISION ENGINE

DATA GATHERING & AUTOMATIC ADJUDICATION



DECISION PROCESS FOR BANKS



CREDIT POLICY/PROCESS

AUTOMATED REVIEW

Credit Analyst Review
($< \$100k$)

- Commercial Credit Scores
- Consumer Credit Score

Compliance Checks

Terms and Conditions
Credit Structure

Approve/Decline

MANUAL REVIEW

Credit Analysis ($\$100k - \$1M$)

- DSC, D/E Ratios
- Appraisal / Analysis
- $EL = LGD \times PD$
- Competitors
- Collateral
- Industry Analysis
- Significant Events

Approve/Decline

DECISION PROCESS FOR BANKS



10 applications/analyst/month

30 days/application

RESULTS

**60 – 120 applications/
analyst/month**

**~5 days /
application**

CRED

B

-
-
-
-
-
-
-
-

management team

Bureau


**Credit
Model**

- (Borrower / Guarantor)
- Balance Sheet, P&L,
Cash Flow
- Ratios

\$1M)

NEW CREDIT REVIEW PROCESS

4X Per Year By Allocating Resources To Highest Risk Loans

	Low Risk	Middle Risk	High Risk
Portfolio Mix	95%	2.5%	2.5%
Re	 <p>100 – 200 reviews/analysts/year</p>		
Re			
Pro			
Eff			
RESULTS			
	2,000 reviews/analysts/year		

PAYNET CAN HELP IDENTIFY GROWTH OPPORTUNITIES AND AUTOMATION

Increased profits via opportunity analyses

- Through geographic and industry targeting, **C&I earning assets by \$110 Million** from 2007 – 2015 while also managing risk effectively.
- **\$3.4 million** extra interest each year.

Credit process efficiencies through automation

- Incorporating industry-leading risk analysis tools (e.g., PayNet's Credit Review Express, PayNet's C&I Express) into banks' credit processes adds scale:
 - Increase application handling from 10 applications/month to 60;
 - Increase annual reviews from 100 – 200 reviews per year to 2,000.
- Typical **\$2B bank saves \$680,000 in underwriting costs and \$570,000 in review costs each year** while also managing risk effectively.

Note: Assumes 230 loan applications and 920 borrower reviews per year

Source: FDIC; PayNet

Bag Phone 1993

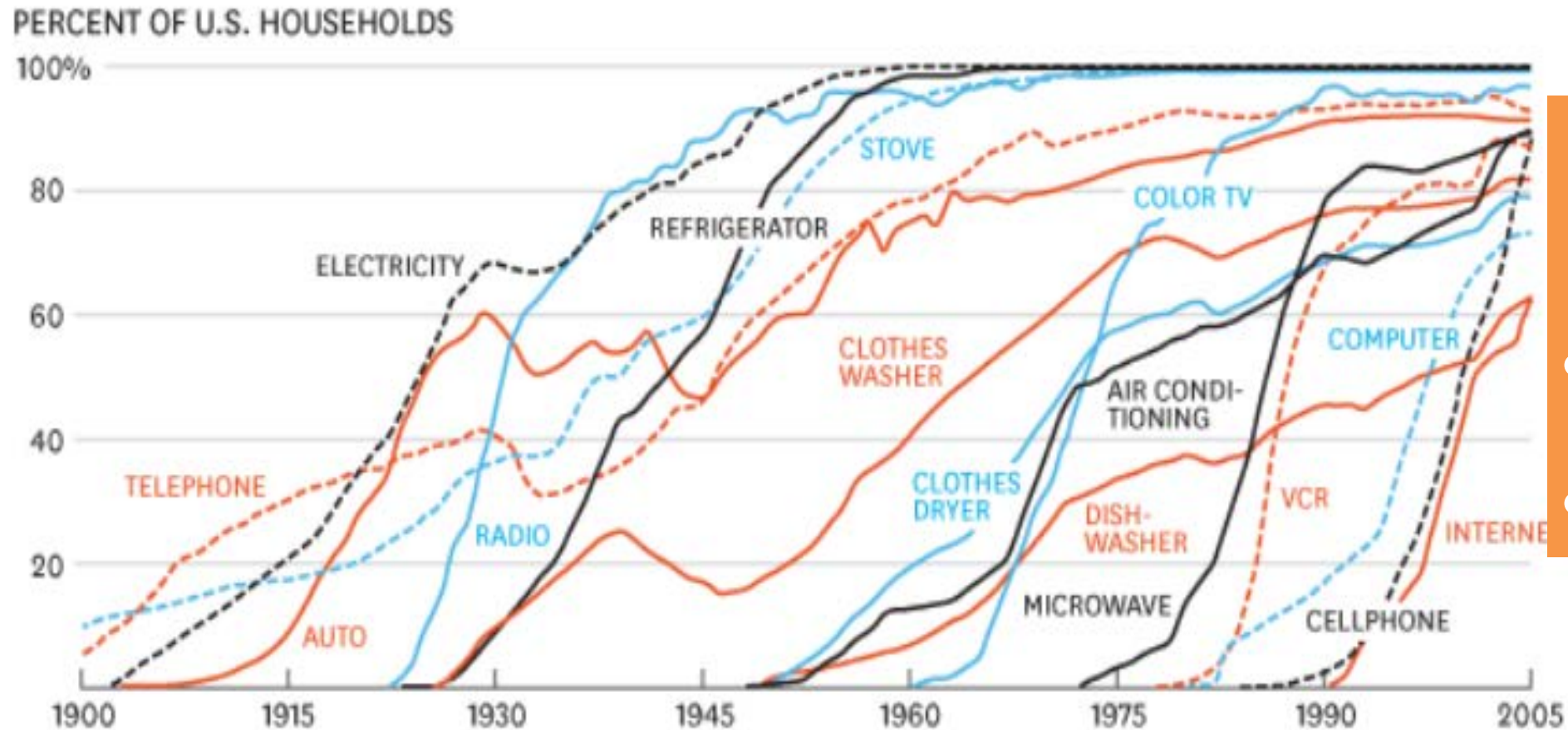




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SOURCE MICHAEL FELTON, THE NEW YORK TIMES

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