

**Cost Cutting:
Doing More With Less**

FinPro, Inc.

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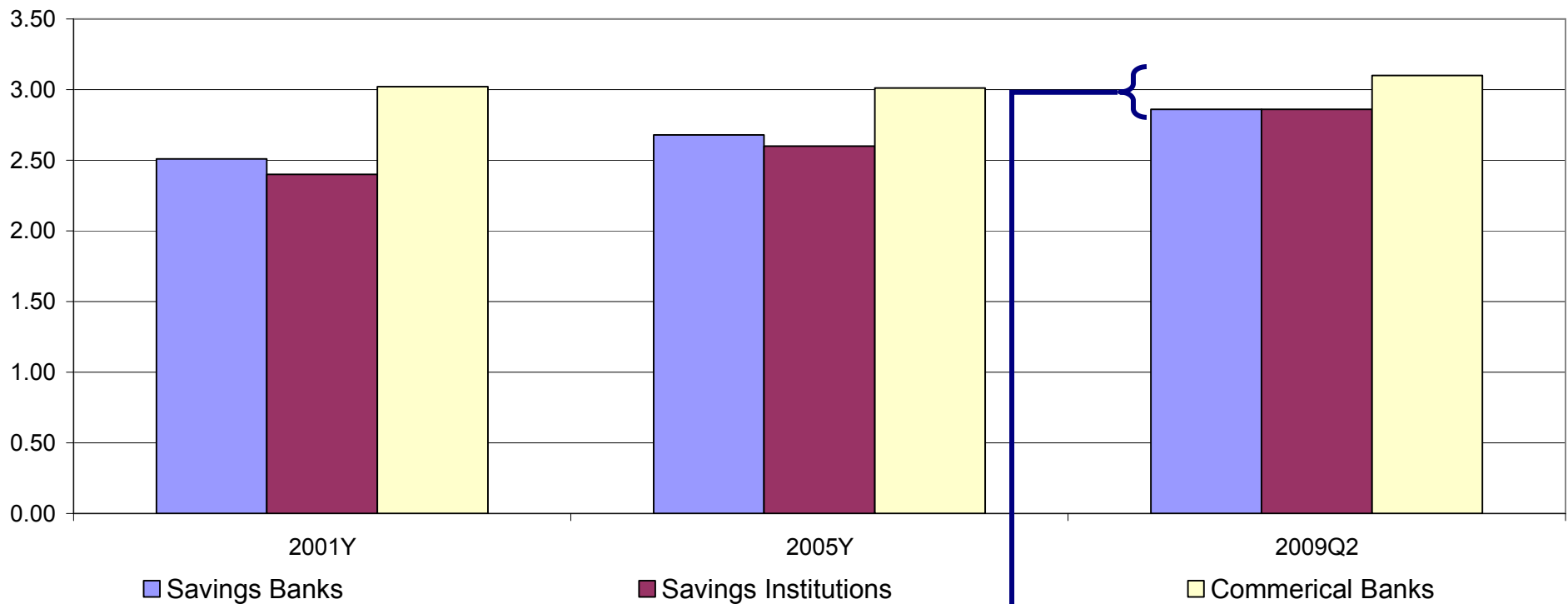
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The state of noninterest expense in banking today

Commercial banks have a higher expense structure than do thrifts, although the differential is closing . . .

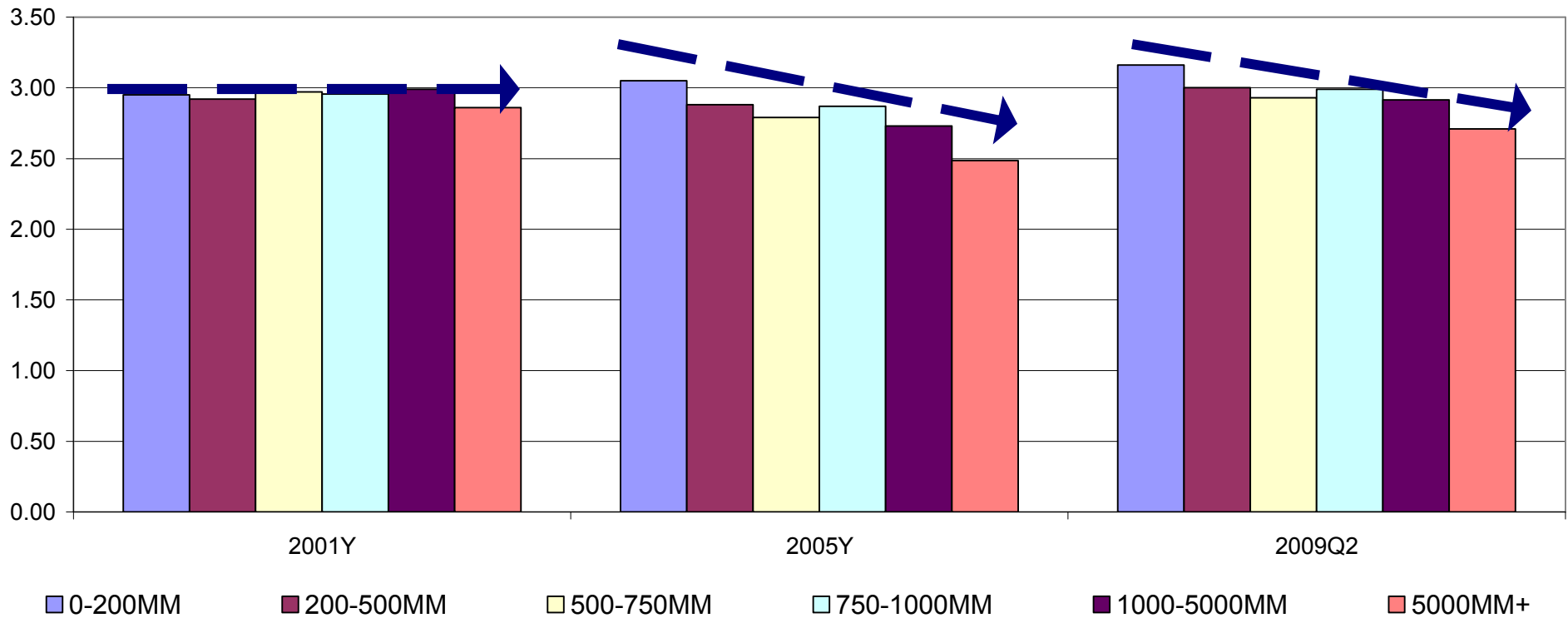
Median Noninterest Expense/AA by Institution Type



The thrift industry's cost advantage is dissipating.

Larger institutions have a cost advantage due to economies of scale. This scale advantage is recent due to accounting and regulatory burdens . . .

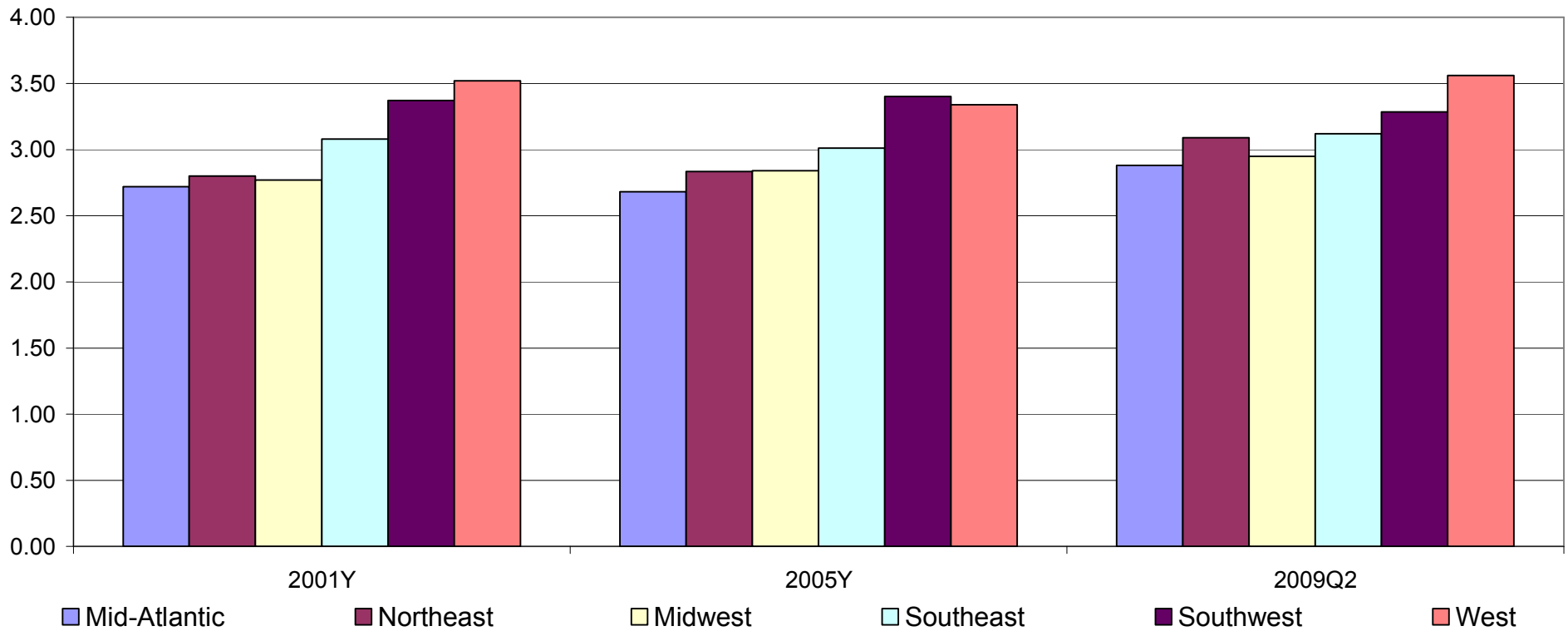
Median Noninterest Expense/AA by Institution Size



At the beginning of the decade, levels of noninterest expense were nearly equal across asset size groups. Since then, size and operating cost levels have begun to move in different directions.

Institutions in the Southwest and West carry the heaviest cost burden. The Mid-Atlantic region carries the lowest . . .

Noninterest Expense/AA: All Regions



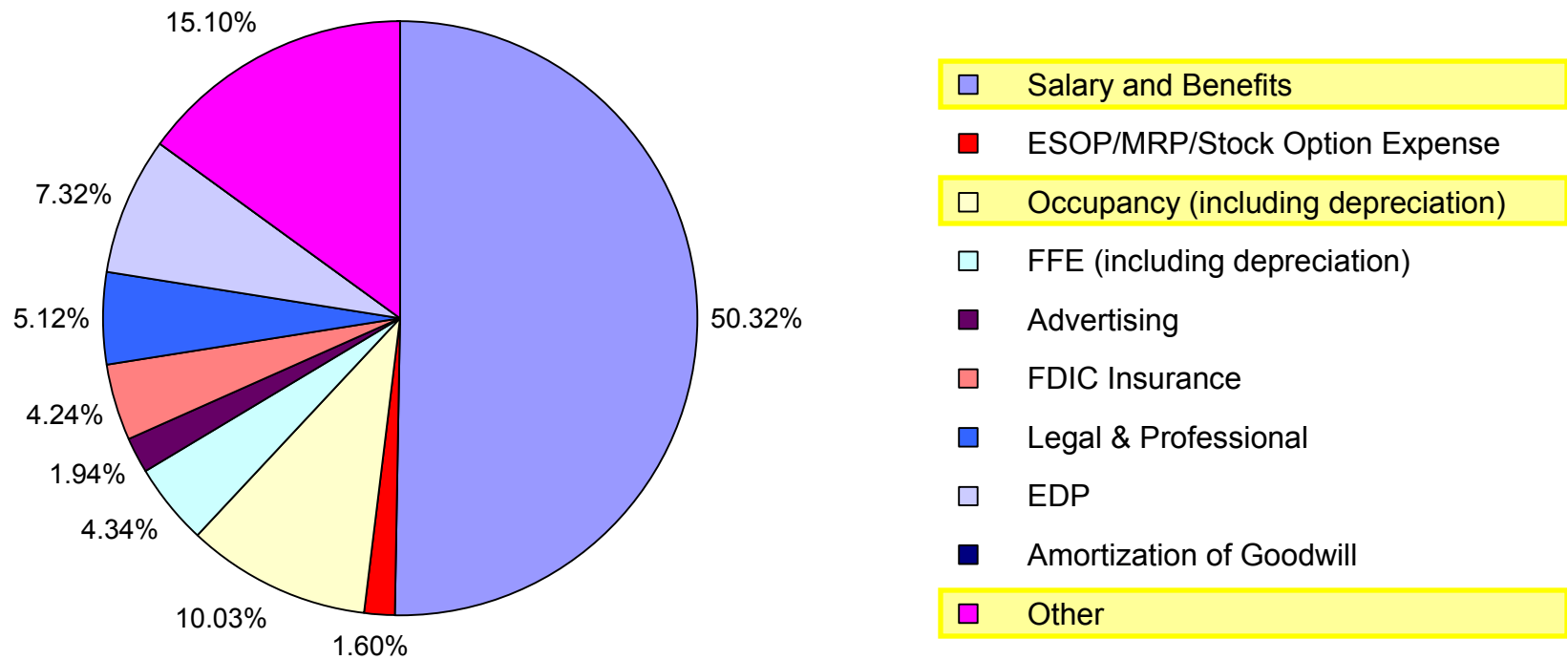
Even with recent efficiencies, non interest expense levels have been rising faster than inflation . . .



Median Non Interest Expense Levels	Dec-03 LTM	Jun-09 YTD Annualized	CAGR 2003 - 2009
Electronic Data Processing Expense	452	588	4.48%
Compensation and Benefits	5,315	6,551	3.55%
Occupancy and Equipment	1,348	1,718	4.13%
Professional Fees	317	627	12.04%
Marketing and Promotion Expense	257	305	2.90%
CPI	184	216	2.66%

Using a more detailed data resource, non interest expense categories can be broken out to show more clarity . . .

Detailed Cost Breakdown (% total NIE)



The Salary and Benefits, Occupancy and Other categories make up over 75.0% of non interest expense. Cost cutting should focus on the “low hanging fruit” within these categories.

The process creates a significantly more detailed balance sheet and income statement when compared to Call Report or TFR data . . .

Call Report Detail Non Interest Expense

Call Report Line

Salary and Benefits (\$000)	RIAD4135
Occupancy & Fixed Asset (\$000)	RIAD4217
Goodwill Impairment Losses (\$000)	RIADC216
Amortization Expense & Other Impairment Losses (\$000)	RIADC232
Other Noninterest Expense (\$000)	RIAD4092

The Call Report utilizes a total of 5 non interest expense categories.

TFR Detail Non Interest Expense

TFR Schedule Item

Salary and Benefits (\$000)	SO510
Legal Expense (\$000)	SO520
Office & Equipment Expense (\$000)	SO530
Marketing & Other Professional Services (\$000)	SO540
Loan Servicing Fees (\$000)	SO550
Amortization of Goodwill (\$000)	SO560
Net Provision for Losses on Non-Interest Bearing Assets (\$000)	SO570
Other Noninterest Expense (\$000)	SO580

The TFR utilizes a total of 7 non interest expense categories.

Neither report provide any branch level expense detail and are inadequate for performing an in depth expense analysis.

FinPro's research is conducted by assembling the balance sheet and income statement on a cost center level based upon a detailed general ledger . . .

Ledger Acct	Cost Center	Description	Amount
80004503	Cost Center 1	Executive Offices Rental Expense	103,576.32
80004504	Cost Center 2	Location 1 Rental Expense	120,485.57
80004505	Cost Center 3	Location 2 Rental Expense	96,045.84
80004506	Cost Center 4	Location 3 Ownership Expense	127,394.34
80004500	Cost Center 5	Call Center Ownership Expense	175,483.43
80004507	Cost Center 4	Building Depreciation	30,045.32
80004508	Cost Center 1	Building Depreciation	18,756.82
80004512	Cost Center 1	Depreciation of Leaseholds	17,936.87

In total, FinPro's research uses 37 non interest expense categories.

Noninterest Expense	Bank Level	Branch 1	Branch 2	Branch 3	Call Center	Total
Noninterest Expense - Occupancy	103,576	120,486	96,046	127,394	175,483	622,986
Depreciation Expense - Building	-	-	-	30,045	18,757	48,802
Depreciation Expense - Leasehold	17,937	-	-	-	-	17,937
Occupancy (including depreciation)	121,513	120,486	96,046	157,440	194,240	689,725

Utilizing the cost center general ledger, the \$690 thousand Occupancy expense from the Call Report is shown in significantly more detail.



Expense analysis process

The FinPro process for non interest expense analysis is as follows . . .

1. Gather internal data

2. Establish the appropriate peer groups

3. High level comparison to the comparable peer group

If the non interest expense category is within the Bank's goal, or inline/below the peer, no action is needed.

If the non interest expense category is above the peer or Bank's goal, further analysis needed (go to step 4).

4. **Data Analysis and Solutions** – Refine the peer group to develop a benchmark containing detailed data. Dig into the detailed individual and peer data and analytics for the troublesome non interest expense category and determine the problem and possible solutions.

5. **Execution** – Make things happen and take into consideration the institution's strategic objectives.



1. Gather internal data

1. Gather internal data . . .

- To effectively gather internal data, the Bank will need:
 - 1) General ledger download with information by cost center
 - 2) Detailed organizational chart, complete with the number of full-time employees and their responsibilities
 - 3) Any other pertinent information with regards to non interest expense and/or productivity (this includes teller and branch transaction history)
 - 4) Forward looking forecasts to anticipate future needs of the current resources
- Every institution is unique and must be analyzed in the appropriate context.



2. Establish the appropriate peer groups

2. Establish an appropriate peer group to benchmark your institution against for a high level analysis . . .

- A proper peer group must take into account several of the your institution's characteristics:

1. Balance sheet size
2. Capital position
3. Profitability
4. Age
5. Geography
6. Stage in the "Banking Lifecycle"
7. Stock price trading levels (if applicable)
8. Asset quality

- The priority of each variable can be different for different institutions
- Each peer must be independently evaluated to ensure reasonableness.

Types of Peer Groups

1. **Comparable Group:** Institutions with similar characteristics
2. **High Performance Group:** Institutions that excel at building value.
3. **Local Group:** Institutions within the market

For example, using Sample National Bank (hypothetical example) the following criteria was used to select a comparable group . . .

- **Type of Institution:** Commercial Banks only
- **Geography:** Mid-Atlantic and New England regions
- **Total Assets:** Between \$200 MM and \$500 MM
- **Age:** Between 2 and 5 years old
- The criteria returned 16 institutions, including the target, resulting in 15 peers.

Company Name	Location	Company Type	Total Assets	Date Established
Alma Bank	Astoria, NY	Commercial Bank	271,760	9/12/2007
Bank of Georgetown	Washington, DC	Commercial Bank	358,034	5/13/2005
Bank of New Jersey	Fort Lee, NJ	Commercial Bank	306,858	5/10/2006
Bank of Princeton	Princeton, NJ	Commercial Bank	240,086	4/23/2007
Community National Bank	Great Neck, NY	Commercial Bank	390,404	4/5/2005
First Bank	Williamstown, NJ	Commercial Bank	214,814	4/23/2007
First Choice Bank	Lawrenceville, NJ	Commercial Bank	205,482	3/23/2007
First Priority Bank	Malvern, PA	Commercial Bank	225,413	11/14/2005
First State Bank	Cranford, NJ	Commercial Bank	249,273	1/18/2006
HarVest Bank of Maryland	Gaithersburg, MD	Commercial Bank	211,631	11/15/2004
LibertyPointe Bank	New York, NY	Commercial Bank	222,244	10/3/2005
Monument Bank	Bethesda, MD	Commercial Bank	231,892	9/6/2005
North Jersey Community Bank	Englewood Cliffs, NJ	Commercial Bank	472,991	1/15/2005
USA Bank	Port Chester, NY	Commercial Bank	227,884	12/22/2005
Sample National Bank	Somewhere, NJ	Commercial Bank	286,945	2/27/2007

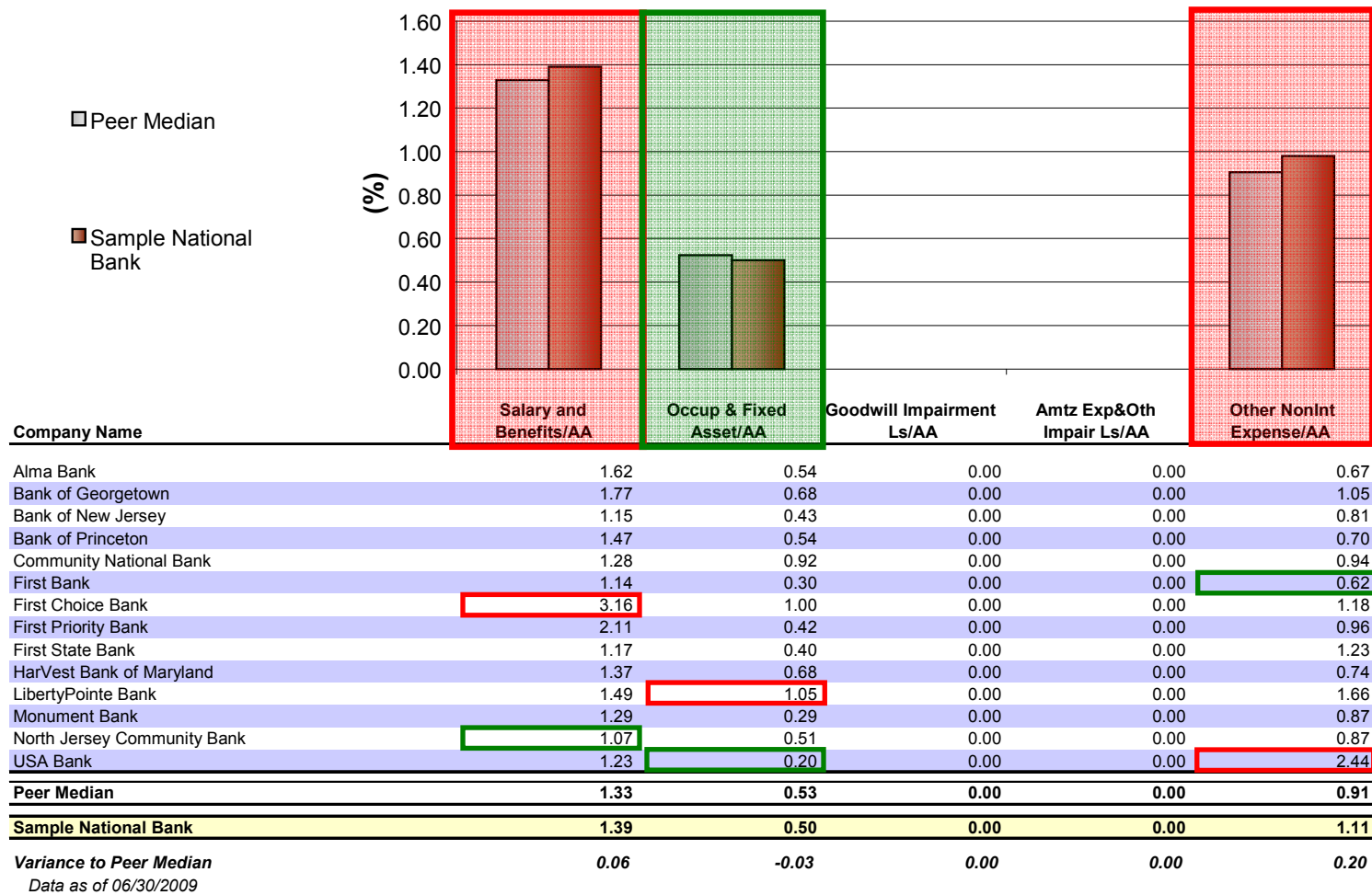


3. High level comparison to the comparable group

Knowledge of what non interest expense levels are achievable in the industry is important . . .

-
- Sample National Bank: 3.00% NIE/ AA
 - Comparable Peer Median: 2.73% NIE/ AA
 - Benchmark: 2.50% NIE/AA
 - High Performing Median: 2.30% NIE/ AA
 - The Benchmark is determined by looking at the level of non interest expense high performing institutions are able to operate at and creating an achievable range an institution is able to work towards.

Public data is gathered to compare the target institution to the comparable peer group at a high level. Variances can be seen in all of the non interest expense categories . . .



The high level comparable analysis of the institution's staffing structure shows the Bank has more full-time employees than the median, more loans per employee, but less assets and deposits per employee . . .



	Comparable Peer Group					Sample National Bank
	Minimum	1st Quartile	Median	3rd Quartile	Maximum	
Total Assets (\$000)	205,482	223,829	240,086	311,723	472,991	286,945
Full-time Eqv Employees (Actual)	20	32	35	45	66	46
Total Assets/Employees (\$000)	1,154	6,261	6,613	7,249	158,294	6,237
Total Loans / Employees (\$000)	1,000	3,654	4,686	5,338	6,369	5,014
Total Deposits / Employees (\$000)	1,024	4,870	5,738	6,048	140,990	4,430

After viewing the high level data, several conclusions can be drawn . . .

Non interest expense category	Status compared to the comparable peer median	Further analysis needed?
Salary and Benefits	Ratios are above	Yes
Occupancy and Fixed Assets	Ratios are above	Yes
Goodwill and Impairment	N/A	No
Amortization Expense	N/A	No
Other non interest expenses	Ratios are above	Yes

▪ **Other initial conclusions:**

- The Bank's loan volume relative to the level of employees, is above the peer median, which leads us to believe the Bank's employees are generating loans efficiently.
- The Bank's deposit volume relative to the level of employees, is below the peer median, which indicates that either the Bank's employees are not generating enough deposits or the Bank has overstaffed cost centers/branches.

4. Data Analysis

Before getting into a detailed analysis, another benchmark needs to be created. This benchmark needs to be one or more institutions who have the expense levels your Bank wishes to achieve . . .

- Utilizing FinPro’s general ledger database a benchmark group was compiled to compare non interest expense levels.
- When choosing which non interest expense areas to focus on first, the expense category size relative to the Bank’s overall non interest expense should dictate the order of importance.

Noninterest Expense / Assets Ratio	Sample National Bank	Benchmark	Variance to the Benchmark
Salary and Benefits	1.27%	1.15%	0.12%
Occupancy (including depreciation)	0.50%	0.41%	0.09%
Other	0.39%	0.33%	0.06%
FDIC Insurance	0.30%	0.14%	0.16%
EDP	0.20%	0.12%	0.08%
FFE (including depreciation)	0.12%	0.18%	-0.06%
ESOP/MRP/Stock Option Expense	0.09%	0.06%	0.03%
Legal & Professional	0.08%	0.04%	0.03%
Advertising	0.06%	0.06%	0.00%
Amortization of Goodwill	0.00%	0.00%	0.00%
Total Noninterest Expense	3.00%	2.50%	0.50%

As such, “Salary and Benefits” should be analyzed first because it is the largest component of the Bank’s non interest expense. It is also important to analyze “Occupancy” and “Other” as the second and third largest categories, respectively.

Data Analysis – Salary and benefits . . .

- As stated earlier, the Bank's deposit levels to employees is low and needs to be analyzed further.
- The salary expense to total deposit ratio indicates that the Bank is paying more to generate less deposits than compared to the peer median.
- One of the ways to determine if staffing levels need to be changed are to undertake a branch level analysis.

	Comparable Peer Group					Sample National Bank
	Minimum	1st Quartile	Median	3rd Quartile	Maximum	
Total Deposits (\$000)	165,721	188,938	206,605	261,005	396,948	203,822
Salary expense/ Total deposits (%)	0.12	1.28	1.46	1.84	2.48	1.79
Total Deposits / Employees (\$000)	1,024	4,870	5,738	6,048	140,990	4,430

Data Analysis – Salary and benefits . . .

- Utilizing general ledgers with cost center detail, each of the Bank's branches should be compared to a benchmark branch.
 - A benchmark branch was compiled using several clients data and FinPro's judgment on what an efficient branch is.
- To illustrate an example, below is the financial overview for the Bank's existing branch in Somewhere, NJ:

FTE's	9
Funding	Jun-09
Transaction Accounts	11,222
Savings Accounts	8,373
Money Market Accounts	27,391
Certificates of Deposit	31,904
Total	78,891

Branch Level

Noninterest Expense (Annualized)	Jun-09
Salary and Benefits	\$ 376
ESOP/MRP Expense	\$ -
Occupancy (including depreciation)	\$ 372
FFE (including depreciation)	\$ 106
Advertising	\$ 30
FDIC Insurance	\$ -
Legal & Professional	\$ 6
EDP	\$ -
Amortization of Goodwill	\$ -
Other	\$ 81
Total Non-Interest Expense	\$ 973

This is the breakout of a general ledger analysis done by FinPro. Each of these categories (in red) have multiple sub-categories for an even more detailed analysis.

Data Analysis – Salary and benefits . . .

- The detailed analysis shows that the Bank currently has either too many employees at this branch at the current deposit level, or is over paying its staff at this branch.

Branch Level			
	Sample National Bank	Benchmark Branch	Variance to the Benchmark
Deposits / FTE	8,766	10,000	(1,234)
Noninterest Expense / Total Deposits	Sample National Bank	Benchmark Branch	Variance to the Benchmark
Salary and Benefits	0.48%	0.41%	0.07%

To achieve a 0.41% Salary and Benefit Expense / total deposit ratio, the Bank would need to decrease salary and benefit expense by \$56.5 thousand. All signs point to the conclusion that the Bank needs to cut at least one employee at the branch. The institution's overall expense ratio will benefit greatly if this analysis is done at all branches and the necessary cuts are made.

Data Analysis – Salary and benefits . . .

- Any branch level cost cutting decision should be reinforced with a further analysis to determine which position to cut. In this case, it can be seen that the Bank can cut 2 teller FTE's based upon the current transaction volume and staffing level.

	Current Sample National Bank Branch	Benchmark Branch	Variance	Optimized Sample National Bank Branch
Total Deposits	\$ 78,891	\$ 50,000		\$ 78,891
Average Transactions per Day	400	400		400
Tellers	7	5		5
Transactions Per Teller	57	80	23	80

By reducing the teller head count from 7 FTE's to 5 FTE's, the transactions per teller statistics are now inline with the benchmark. This data supports the notion that Sample National Bank needs to cut one or more employees.

Data Analysis – Occupancy . . .

- Occupancy expense also stands out on a detailed analysis as a category with a high variance to the benchmark.
- Similar to the salary and benefits analysis, the expense category should be analyzed on a branch level basis.

Noninterest Expense / Assets Ratio	Sample National Bank	Benchmark	Variance to the Benchmark
Salary and Benefits	1.27%	1.15%	0.12%
Occupancy (including depreciation)	0.50%	0.41%	0.09%
Other	0.39%	0.33%	0.06%
FDIC Insurance	0.30%	0.14%	0.16%
EDP	0.20%	0.12%	0.08%
FFE (including depreciation)	0.12%	0.18%	-0.06%
ESOP/MRP/Stock Option Expense	0.09%	0.06%	0.03%
Legal & Professional	0.08%	0.04%	0.03%
Advertising	0.06%	0.06%	0.00%
Amortization of Goodwill	0.00%	0.00%	0.00%
Total Noninterest Expense	3.00%	2.50%	0.50%

Data Analysis – Occupancy – Similar to the salary and benefits analysis, the expense category should be analyzed on a branch level basis . . .

- The branch in the previous analysis was again utilized in the occupancy analysis. This analysis must be completed at each cost center and branch to maximize potential cost savings!

Branch Level

Noninterest Expense / Total Deposits	Sample National Bank Branch	Benchmark Branch	Variance to the Benchmark
Occupancy (including depreciation)	0.47%	0.30%	0.17%

By taking proactive steps, Sample National Bank should be able to reduce the occupancy expense ratio from 0.47% to 0.33%, which will result in \$111.7 thousand in cost savings. For future branches, the Bank needs to control its costs before it finds itself with significantly higher than average occupancy costs.

- There are several ways to address occupancy costs at existing branches:
 - 1) Preemptively renegotiate leases
 - 2) Remove underperforming branches from the network (branch swaps and sell unprofitable branches)
 - 3) Evaluate all contracts (including janitorial, landscaping, maintenance, etc.)
 - 4) Appeal real estate taxes

Data Analysis – Other expenses . . .

- The Other expense category was the third largest percentage of the Bank's cost structure.
- A detailed analysis of the Other expense category shows that several of Sample National Bank's Other expenses are well above the benchmark.

Bank Level

"Other" Non Interest Expense / Total Assets	Sample National Bank	Variance to the Benchmark
Noninterest Expense - Misc	0.10%	0.00%
Noninterest Expense - Audit and Accounting	0.09%	0.06%
Noninterest Expense - Officer & Employee Expense	0.07%	0.04%
Noninterest Expense - Printing & Stationery & Supplies	0.03%	0.00%
Noninterest Expense - Telephone	0.03%	0.01%
Noninterest Expense - Dues and Subscriptions	0.02%	0.01%
Noninterest Expense - Insurance	0.02%	0.00%
Noninterest Expense - Regulatory Fees	0.01%	0.00%
Noninterest Expense - Postage	0.01%	0.00%
Noninterest Expense - Loan Expense & Appraisal	0.00%	-0.01%
Noninterest Expense - Donations & Contributions	0.00%	0.00%
Noninterest Expense - ATM Service Charges	0.00%	-0.01%
Noninterest Expense - Directors	0.00%	0.00%
Noninterest Expense - Service Charges	0.00%	0.00%
Noninterest Expense - Extraordinary Expenses	0.00%	0.00%
Other	0.39%	0.11%

Due to this data being general ledger detail, this data was compiled from FinPro's general ledger database utilizing institutions with similar characteristics.

How to cut the following expense categories . . .

- **Officer and employee expenses**

- These expenses need to be more closely monitored by management.
- Employees must adhere to an allowance set forth in the Employee Policy Guidelines.
- Management needs to determine where this money is being spent.
 - In many cases, pricey lunch and dinners to take out clients are the cause of this. If that is the case, the institution must cut back on these endeavors and find other ways to market and communicate with potential and existing clients.

- **Audit and accounting**

- Better use of internal processing team can make the external audit and accounting functions run more smoothly and thus, less costly.
- As such, the Bank should thoroughly define the scope of the external audit and accounting process so as to not allow any unnecessary work and billing to take place.
- The bank should review its contracts with its service providers and reasonably negotiate the major points of the contract.
- Eliminate overlapping functions between internal and external departments.
- Community banks should explore all of the type of accounting and audit firms, not just the larger ones.

Data Analysis – Other expenses . . .

Bank Level	Expense Ratio / Assets		
	Sample National Bank before Cost Cut	Sample National Bank after Cost Cut	Cost Savings
Effect of Cost Cutting			
Noninterest Expense - Officer & Employee Expense	0.07%	0.03%	\$ 86
Noninterest Expense - Audit and Accounting	0.09%	0.04%	\$ 115
Sub Total as a % of Assets	0.16%	0.07%	\$ 201

By cutting these expense categories, the Bank can save \$201 thousand, or decrease the total non interest expense / asset ratio by 0.09%.

Data Analysis – FDIC Expense . . .

- Lowering the FDIC expense is a two step process.
 - 1) First, an institution needs to look at the risk category scale and determine how much the institution can lower its overall assessment rate by changing the secured liability adjustment and brokered deposit.

	Risk Category I	Risk Category II	Risk Category III	Risk Category IV
Initial Base Assessment Rate	12 - 16	22	32	45
Unsecured Debt Adjustment	-5 - 0	-5 - 0	-5 - 0	-5 - 0
Secured Liability Adjustment	0 - 8	0 - 11	0 - 16	0 - 22.5
Brokered Deposit Adjustment		0 - 10	0 - 10	0 - 10
Total Base Assessment Rate	7 - 24	17 - 43	27 - 58	40 - 77.5

Data Analysis – FDIC Expense . . .

- 2) Secondly, an institution should take the proper steps to improve its initial base assessment rate by:

Sample FDIC Expense Calculator

Increasing capital ratios

Clean up asset quality issues

Grow earnings

Again, lessen reliance on brokered deposits

Financial Ratios			
Risk Category	Risk Measure Value	Pricing Multipliers	Contribution to Assessment Rate
Tier 1 Leverage Ratio	9.800	x (0.056) =	(0.549)
Loans Past Due 30-89 Days/Gross Assets	1.730	x 0.575 =	0.995
Nonperforming Assets/Gross Assets	2.400	x 1.074 =	2.578
Net Loan Charge-Offs/Gross Assets	0.200	x 1.210 =	0.242
Net Income before Taxes/Risk-Weighted Assets	0.250	x (0.764) =	(0.191)
Adjusted Brokered Deposit Ratio	12.000	x 0.065 =	0.780
Sum of Contributions			3.855

Financial Ratios Method			
	Risk Measure Value	Pricing Multipliers	Contribution to Initial Base Assessment Rate
Uniform Amount			11.861
Sum of Financial Ratios Contributions			3.855
Weighted Average CAMELS Component Rating	2.500	x 1.095	2.738
Sum of Contributions			18.45
Initial Base Assessment Rate from Financial Ratio Method			16.00

Data Analysis – FDIC Expense . . .

- By accomplishing all of those methods, an institution can drastically reduce its FDIC expense . . .

	Sample Bank - Risk Category 2	Sample Bank - Risk Category 3
Total Assets	\$ 286,945	\$ 286,945
Total Deposits	\$ 203,822	\$ 203,822

FDIC Assessment (bps) as % of Deposits	0.27%	0.42%
FDIC Expense per Year	\$ 545	\$ 861
FDIC Expense / Assets	0.19%	0.30%

- Decreasing reliance on brokered deposits (saves **0.05%**)
- Decrease in risk category (saves **0.10%**)

The cost savings would be **\$305.7 thousand** on an annual basis. The action would decline the overall non interest expense / asset ratio by **0.11%**

Data Analysis – EDP Expense . . .

Noninterest Expense / Assets Ratio	Sample National Bank	Benchmark	Variance to the Benchmark
Salary and Benefits	1.27%	1.15%	0.12%
Occupancy (including depreciation)	0.50%	0.41%	0.09%
Other	0.39%	0.33%	0.06%
FDIC Insurance	0.30%	0.14%	0.16%
EDP	0.20%	0.12%	0.08%
FFE (including depreciation)	0.12%	0.18%	-0.06%
ESOP/MRP/Stock Option Expense	0.09%	0.06%	0.03%
Legal & Professional	0.08%	0.04%	0.03%
Advertising	0.06%	0.06%	0.00%
Amortization of Goodwill	0.00%	0.00%	0.00%
Total Noninterest Expense	3.00%	2.50%	0.50%

- EDP is another cost that stands out on the detailed general ledger level analysis. To mitigate EDP costs, the Bank should look to:
 - 1) Shop your service providers
 - 2) Renegotiate contracts wherever possible
 - 3) Analyze where data clean up can reduce transaction costs
 - There may be a situation where the institution is charged on a per account basis and has many inactive accounts. Clean out these inactive accounts and avoid paying fees on them.

Data Analysis – Legal & Professional . . .

Noninterest Expense / Assets Ratio	Sample National Bank	Benchmark	Variance to the Benchmark
Salary and Benefits	1.27%	1.15%	0.12%
Occupancy (including depreciation)	0.50%	0.41%	0.09%
Other	0.39%	0.33%	0.06%
FDIC Insurance	0.30%	0.14%	0.16%
EDP	0.20%	0.12%	0.08%
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Legal & Professional	0.08%	0.04%	0.03%
Advertising	0.06%	0.06%	0.00%
Amortization of Goodwill	0.00%	0.00%	0.00%
Total Noninterest Expense	3.00%	2.50%	0.50%

- To mitigate Legal and professional costs, the Bank should look to:
 - 1) Identify and eliminate any overlapping services
 - 2) Only utilize professional service providers who provide tangible results
 - 3) Contracts should be on a fixed cost, or “not to exceed” basis

Other examples of potential cost savings include . . .

- Simplify everything. Black and white is cheaper than color!
- Go digital:
 - Conduct imaging at branch, not at service provider
- Shop everything:
 - Internal Audit, Compliance, Loan Review
 - Legal
 - Insurance
 - Telephone
- Get creative
 - Utilize partnerships with other financial service opportunities to utilize joint service agreements or shop products for group rates
- Perform a utility and energy audit
- Utilize bundled data service package (i.e. phone, DSL internet, wireless internet through a single provider at a lower cost than multiple providers and packages)
- Outsource loan processing if the loan department is not growing fast enough
- Freeze pensions or benefit plans if the strike prices are “out of the money”



5. Execution

By targeting the specific areas through a detailed analysis and coordinated action, the Bank should be able to reduce its overall non interest expense to asset ratio by 39 basis points, from 3.00% to 2.61% . . .



Noninterest Expense / Assets Ratio	Sample National Bank before cost cuts	Cost Cutting Effects	Sample National Bank after cost cuts	Benchmark
Salary and Benefits	1.27%	-0.07%	1.20%	1.15%
Occupancy (including depreciation)	0.50%	-0.07%	0.43%	0.41%
Other	0.39%	-0.09%	0.30%	0.33%
FDIC Insurance	0.30%	-0.11%	0.19%	0.14%
EDP	0.20%	-0.04%	0.16%	0.12%
FFE (including depreciation)	0.12%	0.00%	0.12%	0.18%
ESOP/MRP/Stock Option Expense	0.09%	0.00%	0.09%	0.06%
Legal & Professional	0.08%	-0.02%	0.06%	0.04%
Advertising	0.06%	0.00%	0.06%	0.06%
Amortization of Goodwill	0.00%	0.00%	0.00%	0.00%
Total Noninterest Expense	3.00%	-0.39%	2.61%	2.50%

Areas where cost cuts were made

The increase in the Bank's overall profitability, assuming no change to spread, margin, and non interest income, is significant . . .

	Sample National Bank Before Cost Cutting		Sample National Bank After Cost Cutting	
Total Assets (as of 6/30/2009)	\$ 286,945		\$ 286,945	
	Last Twelve Months		Last Twelve Months	
	000's	% of Assets	000's	% of Assets
Net Interest Income before Provision	\$ 9,326	3.25%	\$ 9,326	3.25%
Provision	861	0.30%	861	0.30%
Net Interest Income After Provision	8,465	2.95%	8,465	2.95%
Non Interest Income	287	0.10%	287	0.10%
Salary and Benefits	3,644	1.27%	3,443	1.20%
Occupancy (including depreciation)	1,435	0.50%	1,234	0.43%
Other	1,107	0.39%	861	0.30%
FDIC Insurance	861	0.30%	545	0.19%
EDP	574	0.20%	459	0.16%
FFE (including depreciation)	342	0.12%	342	0.12%
ESOP/MRP/Stock Option Expense	266	0.09%	266	0.09%
Legal & Professional	217	0.08%	172	0.06%
Advertising	172	0.06%	172	0.06%
Amortization of Goodwill	-	0.00%	-	0.00%
Non Interest Expense	8,617	3.00%	7,495	2.61%
Net Income Before Taxes	135		1,257	
Taxes (39% effective tax rate)	53		490	
Net Income	\$ 82		\$ 767	

As such, the potential profitability and value accretion is compelling. This shows the power of cutting costs . . .



	Sample National Bank Before Cost Cutting	Sample National Bank After Cost Cutting	
Net Income	\$ 82	\$ 767	
Common Shares Outstanding (000's)	500	500	
Earnings Per Share, Basic	\$ 0.16	\$ 1.53	
Profitability and Value Metrics			
Price/Earnings Multiple (x)	14	14	
Stock Price	\$ 2.30	\$ 21.47	\$ 19.17 833.44%
Return on Assets	0.03%	0.27%	0.24%
Efficiency Ratio	98.46%	85.64%	-12.83%

Things to remember about cost cutting . . .

- **Follow the FinPro process!**
 - Cost cutting needs to be analyzed on a high level and then a detailed line by line or branch level approach needs to be undertaken.
- **Keep in mind the institution's strategic plan**
 - The institution must not judge in an absolute or static sense, rather cost cutting decisions need to be dynamic and make sure the decisions fit with the strategic plan.
- **Be creative**
 - It is not just about cutting items, rather, you should look to share services or make processes and employees more efficient.