



What Borrowers Want

*Differentiating Commercial Lending to
Grow your Portfolio*

November 16, 2011

www.covarity.com

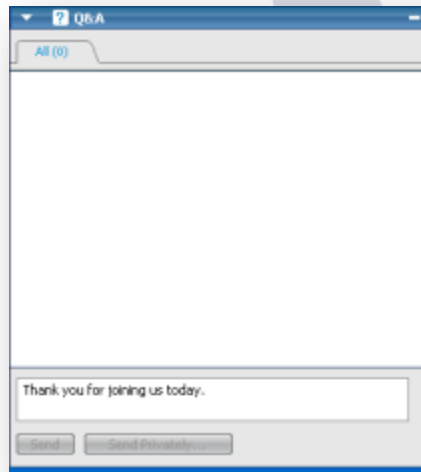
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STONECASTLE
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Housekeeping Details



The event is being recorded



Use the Q&A window



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Agenda & Speakers



David Stott
VP, Product Marketing
Covarity



Randy Cameron
Managing Director &
Executive VP
Stone Castle Partners

- Competitive Challenges
- The Borrower Survey
- Four Areas of Differentiation
 - Relationship Building
 - Products & Flexibility
 - Service
 - Pricing
- Q&A

Key Takeaways

1. Competition for new business means lenders need to develop differentiators in their acquisition strategies.
2. Defining this means understanding “what matters” to prospective clients in your target market(s).
3. In general, we find that relationship trumps pricing, but there are differences based on a number of factors.

Introducing Covarity

- Leading provider of post-origination commercial loan monitoring software solutions for financial institutions that offer working capital lending
- Each month, with Covarity:
 - **20,000** working capital loans worth over \$9 billion are monitored
 - **88,000** documents are collected and analyzed
 - **120,000** covenants, ratios and early warnings are calculated and monitored
- **Customers include:** RBC Financial Group, BMO Financial Group, Fidelity Bank, Libro Financial, Crestmark Bank

Introducing StoneCastle Partners

- Founded in 2003 - one of the largest investment managers and advisory companies dedicated to the U.S. community banking sector, with \$2B in direct investments and over \$3B in AUM.
- 27 professionals with deep experience in community bank management, securities transactions, regulatory management, accounting, compliance and banking law.
- Provide a broad suite of products and services to community and regional banks including capital, C&I loan generation programs, private label lease programs, FICA[®] deposit network, interest rate risk management, bank analytics and peer analysis, consulting services, and more.

Competitive Pressure

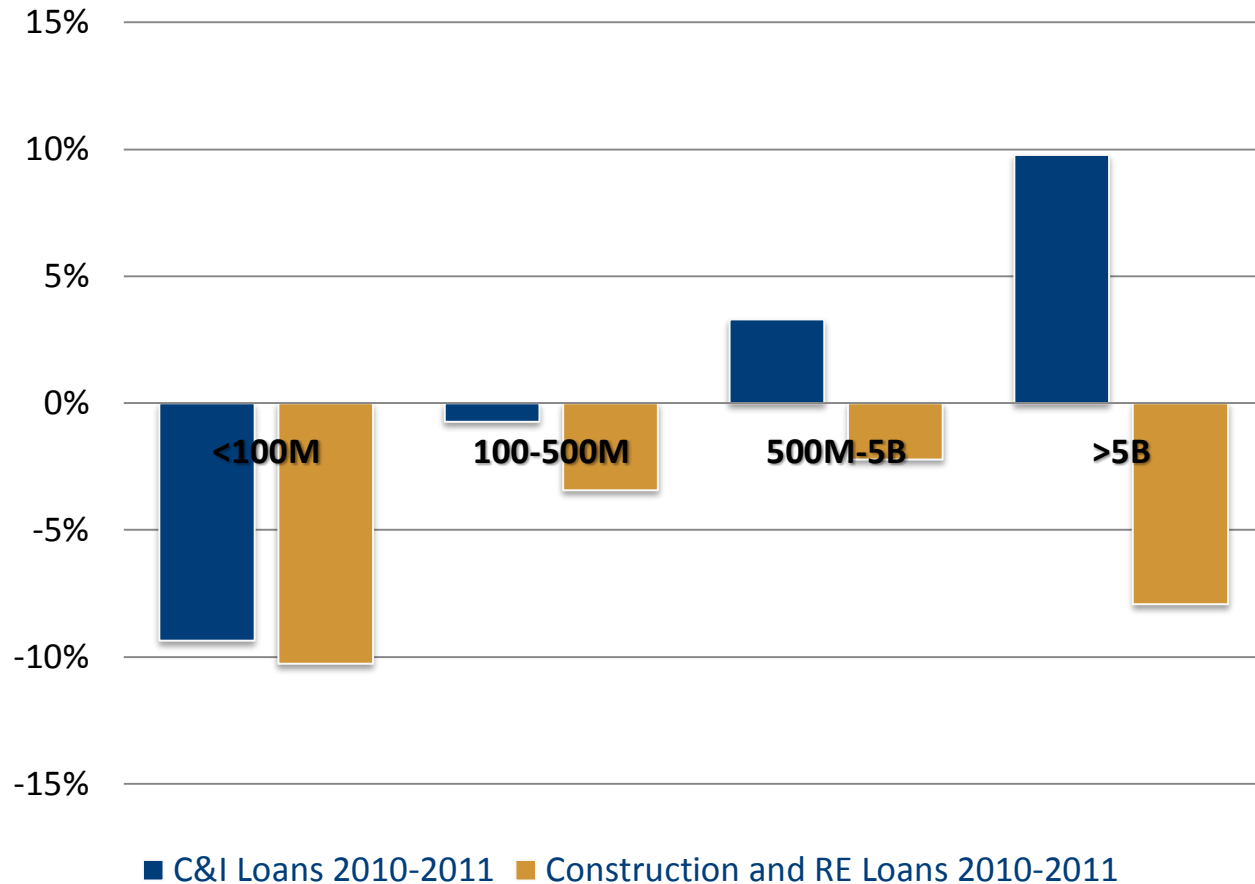
“Everyone’s crowding into the commercial and industrial lending space”

- R. Scott Siefers, Sandler O’Neill & Partners LP



A Shifting Landscape

Changes in Bank Lending Segments by Total Loans

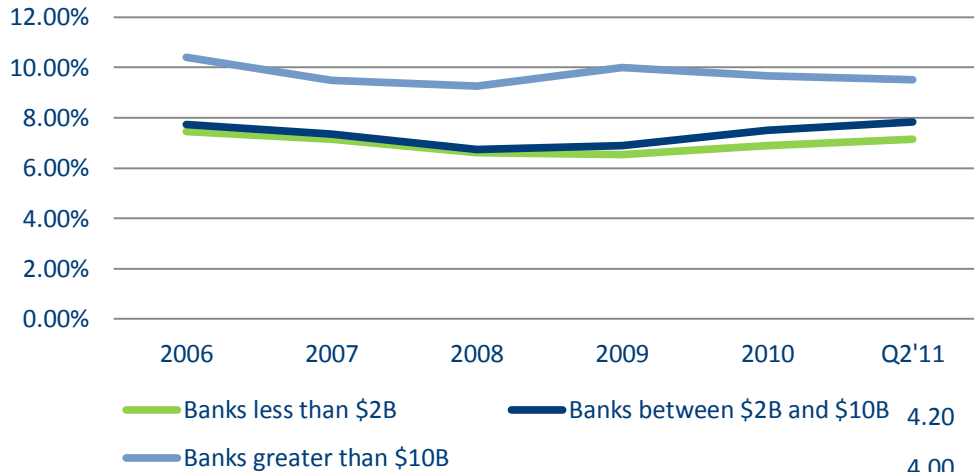


Source: FDIC

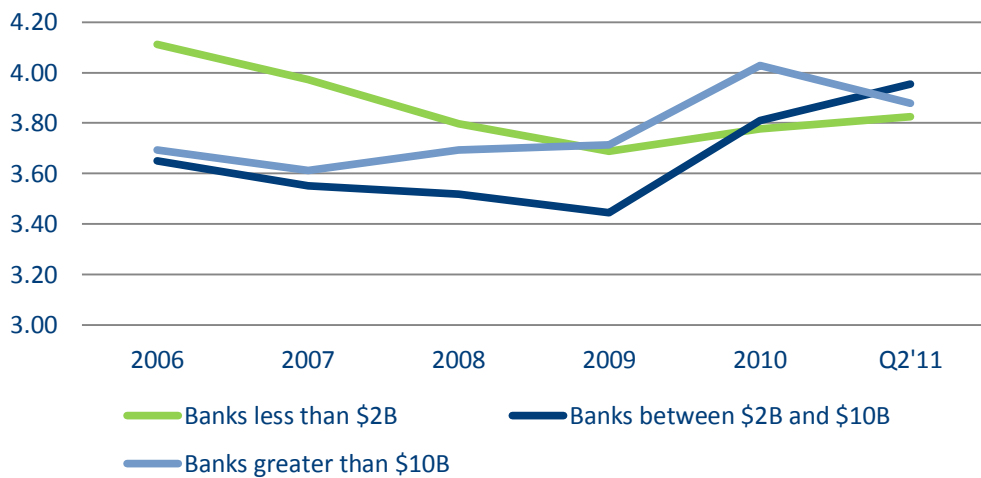
A Shifting Landscape

Revenue

Operating Income (NIM+NII)/Avg. Loans



NIM



The Borrower Survey

- Conducted by Research Now
- 300 qualified respondents in US
 - Decision-makers actively involved in banking relationship
- Across a wide section of regions (38 states), company sizes and industries
- 38 questions collecting input on relevance of all areas of banking relationship



Four Areas of Differentiation



Relationship



Products & Flexibility

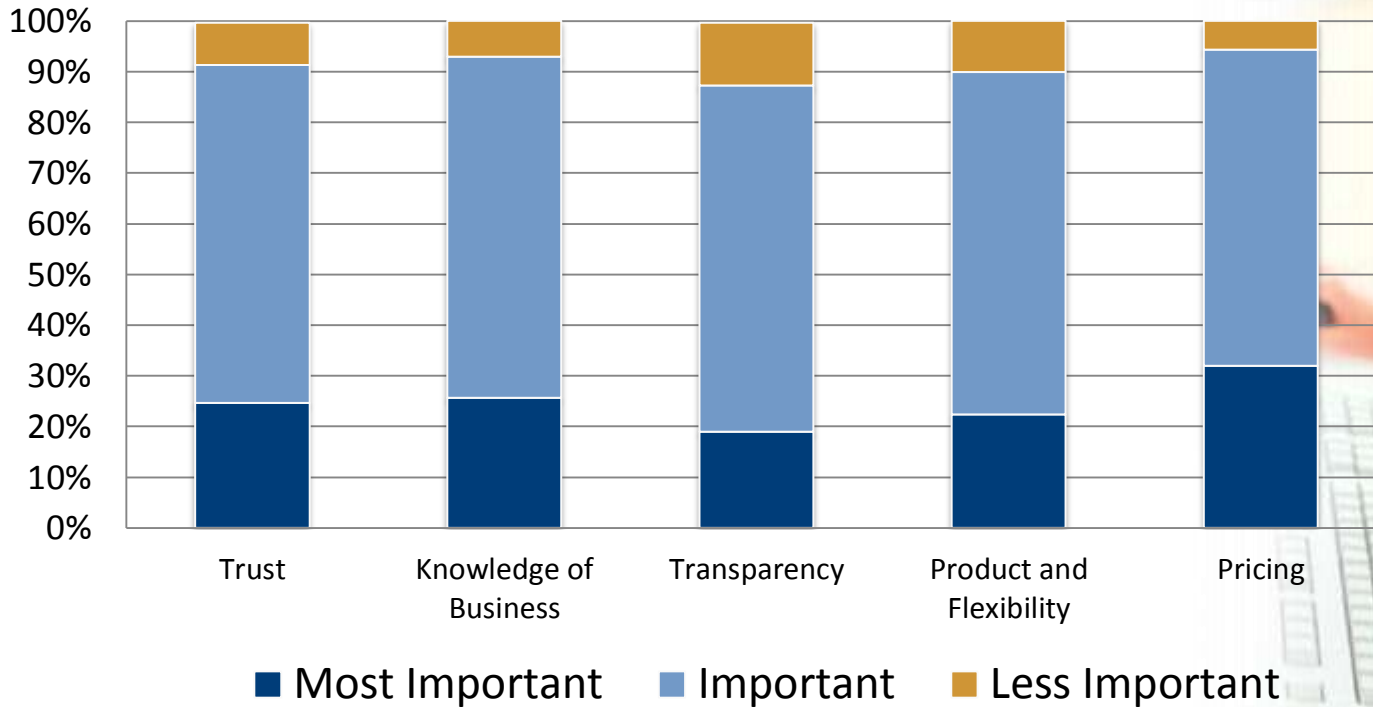


Service



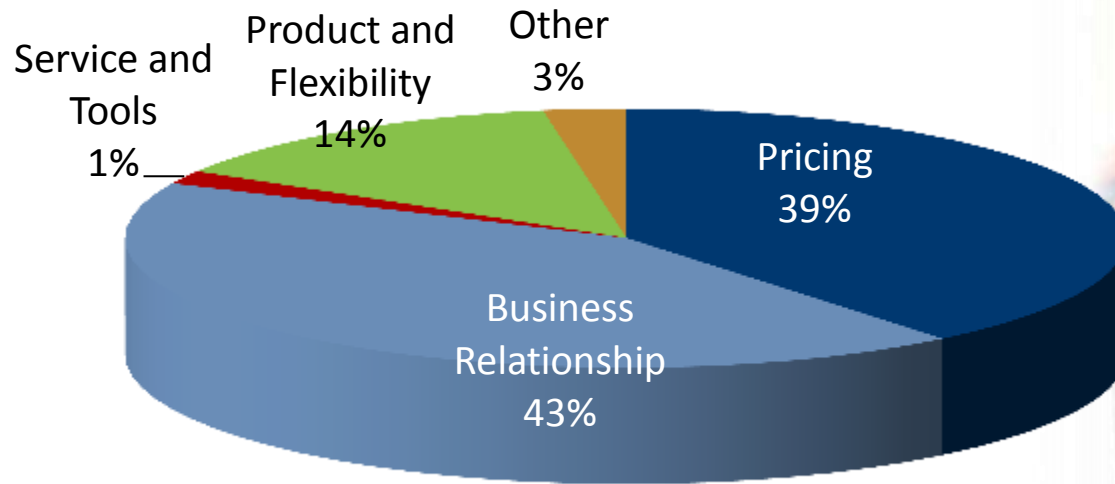
Pricing

Overall Findings



What's the most important factor in your *current* relationship?

Overall Findings



Borrowers are most likely to switch based on the business relationship.

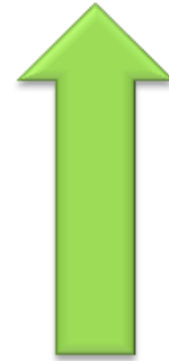
Borrowers and the Business Relationship



Trust

25%

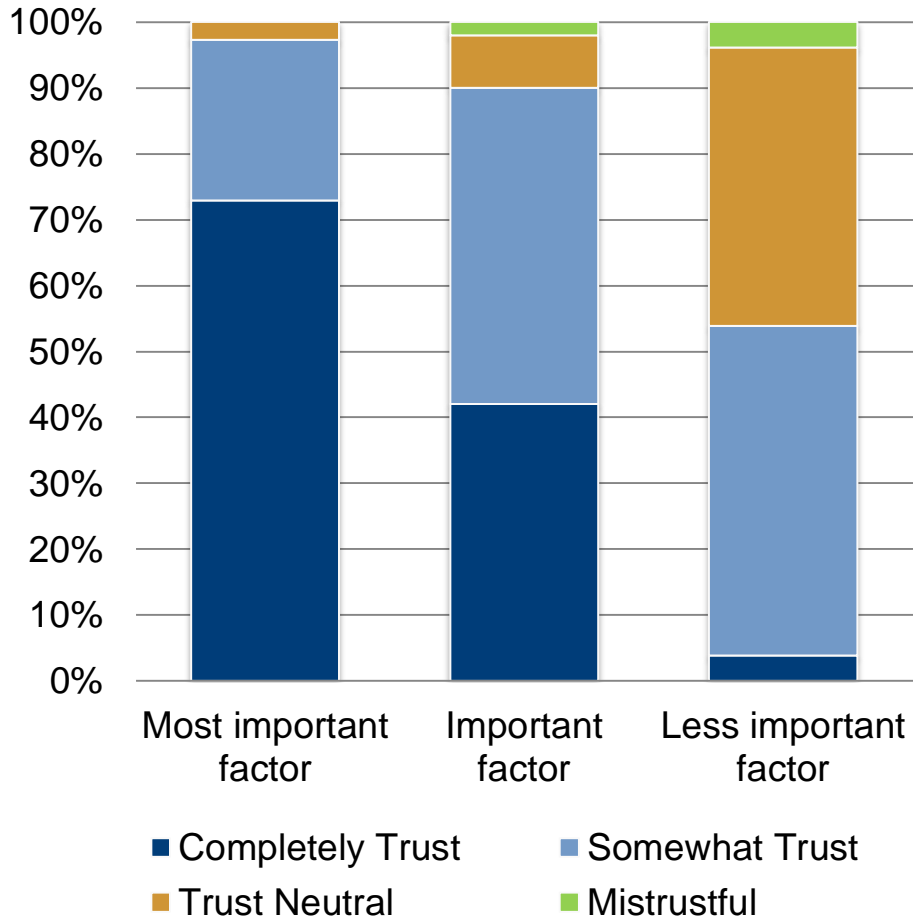
of borrowers identify trust as the most important factor in the lender-client relationship.



Female respondents
Younger respondents
Smaller companies
Those in southern states



Trust



Trust

Those that most

valued trust

are more likely to leave
and go to a competitive
institution if not happy.



Business Knowledge

26%

of borrowers identify a knowledgeable bank rep that understood their business as the most important factor



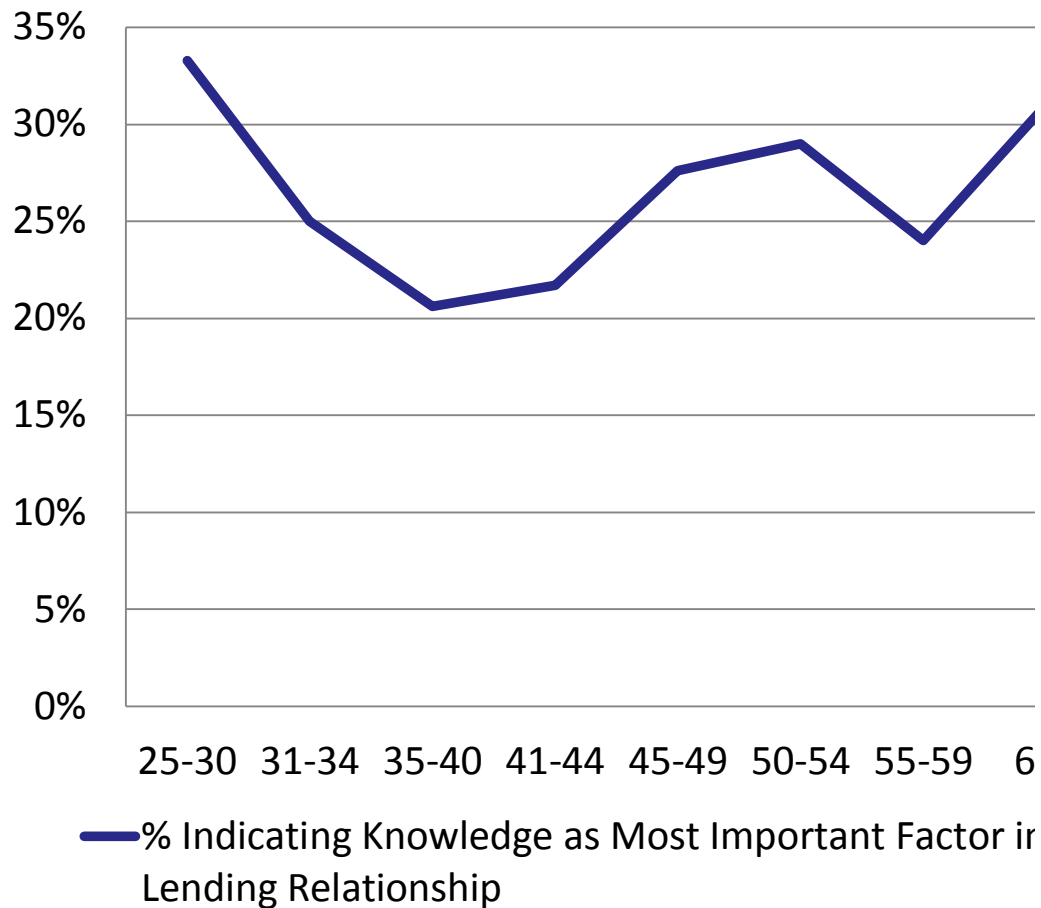
Female respondents

Youngest and oldest respondents

Those in western states



Age and Knowledge



Business Knowledge

50%

of respondents indicated that their bank representatives had an “excellent” understanding of their business dynamics.



Relationship Building Strategies

- Executive visits & communication
- Consultative approach
- Be consistent & proactive
- Take ownership of the relationship
- Negotiate & sell with integrity



Relationship Building Strategies

- Well rounded Account Management capabilities
 - High working knowledge of local and national economies
 - Strong communication skills
 - Trade association involvement
- Transparency
 - Work together on analytics
 - No surprises!
 - Explain the why's of gathering information



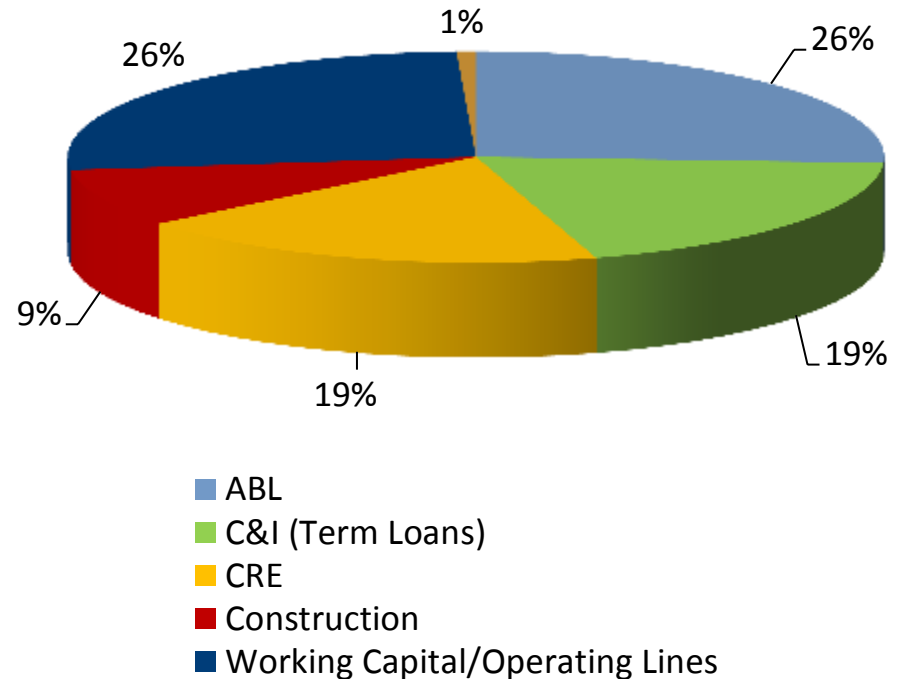
Product & Flexibility



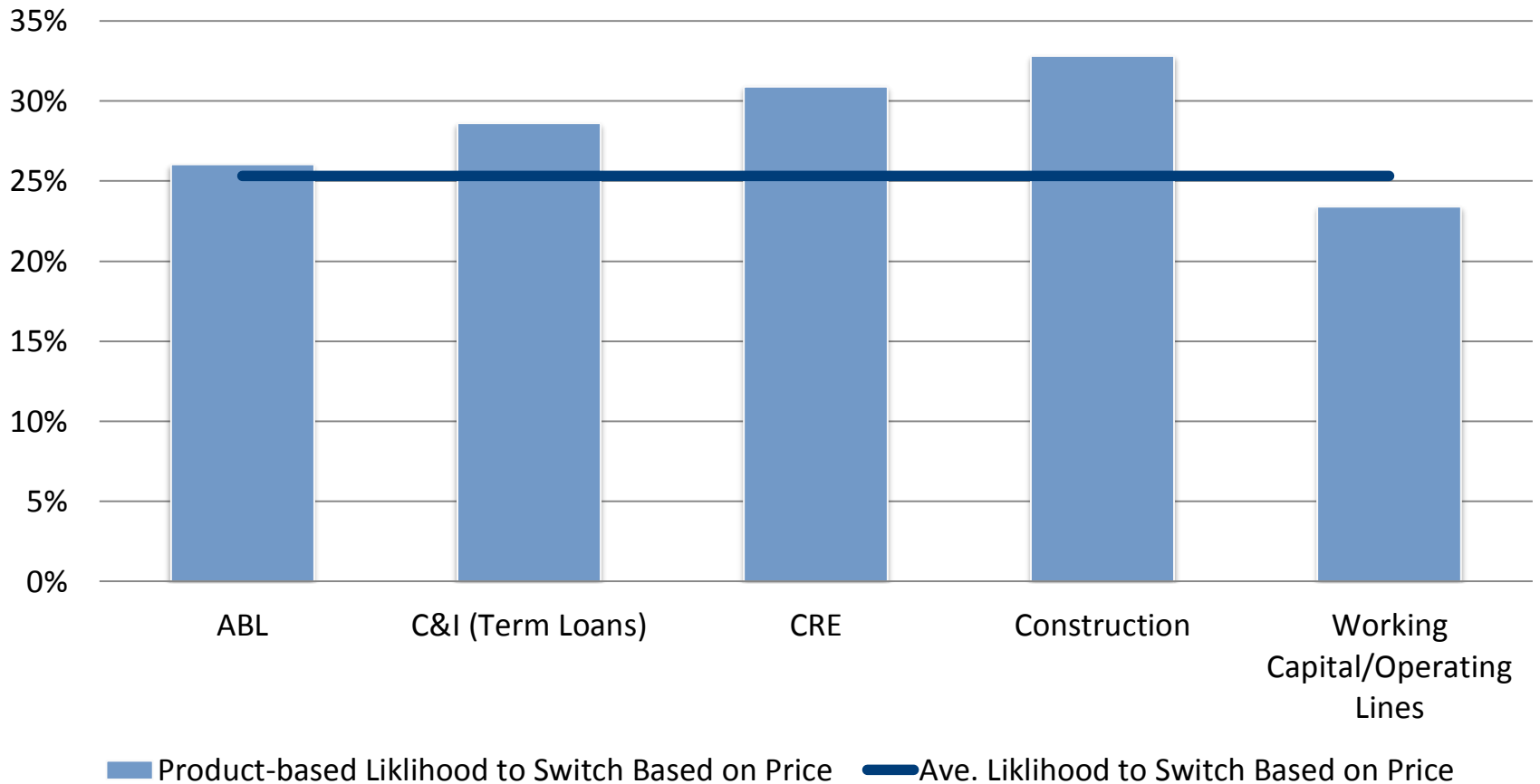
Product, Flexibility & Structure

22%

of borrowers identify flexibility of loan terms as the most important factor in the relationship.



Loan Type and Price Sensitivity



| Loan Type for Growth

Respondents overwhelmingly favored

working capital loans/operating lines
to support growth.

CRE was ranked least appealing.



Product & Flexibility Strategies

- Know “what if” answers
- Not all issues are problem related
- Risk based pricing
- Partner
- Product & competitor knowledge

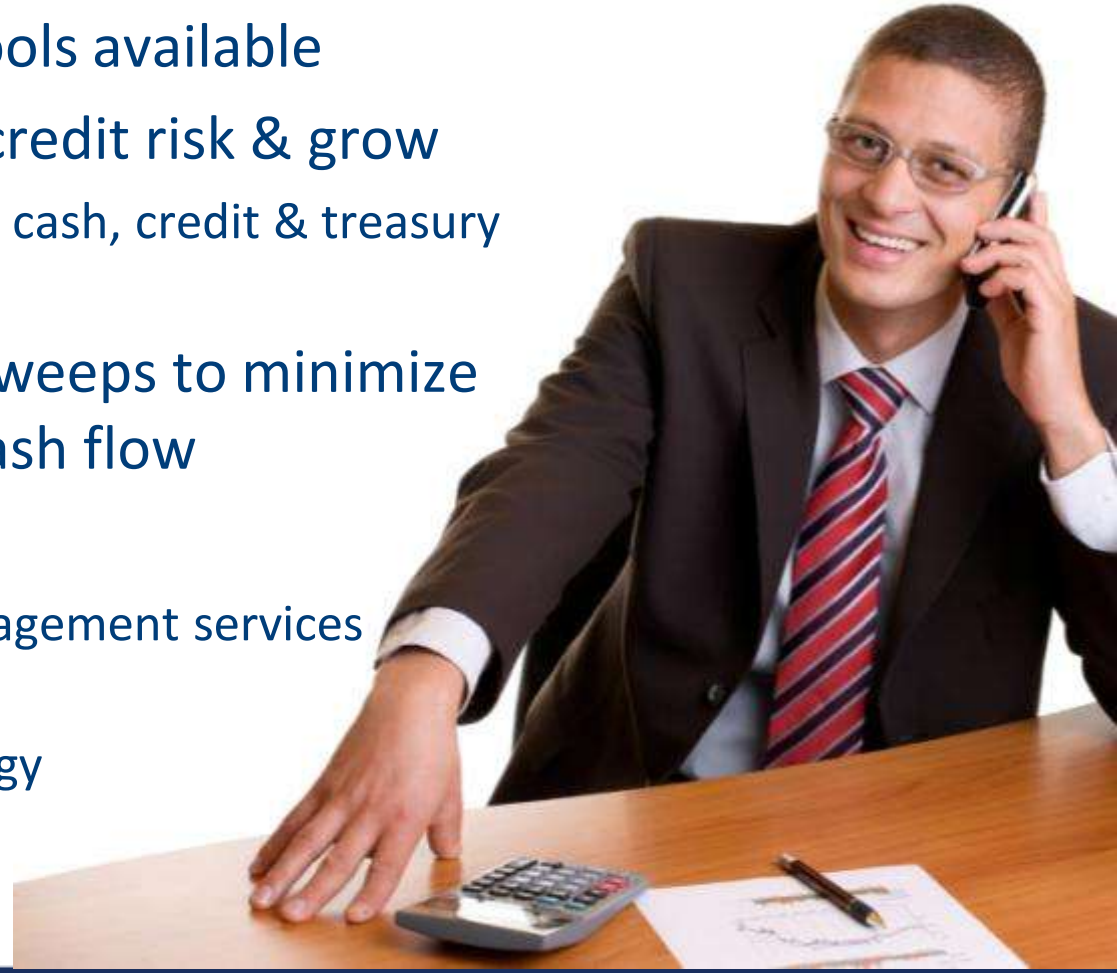


Service

Service

Service Strategies

- Use of all treasury tools available
- Help client manage credit risk & grow
 - Training seminars on cash, credit & treasury management
- Total credit & cash sweeps to minimize debt and optimize cash flow
- Use of technology
 - Third-party risk management services & analytics
 - Online service strategy



Survey Results for Enhancing Online Services

83%

would find the ability to view loan balances, rates and loan activity to be very or extremely valuable.



Additional Online Services

73%

would like the ability to schedule one-time or repeating payments on loan invoices, or schedule a principal payment.



Enhancing Online Services

71%

would like to electronically transmit loan reporting documents and financial statements directly from their accounting package.



Additional Online Services

68%

would find the ability to see how their credit limit is calculated to be either valuable or extremely valuable.



Additional Online Services

65%

would like to see
covenants, loan
monitoring requirements
and trend analysis for
their business.



Value and Satisfaction with Current Service

Respondents that were most satisfied with their bank's online services **recognized higher value** in all of the specific services.



Price Sensitivity



Price

32%

of borrowers identify
loan pricing as the most
important factor in
their current relationship
– the single greatest
factor



| Price

The more pleased a borrower is with the current rate, the

greater the sensitivity

the borrower has to price increases.



Pricing Strategies

- Risk based pricing
- Fee holidays for volume
- Interest rate swaps
- Service fees added to account analysis
- “Buying loans” & relationships



Key Takeaways



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What Borrowers Want

Differentiating Commercial Lending to Grow Your Portfolio

It's not when you're first to offer and consider your loan. It's when you're first to offer and consider your loan.

Thank You

Q&A

Additional comments or questions can be emailed to info@covarity.com

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