BankExec – Action Plans

BankExec Action Plan

- Action plans are created by entering management choices on four input pages
  - Securities (B10 & B12)
  - Loans (B24)
  - Deposits (B44)
  - Treasury (B64)
- **Forecast** allows you to forecast your bank's results based on the decisions you have made
  - Can do multiple Forecasts
  - Cost increases for each Forecast
    - First Forecast is free each quarter
    - Subsequent Forecasts carry an increasing cost

Security Inputs

- Buy Treasuries, Agencies, Municipals, or Swaps
- Sell existing securities

- Important Considerations:
  – Treasuries, Agencies, & Swaps are marked-to-market
  – Municipals (TE) are **not** marked-to-market
  – Municipals are tax-qualified (tax equivalent yield)
  – Repos available equals amount of Treasuries held
  – Maturity/Duration
    - Liquidity
    - Potential capital gains (losses)

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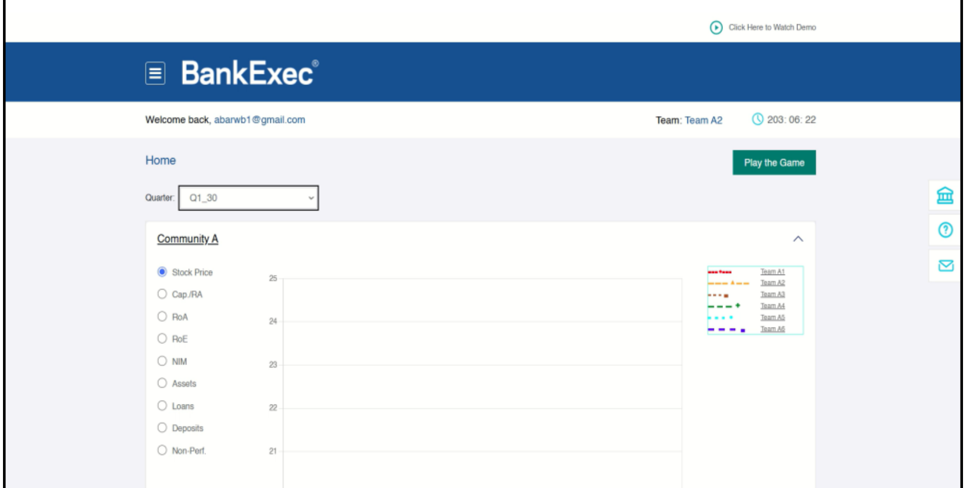

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Loan Inputs

- Decision Required for All Loans
  - Loan Rates (more info to follow)
  - Credit Policy
    - Most restrictive = 1 ⟷ Least restrictive = 5
  - Business Development
    - High (H=4); Medium (M=2); Low (L=1); None (N=0)
    - Sums assigned weights for ***all loans and deposits***
    - Proportionally assigns total budget *(set on deposit page)*
  - Maximum Outstanding (concentration control)
    - Maximum balance allowed (usually keep open)
- Additional individual loan decisions
  - Commercial RE: *max maturity* and *rate adjustment period*
  - Credit Cards: *annual fee*
- Loan Packages Available for Sale

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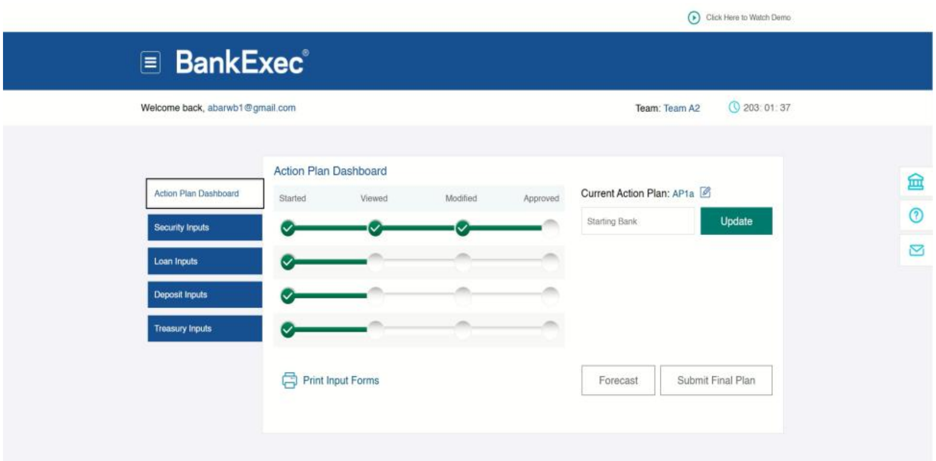

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Setting Loan Rates

- Rates generally determined by adding a “spread” to an index rate
  - For example, in BankExec, Business Term Loan rates are set relative to the prime rate
- Market rates reflect the index rate plus spread, so we can use the market rates to set bank rates
  - Market rates are shown on Report C93
    - BoQ = Beginning of quarter; EoQ = End of quarter
  - Bank rates on C93 are **beginning of quarter rates**

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Loan Rates in BankExec

- **Set rates relative the current market rate**
  - Do not base on anticipated rate movements
  - Simulation adjusts your rates as quarter progresses
- **First**, determine the spread relative to the market rate that the bank used the past quarter
  - Bank rates shown on C93 are for the ***beginning*** of the past quarter
- **Second**, use that spread in conjunction with the new market rate to determine the implied end of quarter rate

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C93	Mkt BoQ	Mkt EoQ	Bank 1
Interest Rate Charged --	-----------	-----------	--------
Business Credit Lines	6.43	6.74	6.50
Business Term Loans	6.89	7.11	7.00

BoQ

Loan Pricing Example

"Implied EoQ Bank Rate" = (Bank Rate – Mkt BoQ) + Mkt EoQ

For Business Credit Lines:
"Implied EoQ Bank Rate" = (6.50% - 6.43%) + 6.74% = 6.81%

- Adjust the Implied EoQ Bank Rate after examining loan results versus desired results
  - Do you want to be more or less competitive?
  - Are you changing credit policy?

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Deposit Inputs

- Fees for checking and savings
  - Monthly fee and/or item charge (transaction fee)
  - Fees can have a big impact
- Interest rates for all deposits
  - Does market rate change matter?
  - Retail time account rates priced relative to Treasuries
- Minimum Balance
  - Checking: balance required to receive interest
  - Savings: "balance" that determines standard or premium rate
- Max Issue is **new** amount that will be accepted
- Business Development
  - Emphasis for each deposit type (H, M, L, N)
  - Total Business Development Budget for ***loans and deposits***
    - Salaries and Advertising & Promotion

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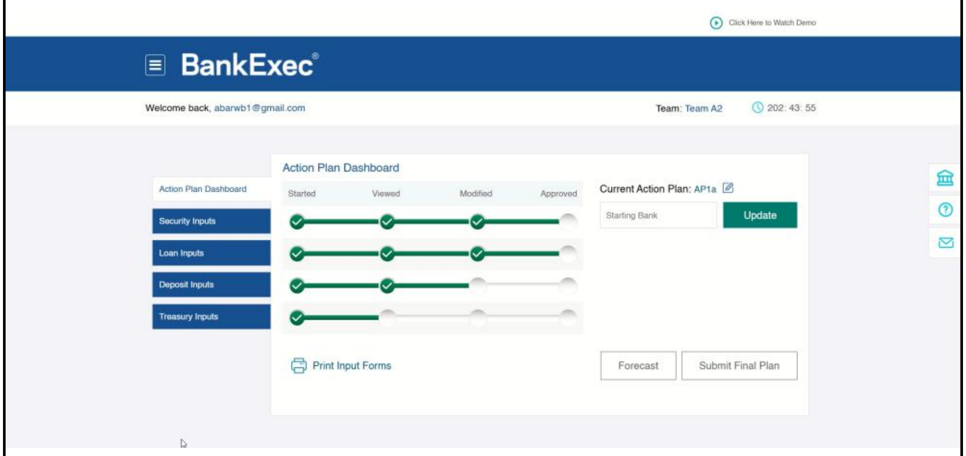

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Treasury Inputs

- Model uses fed funds to “balance” bank
  – No “decision amount” entered
  – Fed Funds should not exceed Total Capital
- Repos available equal total of Treasuries held
- CDs (negotiable) – 1 to 4 quarter maturities
- FHLB rate =

  Treas. rate (same maturity) + 25 bps + 2 bps per mat year
  – Must hold 10% of assets in res. mort. to borrow FHLB
  – Amount available equals residential mortgage balance
- Decision for sub debt and common stock is dollar amount in millions that you want to raise
- Remember to enter dividends and EPS forecast

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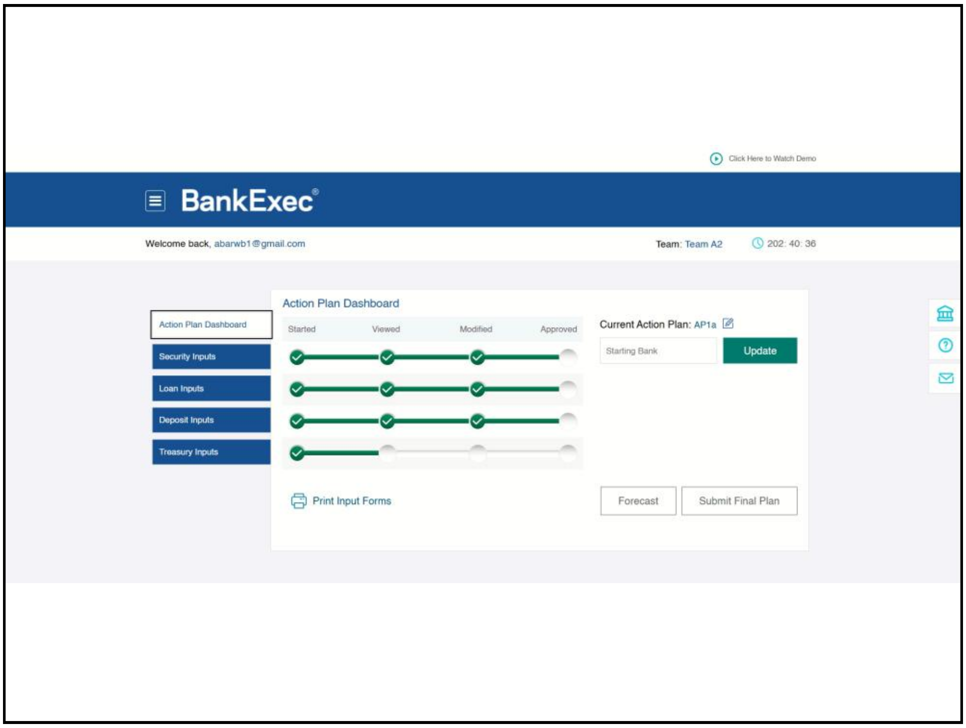

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Forecast

- Forecast allows you to simulate (forecast) your results for the next quarter
- Will not be perfect since you must estimate:
  - Change in market interest rates
  - Competitors' average loan and deposit rate changes
- Will help you:
  - See expected impact of your decisions
  - Determine funding needs
    - Enter all decisions except Repos and CDs
    - Run Forecast
    - Fed Funds indicates expected funding shortfall or surplus
  - Develop earnings per share forecast

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B10 (bottom left)

Maturity	Treasuries	Agencies	Swaps
1	3.59	3.66	
2	4.17	4.25	4.68
3	4.53	4.62	5.04
4	4.75	4.84	5.27
6	4.97	5.07	5.50
8	5.07	5.24	5.61
10	5.11	5.29	5.66
12	5.12	5.32	5.68
20	5.15	5.38	5.75
30	5.16	5.44	5.81
40	5.16	5.50	5.86
60	5.17	5.60	5.97
80	5.17	5.70	6.07
120	5.17	5.90	

C93 (bottom left)

C93 -- Community Loan and D   Mon Apr 7 21:52:23 2(

	Mkt BoQ	Mkt EoQ
Interest Rates Charged		
Business Credit Lines	6.43	6.74
Business Term Loans	6.89	7.11
Commercial Real Estate	6.81	7.22
Maximum Maturity		
Rate Adjst Period		
Residential Mortgage (FR)	5.48	5.64
Home Equity	5.74	6.08
Installment Loans	6.73	7.49
Credit Card	11.17	13.17
Average Credit Quality Policy		
Loan Bus Dev: Adv & Promo		
Business Checking		
Monthly Fee		
Item Fee		
Interest Rate	1.50	1.62
Individual Checking		
Monthly Fee		
Item Fee		
Interest Rate	1.13	1.17
Individual Savings		
Monthly Fee		
Minimum Balance for Premium		
Basic Interest Rate	2.00	2.15
Premium Interest Rate	3.34	3.43
Deposits Bus Dev: Adv & Promo		

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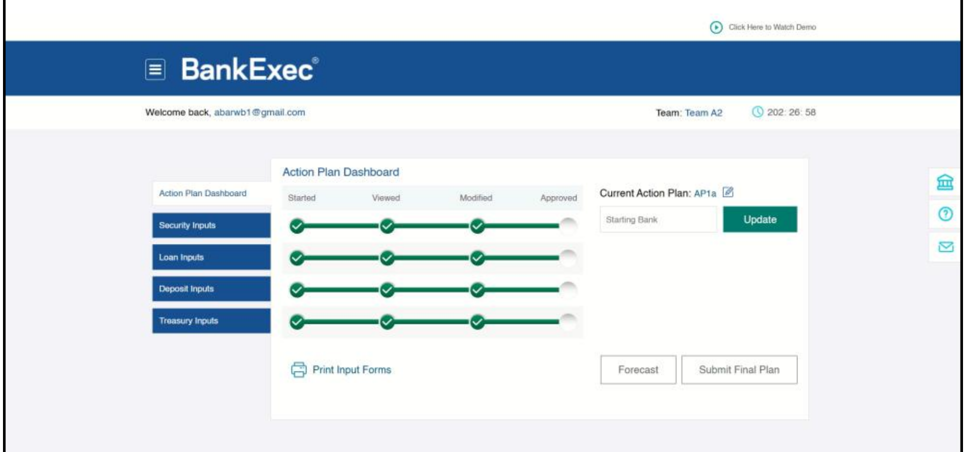

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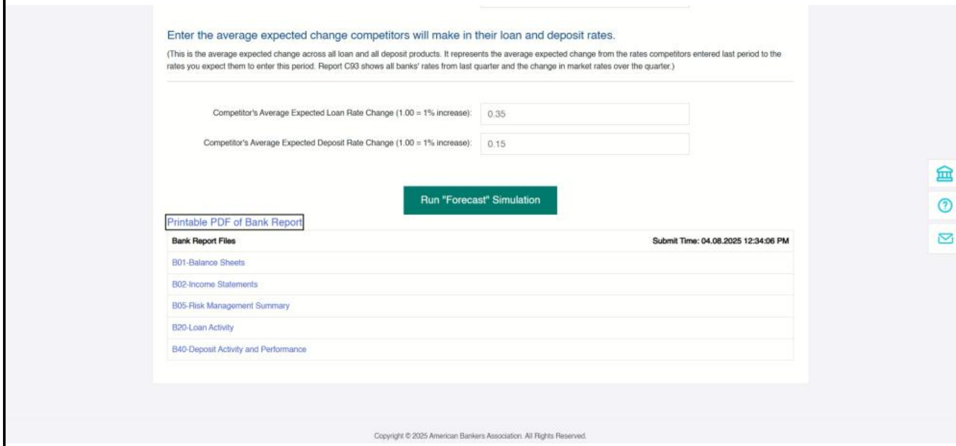

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Common Regulatory Requirements

- Fed Funds Purchased (FFP – B01)
  - FFP <= Total Capital
  - FFP/Total Capital <= 100% (shown on balance sheet)
- Owner's Equity / Total Assets (B01)
- Total Capital / Risk Assets (B05)
- Other regulations
  - Liquidity
  - Concentration limits
  - Investment portfolio restrictions

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BankExec – Action Plans

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