They come in all sizes
They know pricing matters
They know deposits will matter
They have an excellent decision-making framework
They invest wisely in diversifying their revenue – but
They control what they can control: overhead
They are opportunistic
They stick to the basics
They don’t fall in love with any one sector
They don’t base their assumptions or pricing on their competition. If yours are based on what the institution across the street offers, you’re going to struggle. This kind of pricing can lead an institution to become unprofitable.
They know pricing matters
High-performers don’t base their assumptions or pricing on the next opportunity will be, and they won’t sit on it forever. A lot of under-performers will see new ideas and say they don’t have the bandwidth right now and put it off for six months. High-performers are able to evaluate and understand opportunities so they can strike while the iron is hot. They scoop up basis points as they come up and add them to the bottom line. This is where high-performing institutions excel – they find those little pennies all the time. It’s a part of their daily process.
They get out of the weeds and look at macro-factor risk
High-performing institutions are always appraising how well they’re being compensated for each of their big risks – the big four are interest rate risk, credit risk, liquidity risk and options risk – and this helps them take a top-down approach to sector selection. 95% of performance comes from sector allocation, not security or loan selections.

THE HABITS of High-Performing Institutions

Comparison may be the thief of joy – especially when it comes to a neighbor’s new car or a friend’s vacation pictures on Facebook – but there’s no shame in comparing your own institution to high-performers in the industry, because those that are outperforming their peers aren’t leaving the pack by chance. In most cases, there are common principles and actions that have brought high-performing institutions their success.

So instead of logging onto Facebook or staring longingly at your neighbor’s Mercedes (again), it might be more constructive to find out what a couple of industry observers see as the habits of high-performing institutions. Because – to lean on the lesson of yet another old saw – imitation just might be not only the highest form of flattery, but a great way to nudge your institution into that high-performing category as well.
They come in all sizes
Using QwickAnalytics at QwickRate, we define high-performing banks as the top 5% in core operating earnings over assets, or the top 286 out of 5,322 community banks in the QwickAnalytics Community Bank Index™. Despite having read their obituary many times in the past few years, 2017 saw that nearly 20% of the high-performing institutions were under $50 million in assets. Additionally, two out of three top-performers were under $500 million. In other words, you don’t have to be big to succeed.

They stick to the basics
High-performing institutions don’t need to excel in multiple lines of business. Having a strong net interest margin combined with the current low cost of deposits shows that a traditional business model can push an institution to strong performance.

They know deposits will matter
Last year, almost all institutions had low deposit costs. But in the years ahead, high performers know that having a strong retail mix and base of deposits will be mandatory. Warren Buffett always says that no one knows who’s swimming naked until the tide goes out. Right now, the tide is in and everyone has a good cost of funds and deposits, but we’re about to see that deposits are going to matter a lot more in 2019 than they did in 2017.

They control what they can control: overhead
Looking at last year’s data, the strongest correlating metric for institutions with high returns was their efficiency ratio. Regardless of what business model an institution embraces, focusing on cost management is still the best recipe to be a high-performing institution. In our studies, we didn’t see that top performers were cutting employees; in fact, they actually paid their people better than the rest. This suggests that institutions that are efficient across the board are finding good employees, paying them well and giving them the tools they need to be efficient.

They invest wisely in diversifying their revenue – but not just for the sake of more revenue
While not a requirement to being a high-performer, last year 20% of all high-performing banks were also in the top 5% of non-interest income and assets for community banks. In other words, it can help to conduct another line of business like mortgages or SBA lending. While those separate lines of business aren’t for every institution, those that pursued them successfully often saw top performance.

They have an excellent decision-making framework
Sometimes CFOs are tempted to make important decisions without sufficient information or data. Successful ones simply don’t! Successful CFOs use quantitative data and tools to aid in the decision-making process and to find the holes in the assumptions that are being used. They don’t want to make one good decision, they want to make 100 – failing to use data would give them a much lower batting average.

They know pricing matters
High-performing institutions don’t base their assumptions or pricing on their competition. If yours are based on what the institution across the street offers, you’re going to struggle. This kind of pricing can lead an institution to become unprofitable.

They don’t fall in love with any one sector
High-performing institutions are honest and unbiased in their appraisal of any product. We’ve sometimes see leaders gravitate towards certain sectors – maybe they’ve had success with them in the past or they were previously priced appropriately; whatever the reason, they just like them and they’re going to continue to do them regardless of what the data suggests in terms of their profitability. High-performers won’t continue to do something just because they’ve always done it – they look at the data.

They are opportunistic
Institutions that are successful are willing to evaluate new ideas. This doesn’t mean that they’re going to implement everything they see, but they’re always willing to look for what the next opportunity will be, and they won’t sit on it forever. A lot of under-performers will see new ideas and say they don’t have the bandwidth right now and put it off for six months. High-performers are able to evaluate and understand opportunities so they can strike while the iron is hot. They scoop up basis points as they come up and add them to the bottom line. This is where high-performing institutions excel – they find those little pennies all the time. It’s a part of their daily process.

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