

Smaller banks' efficiency ratios reflect cost of compliance

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Many of the smallest banks saw their efficiency ratios rise in the third quarter, as they continue to feel the pinch of regulatory costs and low interest rates.

S&P Global Market Intelligence analyzed banks and thrifts with less than \$10 billion in assets for the quarter ended Sept. 30, based on GAAP filings. Those with less than \$1 billion in assets had the highest efficiency ratios, with a median of 72.69%, up year over year from 70.98%. Their median net interest margin declined by 6 basis points to 3.59%.

Seattle-based Sound Financial Bancorp Inc., a \$566.2 million company, ended the quarter with a 68.22% efficiency ratio, which improved year over year. CFO Matthew Deines said the industry has a tendency to believe efficiency ratios are driven by expenses.

"While that's a huge component of the numerator in the efficiency ratio, the denominator is obviously related to revenue," Deines said. "As you can grow net interest income and you can grow noninterest income, you can lower your efficiency ratio, even if you have an increase in your overall dollars of expense."

He listed fixed costs related to compliance as the main obstacle for smaller banks, and said they will have to change their models to keep up in the industry. "There are some small banks that have figured out how to be profit-

Community bank earnings recap: Less than \$1B in assets

Earnings reported up to Oct. 28

Rank	Company name (ticker)	City, state	As of quarter ended Sept. 30, 2016						
			Total assets Q3'16 (\$B)	Net interest margin		ROAA		Efficiency ratio	
				(%)	YOY trend [^]	(%)	YOY trend [^]	(%)	YOY trend [^]
1	Marlin Business Services Corp. (MRLN)	Mount Laurel, NJ	0.87	8.06	▼	2.03	▼	54.94	▲
2	First US Bancshares Inc (FUSB)	Thomasville, AL	0.60	5.20	▼	0.37	▼	82.65	▼
3	Community West Bancshares (CWBC)	Goleta, CA	0.66	4.84	▲	0.91	▼	70.59	▲
4	FS Bancorp Inc. (FSBW)	Mountlake Terrace, WA	0.83	4.55	▼	1.72	▲	64.17	▼
5	United Security Bancshares (UBFO)	Fresno, CA	0.78	4.29	▲	1.07	▲	58.91	▲
6	Ohio Valley Banc Corp. (OVBC)	Gallipolis, OH	0.97	4.24	▼	0.16	▼	78.15	▲
7	Plumas Bancorp (PLBC)	Quincy, CA	0.66	4.22	▲	1.24	▲	58.00	▼
8	Sound Financial Bancorp Inc. (SFBC)	Seattle, WA	0.57	4.19	▲	1.05	▲	68.22	▼
9	Anchor Bancorp (ANCB) ¹	Lacey, WA	0.44	4.16	▲	0.53	▲	82.91	▼
10	Southwest Georgia Financial Corp. (SGB)	Moultrie, GA	0.44	4.12	▼	0.89	▲	74.71	▲
11	Northeast Bancorp (NBN) ¹	Lewiston, ME	0.99	4.11	▼	0.71	▼	73.45	▲
12	Union Bankshares Inc. (UNB)	Morrisville, VT	0.67	4.08	▼	1.39	▲	67.41	▲
13	HMN Financial Inc. (HMNF)	Rochester, MN	0.69	4.05	▲	0.85	▲	71.43	▼
14	Parke Bancorp Inc. (PKBK)	Sewell, NJ	0.95	3.83	▼	1.65	▲	47.44	▲
15	SB Financial Group Inc. (SBFG)	Defiance, OH	0.80	3.82	▼	1.28	▲	67.68	▲
16	Citizens First Corp. (CZFC)	Bowling Green, KY	0.44	3.78	▼	1.03	▲	66.00	▼
17	Home Federal Bancorp Inc. of La. (HFBL) ¹	Shreveport, LA	0.39	3.78	▲	1.04	▲	62.15	▼
18	United Bancorp Inc. (UBCP)	Martins Ferry, OH	0.43	3.76	▲	0.88	▲	73.07	▲
19	Commerce Union Bancshares Inc. (CUBN)	Brentwood, TN	0.92	3.75	▼	0.80	▼	75.56	▲
20	Bank of the James Financial Group Inc. (BOTJ)	Lynchburg, VA	0.56	3.74	▼	0.76	▼	74.15	▲
Median*			3.59	▼	0.84	▲	72.69	▲	

Data compiled Oct. 31, 2016.

Analysis limited to top 20 banks and thrifts by net interest margin for the quarter ended Sept. 30, 2016. Only companies trading on the Nasdaq, NYSE or NYSE MKT with total assets below \$1 billion as of Sept. 30, 2016, that reported earnings up to Oct. 28 are included. Companies are ranked by actual net interest margin values, not the values rounded to two decimal places.

Data is for the quarter ended Sept. 30, 2016, and is based on GAAP filings.

[^] The YOY comparison represents the change in actual values, not the change in values rounded to two decimal places.

* Median for all major exchange-traded banks and thrifts with assets below \$1 billion that have reported earnings up to Oct. 28.

¹ The quarter ended Sept. 30, 2016, is the fiscal first quarter of 2017 for the company.

ROAA = return on average assets; YOY = year-over-year

Source: SNL Financial, an offering of S&P Global Market Intelligence

Community bank earnings recap: \$1B to \$5B in assets

Earnings reported up to Oct. 28

Rank	Company name (ticker)	City, state	Total assets (\$B)	As of quarter ended Sept. 30, 2016					
				Net interest margin		ROAA		Efficiency ratio	
				(%)	YOY trend [^]	(%)	YOY trend [^]	(%)	YOY trend [^]
1	C&F Financial Corp. (CFFI)	West Point, VA	1.43	6.41	▼	0.90	▼	64.82	▲
2	Triumph Bancorp Inc. (TBK)	Dallas, TX	2.58	5.83	▼	0.84	▼	63.39	▼
3	People's Utah Bancorp (PUB)	American Fork, UT	1.65	4.68	▲	1.55	▲	53.43	▼
4	State Bank Financial Corp. (STBZ)	Atlanta, GA	3.62	4.57	▼	1.40	▲	57.99	▼
5	Allegiance Bancshares Inc. (ABTX)	Houston, TX	2.46	4.41	▼	0.90	▲	57.72	▼
6	Pacific Premier Bancorp Inc. (PPBI)	Irvine, CA	3.75	4.41	▲	1.00	▼	53.82	▲
7	Home Bancorp Inc. (HBCP)	Lafayette, LA	1.55	4.32	▼	1.14	▲	61.57	▼
8	MidSouth Bancorp Inc. (MSL)	Lafayette, LA	1.95	4.26	▼	0.50	▼	71.27	▲
9	TriCo Bancshares (TCBK)	Chico, CA	4.47	4.23	▼	1.11	▼	67.28	▲
10	National Commerce Corp. (NCOM)	Birmingham, AL	1.78	4.20	▲	1.19	▲	58.47	▼
11	Pacific Continental Corp. (PCBK)	Eugene, OR	2.54	4.20	▼	0.90	▼	51.86	▼
12	Nicolet Bankshares Inc. (NCBS)	Green Bay, WI	2.27	4.18	▲	1.15	▲	64.06	▼
13	Bank of Marin Bancorp (BMRC)	Novato, CA	2.05	4.14	▲	1.36	▲	53.37	▼
14	Heritage Commerce Corp (HTBK)	San Jose, CA	2.53	4.13	▼	1.11	▲	54.17	▼
15	First Financial Corp. (THFF)	Terre Haute, IN	3.02	4.07	▼	1.10	▼	60.70	▼
16	SmartFinancial Inc. (SMBK)	Knoxville, TN	1.04	4.06	▼	0.63	▲	73.51	▼
17	Southern National Bancorp of Virginia Inc. (SONA)	McLean, VA	1.14	4.04	▲	0.98	▲	49.34	▼
18	Great Southern Bancorp Inc. (GSBC)	Springfield, MO	4.44	4.01	▼	1.01	▼	58.94	▼
19	Farmers National Banc Corp. (FMNB)	Canfield, OH	1.96	4.00	▲	1.11	▲	60.84	▼
20	First Community Bancshares Inc. (FCBC)	Bluefield, VA	2.45	3.97	▼	1.04	▲	61.01	▲
Median*				3.50	▼	0.91	▲	62.59	▼

Data compiled Oct. 31, 2016.

Analysis limited to top 20 banks and thrifts by net interest margin for the quarter ended Sept. 30, 2016. Only companies trading on the Nasdaq, NYSE or NYSE MKT with total assets between \$1 billion to \$5 billion as of Sept. 30, 2016, that reported earnings up to Oct. 28 are included.

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able, but once we introduce additional costs related to all of the new regulations over the last five or six years, it makes it harder," he added. "I do think they'll have to make a decision about growth or the future of the institution."

The midsize community banks, those with \$1 billion to \$5 billion in assets, saw a lower median third-quarter efficiency ratio year over year. Irvine, Calif.-based Pacific Premier Bancorp Inc., a \$3.75 billion financial institution, had a ratio of 53.82%. President, Chairman and CEO Steven Gardner said the company is able to keep a lower efficiency ratio through "organic and acquisitive growth" and consolidation.

"We have just 16 branches for a bank that's \$3.8 billion. That's pretty unusual," Gardner said. "We've deployed Salesforce throughout the organization and that's helping our bankers to be more efficient to handle more clients. That certainly has helped."

The largest community banks, those with \$5 billion to \$10 billion in assets, had the best median third-quarter efficiency ratio among community banks, down year over year at 58.23%. However, they also saw a decline in net interest margin, with a median of 3.53%.

Chris Nichols, chief strategy officer at Davenport, Fla.-based CenterState Banks Inc., said he is pleased with the bank's 56.24% efficiency ratio, but that ideally, community

Community bank earnings recap: \$5 billion to \$10 billion in assets

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			Total assets Q3'16 (\$B)	Net interest margin		ROAA		Efficiency ratio	
				(%)	YOY trend [^]	(%)	YOY trend [^]	(%)	YOY trend [^]
1	OFG Bancorp (OFG)	San Juan, PR	6.59	4.99	▼	0.91	▲	59.15	▲
2	Home BancShares Inc. (HOMB)	Conway, AR	9.76	4.88	▼	1.82	▲	36.41	▼
3	Banner Corp. (BANR)	Walla Walla, WA	9.84	4.18	▲	0.96	▼	65.13	▼
4	Renasant Corp. (RNST)	Tupelo, MS	8.54	4.17	▲	1.08	▲	64.37	▲
5	South State Corp. (SSB)	Columbia, SC	8.80	4.15	▼	1.28	▲	60.55	▲
6	CenterState Banks Inc. (CSFL)	Winter Haven, FL	5.01	4.14	▼	1.23	▲	56.24	▼
7	Columbia Banking System Inc. (COLB)	Tacoma, WA	9.59	4.13	▼	1.16	▼	59.55	▲
8	Eagle Bancorp Inc. (EGBN)	Bethesda, MD	6.76	4.13	▼	1.51	▲	40.12	▼
9	Simmons First National Corp. (SFNC)	Pine Bluff, AR	8.23	4.12	▼	1.22	▲	55.26	▼
10	First Financial Bankshares Inc. (FFIN)	Abilene, TX	6.69	4.06	▼	1.54	▼	49.22	▲
11	Glacier Bancorp Inc. (GBCI)	Kalispell, MT	9.32	4.02	▲	1.35	▼	54.28	▲
12	Ameris Bancorp (ABCB)	Moultrie, GA	6.49	4.02	▼	1.36	▲	60.08	▼
13	First Merchants Corp. (FRME)	Muncie, IN	7.02	3.94	▲	1.22	▲	55.12	▼
14	Yadkin Financial Corp. (YDKN) ¹	Raleigh, NC	7.35	3.94	▼	0.88	▼	51.48	▼
15	BNC Bancorp (BNCN)	High Point, NC	6.80	3.91	▼	1.11	▲	52.31	▼
16	Northwest Bancshares Inc. (NWBI)	Warren, PA	9.71	3.88	▲	0.63	▲	60.93	▼
17	WSFS Financial Corp. (WSFS)	Wilmington, DE	6.63	3.80	▲	0.82	▼	59.62	▼
18	LegacyTexas Financial Group Inc. (LTXB)	Plano, TX	8.44	3.78	▼	1.33	▲	47.10	▼
19	BofI Holding Inc. (BOFI) ²	San Diego, CA	7.86	3.78	▼	1.53	▼	39.31	▲
20	Union Bankshares Corp. (UBSH)	Richmond, VA	8.26	3.78	▼	1.00	▲	61.70	▲
Median*				3.53	▼	1.09	▲	58.23	▼

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¹ Yadkin Financial Corp. is the target of an announced merger.

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banks should be below 40% to be competitive with large banks. Nichols said the company's major strategy to improve efficiency is employing technology, through means such as digitizing its loan process.

"We've made a push to get our customers on mobile banking for example, and that ends up making a difference," Nichols said. "It doesn't make as big of a difference as loan processes, but it does on the margin create a

cheaper channel delivery if you can also trim down on branches."

He said part of the \$5.01 billion company's success can be attributed to a strong Florida market.

"If you look at all the metrics that are predictive of a bank's success, one of them is the community, which probably means geography in most cases," he said. "If you're in a fast-growing community you're going to be a fast-growing bank, and you're going to be a profitable bank if your community is profitable."