

# Success Story

## Standard Bank & Trust

Chicago, Illinois / Indiana

Assets: \$2.4 billion



# Consulting Services

## Pricing Partner boosts income and consistent loan pricing for SB&T Commercial Lending

When Standard Bank & Trust decided to revamp their lending and loan servicing processes, they called upon their 15-year relationship with Sheshunoff Consulting + Solutions. It was through that process they discovered what has become a tremendous boon to their commercial banking division: Sheshunoff Consulting + Solution's Pricing Partner.

"As the bank grew in a relatively short period of time we realized we needed to price more consistently and knew we needed to implement some type of pricing model, which drove us to Pricing Partner," says Robert Kelly, EVP of Business Banking for Standard Bank & Trust.

The \$2.4 billion Chicago/Indiana-area bank had evolved into a primarily commercial banking enterprise, and found that one of their biggest lending challenges was establishing consistent and profitable pricing throughout the bank.

Designed specifically for community banks, Pricing Partner is an ideal solution not only for implementing consistent loan pricing but also for improving income potential.

"The principle purpose of this tool is loan pricing, and the goal is to be objective about this pricing based on institutional costs, overall relationship profitability, and the fees and compensating balances that can be negotiated for the loan," says Bill Eavenson, Sheshunoff Consulting + Solutions Engagement Manager. "Very often banks let the market dictate pricing, and although this must be considered, pricing also has to achieve a reasonable return for the bank. Pricing Partner can be tailored to consider an individual bank's constraints and costs."

With Pricing Partner, banks plug in the variables, and the software helps guide them toward loan agreements that make sense for the individual institution. Each institution can input their unique processing costs and

cost of funds, and establish a target yield that must be met.

"Part of the expense for putting a loan on the books is how much time and resources are required for the underwriting, approval, processing, document preparation and closing. The cost structure might be high for one bank, but smaller for another," Eavenson says. "Depending on those costs, the ability to meet the target yield can be more challenging or less challenging—and will differ from bank to bank."

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*Robert Kelly, EVP of Business Banking, Standard Bank & Trust*

Pricing Partner allows each bank to control specific inputs, generating "what if" analysis to provide optimum customization.

"A loan officer can sit down with a borrower and look at what the bank and the customer need. Pricing Partner then helps lenders examine a variety of alternatives relative to compensating balances and fees that still meet the bank's target," Eavenson says. "The intent is to use this tool in negotiations to achieve the best results for both the borrower and the lender."

For instance, Pricing Partner allows a lender to consider the overall profitability of the existing lending relationship, providing some latitude on pricing that might not exist when looking only at a single loan request. To accomplish this Pricing Partner works with two different types of information—that which is set by bank management, such as defined processing costs, funding costs and target ROA or ROE, and that which is input by the loan officer. Data input by bank management is fixed and cannot be changed by the officer, but the officer can look at different combinations of variables

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that will affect yield, such as alternatives for origination fees, documentation fees, and compensating balances. In addition, officers can look beyond the loan request to the current profitability of the borrower's relationship.

"By using Pricing Partner, a loan officer may be able to close a loan that doesn't reach the yield threshold defined by management, but still hits the target for overall relationship profitability," Eavenson says. "Offering pricing options helps borrowers feel more empowered, and the ability to negotiate a workable agreement is enhanced."

That sense of empowerment has turned into profits for Standard Bank & Trust. "We've customized the product as I would expect other users to, changing how we implement numbers and restrictions, and have been pleased with the results," Kelly said. "Our net interest margin has improved for 2009 and we have seen growth greater than that of our peers."

In addition to income improvement, one of the greatest benefits for SB&T has been the discipline in pricing consistency evident among lending officers.

"Our biggest challenge was a lack of consistency when it came to pricing throughout the bank," Kelly said. "We already understood the components of good pricing. Our lenders already knew about ROA and ROE and had the right knowledge, but when we implemented the cost and expense side and set targets, Pricing Partner, through their model, pulled all of that together for us."

Now SB&T is holding their lenders to specific targets, which wasn't part of the bank's pricing process in the past.

"Our lenders have to price more aggressively to meet those targets. The level of expectation has increased," Kelly says. "What they appreciate most is that they know what is expected of them in regard to ROA and ROE, which helps them price their individual credits."

In the end, Pricing Partner gave Standard Bank & Trust an easy-to-implement way to build lending consistency and boost overall profitability for their commercial loans.

"We are absolutely positioned well for future growth and Pricing Partner contributed to that," Kelly said. "We have recommended this tool to several other bankers and will continue to do so in the future."

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