HOW TO GENERATE MORE PROFIT

And Add More Discipline and Consistency to Your Pricing Process

+800-728-3116 www.strunkaccess.com info@strunkaccess.com

©COPYRIGHT 1994-2025: STRUNK, LLC. OVERDRAFT PRIVILEGE SM PROGRAM MATERIALS CONTAIN CONFIDENTIAL AND PROPRIETARY INFORMATION – generally and without limitation, this information is intended for Strunk client and business partner internal review. Strunk proprietary information is not to be copied, disclosed, distributed, forwarded to or shared with any individual or entity other than Strunk contracted clients and business partners unless required by law or court order.

COPYRIGHT: Strunk, LLC

ABOUT STRUNK

Unmatched Industry Reputation

Over 1,700 highly satisfied bank clients

Experts in Core Customer Profitability

Consistent success: Overdraft Privilege, Rewards Checking and Secure Checking, Pricing

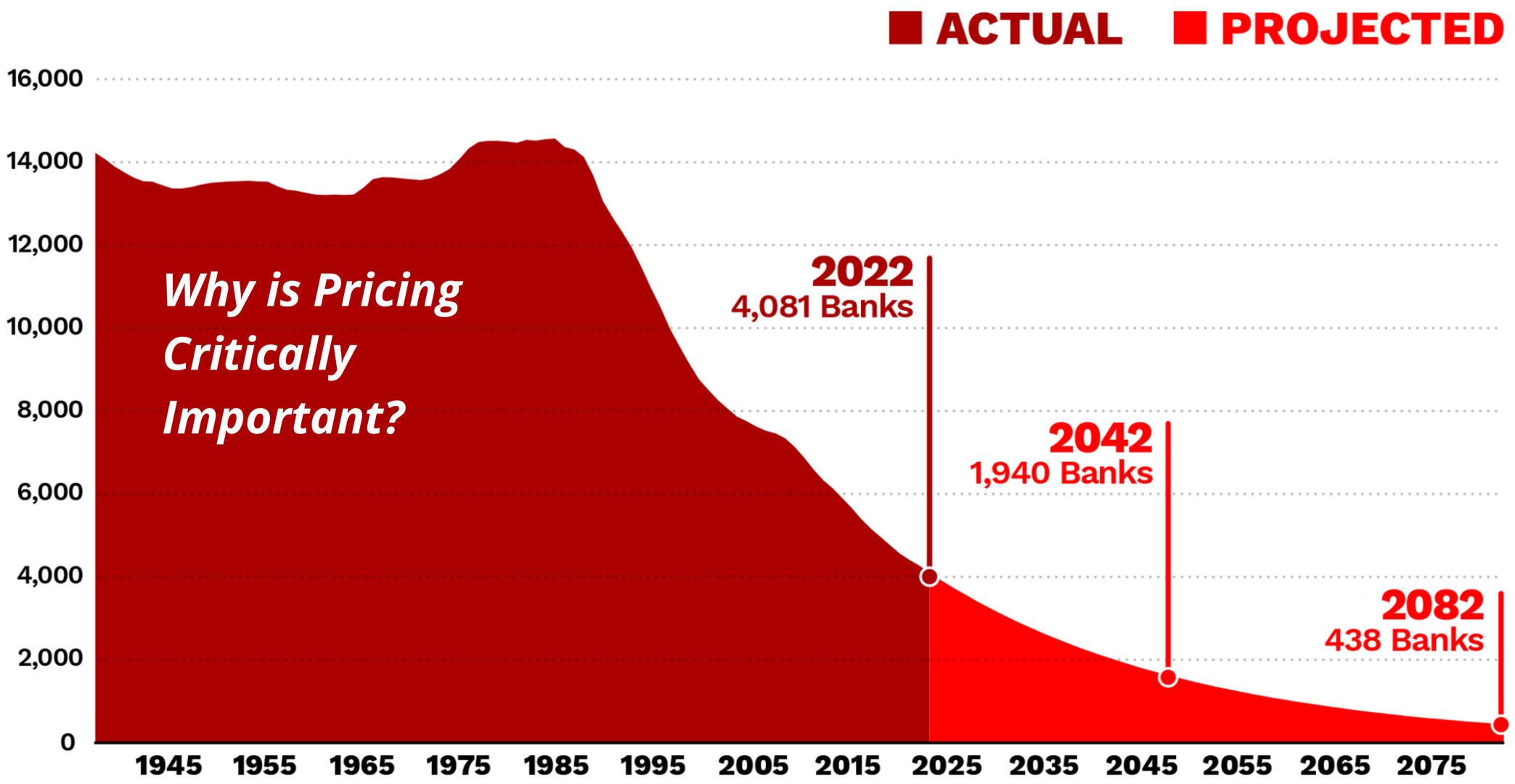
Market Focused, Fact Based

Continually evaluate market needs and performance with processing, analytic and compliance software

Partners not Vendors

Provide strategy + execute programs start to finish, self-funding pricing model

COPYRIGHT: Strunk, LLC



© August 2022 THE FINANCIAL BRAND SOURCE: FDIC

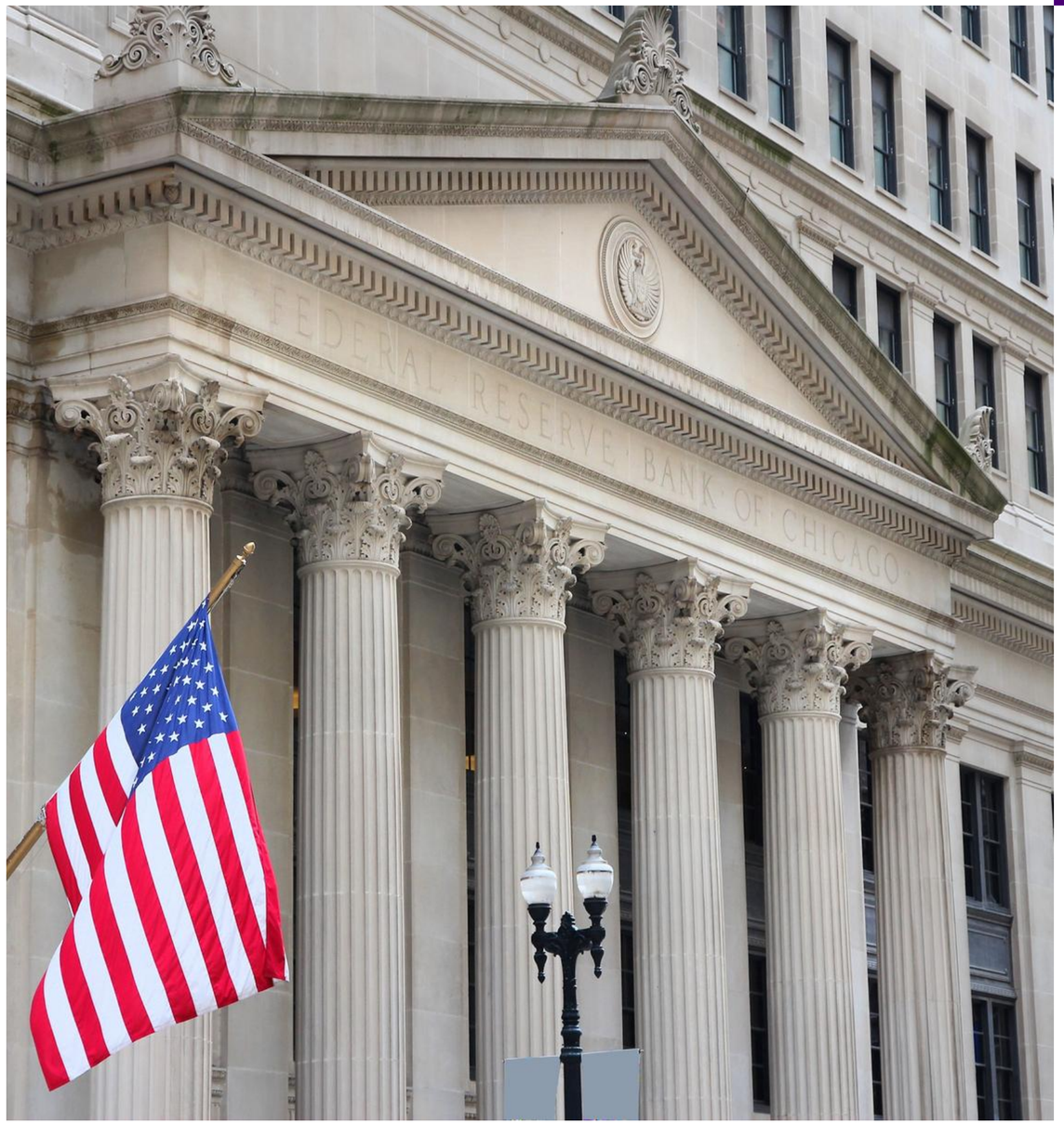
COPYRIGHT: Strunk, LLC

Mega-Bank and Regional Sophistication

The ‘Double-Whammy’

- Differentiating capital allocation based on risk
- Varying profitability targets based on risk

The result? Competing more aggressively for the largest most profitable customers



COPYRIGHT: Strunk, LLC

HOW IS PRICING SET TODAY?

#1 Answer is… we have to match the competition

Benchmark vs. Treasury or FHLB Advance rates

Spread over bank ‘base’ rate

And my favorite…the flinch method

COPYRIGHT: Strunk, LLC

Why Do Our Customers Choose Us?

01 Have done business with the bank for years

02 Family has a history with the bank

03 They like our people

04 They like the service we provide

COPYRIGHT: Strunk, LLC

What About Credit Considerations?

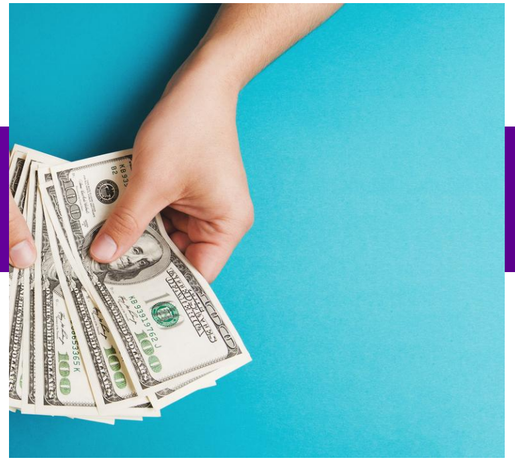
Is every customer an ’A+’ credit?

Can every customer go to any other bank and get a ‘YES’?

Do we often have a better understanding of our customer’s business situation than other competitors that don’t have a relationship with that customer?

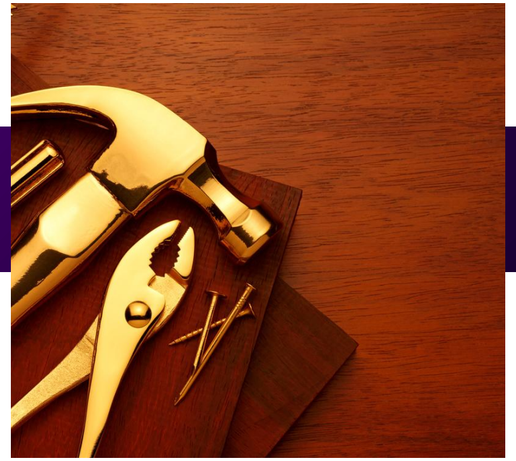
COPYRIGHT: Strunk, LLC

What Motivates Our Lenders?



Are they motivated to give the customer the best possible deal they can – i.e. is price often confused with service?

Or, are they motivated to structure the deal so that it works for the borrower and the bank?



Do our tools arm the lender with the information they need?

COPYRIGHT: Strunk, LLC

What Factors Should Be Considered?

- Type of Loan
- Amoritization Term
- Fixed, Adjustable, or Floating Rate – Term of Fixed Period
- Loan Amount
- Fee
- Risk
- Expected Life
- Origination Cost
- Servicing Cost
- Utilization
- Value of Other Relationship Components

COPYRIGHT: Strunk, LLC

How Do I Establish Discipline and Consistency?

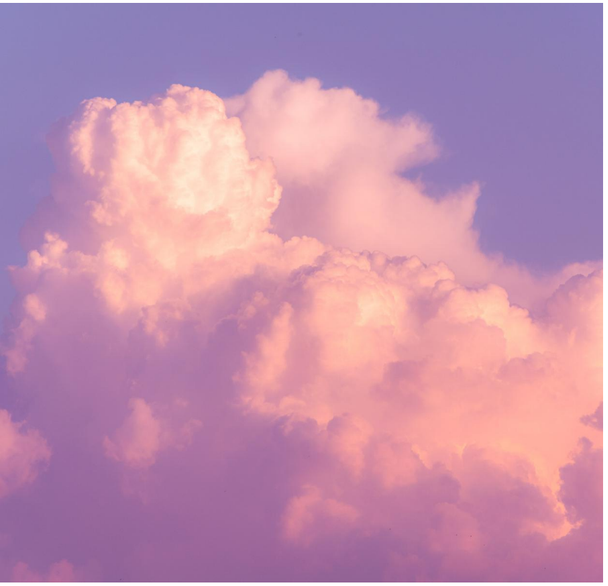
Standardized assumptions

Benchmark funding curve

Target profitability

Require all loans regardless of size, type, etc. to meet or exceed the targets

COPYRIGHT: Strunk, LLC



What is Consistency?

Consistent pricing so that every decision is made following the same process using the same set of factors and assumptions

- Lender to lender
- Customer to customer
- Product to product
- Most importantly…from one point in time to the next

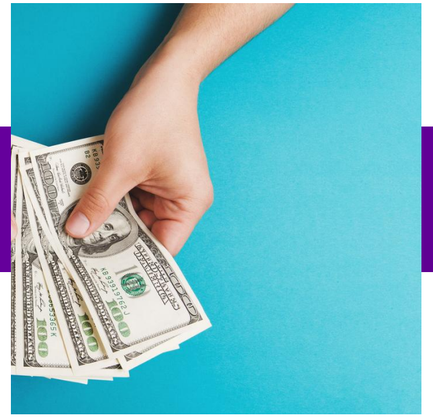
COPYRIGHT: Strunk, LLC

Relationships Matter

- Universal agreement on this theory
- But do we have a way to factor the VALUE of a relationship into our pricing equation?
- Do we know what the economic value is?
- What is the definition of a ‘good’ customer?

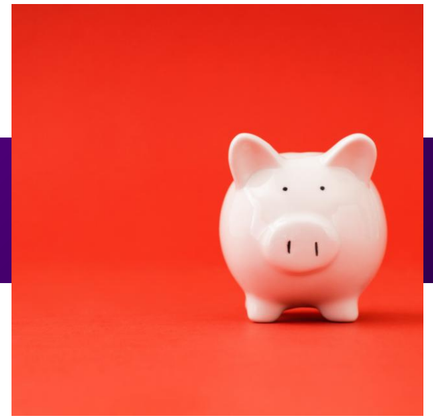
COPYRIGHT: Strunk, LLC

Factors Considered in Relationship Value

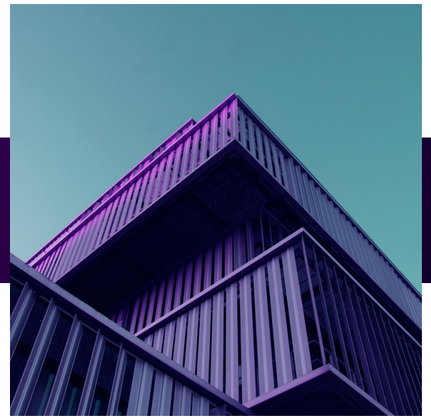


Size of loans and size of deposits

What type of deposits – non-interest bearing or interest bearing?



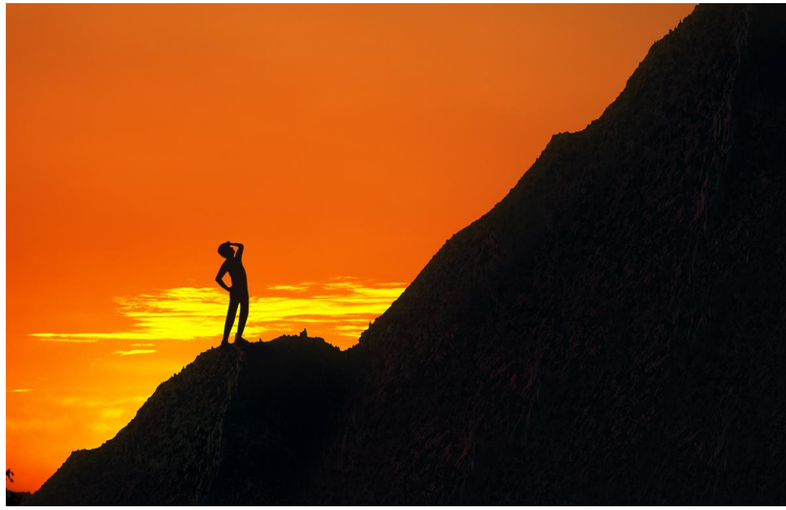
Is Profitability on loans evaluated based on the rate environment that existed when the loan was booked?



Number of loans and number of deposit accounts – large numbers of accounts = higher operating expense

COPYRIGHT: Strunk, LLC

Our Biggest Challenge



Most community banks overprice their largest most profitable customers and underprice their smallest least profitable customers

Overpricing the largest most profitable = losing our best relationships and possibly missing our best opportunities

Underpricing the smallest least profitable = a waste of our limited resources

COPYRIGHT: Strunk, LLC

Fear of Losing Customers

- The #1 reason we hesitate to implement new pricing strategies
- We all worry about the wrong customers
- Typically price small, unprofitable relationships similar to large, profitable ones
  - The ‘little acorn theory’ is often used as the justification

Remember: the ‘80/20 rule’ is alive and well in banking!

COPYRIGHT: Strunk, LLC

What's it Take to be Competitive at $1M+?

Term	Fixed Rate	Floating Rate	Max LTV	Max Amoritization
3 years	5.97% - 8.22%	6.43% - 9.50%	85% - Owner-Occupied / 75% - Investment	30 years
5 years	5.74% - 7.99%	5.98% - 9.50%	85% - Owner-Occupied / 75% - Investment	30 years
7 years	5.71% - 7.96%	6.52% - 9.50%	85% - Owner-Occupied / 75% - Investment	30 years
10 years	5.63% - 7.88%	6.87% - 9.50%	85% - Owner-Occupied / 75% - Investment	30 years
15 years	5.88% - 8.13%	7.12% - 9.50%	85% - Owner-Occupied / 75% - Investment	15 years

Source: Commercialloandirect.com - 5/20/2025

COPYRIGHT: Strunk, LLC

Allocating Capital and Targets for Risk

The 'Big Bank' sophistication mentioned earlier

Deploying tools to price more aggressively for larger credits and best credit risks

$1MM Commercial Real Estate / A+ Credit, 10% Cap

ROE **Yield**

	Loan	Deposits	Relationship	Mon
Net Interest Margin	2.43%			
Annual Net Income	$15,365.72	$0.00	$15,365.72	
Capital	$74,807.93	$0.00	$74,807.93	
Projected ROE	20.54%	0.00%	20.54%	
Target ROE	18.00%		22.00%	
ROE Rate	6.51%		6.82%	

$1MM Commercial Real Estate / A+ Credit, 8% Cap

ROE **Yiel**

	Loan	Deposits	Relationship	M
Net Interest Margin	2.43%			
Annual Net Income	$15,365.72	$0.00	$15,365.72	
Capital	$74,807.93	$0.00	$74,807.93	
Projected ROE	20.54%	0.00%	20.54%	
Target ROE	16.00%		22.00%	
ROE Rate	6.35%		6.82%	

Strunk

COPYRIGHT: Strunk, LLC

Loan Type Matters

All loans are not created equal

Terms loans have different profit characteristics than LOC or construction loans

On LOC fee protect against low usage

$500K Commercial Real Estate / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	$9,389.36	$0.00	$9,389.36
Capital	$47,016.69	$0.00	$47,016.69
Projected ROE	19.97%	0.00%	19.97%
Target ROE	18.00%		22.00%
ROE Rate	7.31%		7.70%

$500K LOC / Low Usage, No Fee, Prime

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.70%		
Annual Net Income	$782.58	$0.00	$782.58
Capital	$15,000.00	$0.00	$15,000.00
Projected ROE	5.22%	0.00%	5.22%
Target ROE	18.00%		22.00%
ROE Rate	9.76%		10.16%

Strunk

COPYRIGHT: Strunk, LLC

Fixed or Floating?

Type of rate structure matters too

Not so much in current environment…but current environment will change

$500K CRE / Fixed

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.88%		
Annual Net Income	$8,428.21	$0.00	$8,428.21
Capital	$46,840.68	$0.00	$46,840.68
Projected ROE	17.99%	0.00%	17.99%
Target ROE	18.00%		22.00%
ROE Rate ?	7.06%		7.46%

$500K CRE / Floating

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.92%		
Annual Net Income	$7,896.45	$0.00	$7,896.45
Capital	$43,854.17	$0.00	$43,854.17
Projected ROE	18.01%	0.00%	18.01%
Target ROE	18.00%		22.00%
ROE Rate ?	8.11%		8.51%

Strunk

COPYRIGHT: Strunk, LLC

Size of Loan

Large loans – more NII $'s

'I can spend the dollars…not the percents'

$200K CRE / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.24%		
Annual Net Income	$3,389.56	$0.00	$3,389.56
Capital	$18,783.19	$0.00	$18,783.19
Projected ROE	18.05%	0.00%	18.05%
Target ROE	18.00%		22.00%
ROE Rate ?	7.42%		7.81%

$1MM CRE / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.84%		
Annual Net Income	$16,899.11	$0.00	$16,899.11
Capital	$93,654.87	$0.00	$93,654.87
Projected ROE	18.04%	0.00%	18.04%
Target ROE	18.00%		22.00%
ROE Rate ?	7.02%		7.41%

Strunk

COPYRIGHT: Strunk, LLC

Small Loans

Fees are critical on small loans

Impossible to make money on installment loans <$2,500

Raise loan fee to minimum of $150 and minimum loan amount to $2,500

Small Installment Loan / $2500 Example

ROE

	Loan	Deposits	Relationship
Net Interest Margin	13.58%		
Annual Net Income	($47.24)	$0.00	($47.24)
Capital	$139.58	$0.00	$139.58
Projected ROE	-33.84%	0.00%	-33.84%
Target ROE	18.00%		18.00%
ROE Rate	22.84%		22.84%

Strunk

COPYRIGHT: Strunk, LLC

Small Deposits Too

Minimum deposit requirements have not changed materially in 25 years

Consider raising minimums and implementing maintenance fees on DDA

Small CD / $2500 Example

ROE

	Deposits
Annual Net Income	($68.88)
Capital	$50.00
Projected ROE	-137.76%
Target ROE	
ROE Rate	

Small DDA / $2500 Example

ROE

	Deposits
Annual Net Income	($198.16)
Capital	$50.00
Projected ROE	-396.32%
Target ROE	
ROE Rate	

Strunk

COPYRIGHT: Strunk, LLC

Fee Income

Fees are important…but not in every loan case

$500K Commercial Real Estate / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	$9,389.36	$0.00	$9,389.36
Capital	$47,016.69	$0.00	$47,016.69
Projected ROE	19.97%	0.00%	19.97%
Target ROE	18.00%		22.00%
ROE Rate	7.31%		7.70%

$500K Commercial Real Estate / 1/2 Point Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	$9,889.36	$0.00	$9,889.36
Capital	$47,016.69	$0.00	$47,016.69
Projected ROE	21.03%	0.00%	21.03%
Target ROE	18.00%		22.00%
ROE Rate	7.20%		7.59%

Strunk

COPYRIGHT: Strunk, LLC

Some Fees are More Important than Others

In what cases do fees really drive profitability?

Do your lenders know the difference?

$500K Commercial Real Estate / No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.33%		
Annual Net Income	$9,389.36	$0.00	$9,389.36
Capital	$47,016.69	$0.00	$47,016.69
Projected ROE	19.97%	0.00%	19.97%
Target ROE	18.00%		22.00%
ROE Rate	7.31%		7.70%

$500K LOC / 60% Usage, No Fee, Prime

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.70%		
Annual Net Income	$5,200.16	$0.00	$5,200.16
Capital	$30,000.00	$0.00	$30,000.00
Projected ROE	17.33%	0.00%	17.33%
Target ROE	18.00%		22.00%
ROE Rate	8.57%		8.96%

$500K LOC / 60% Usage, 1/2 Point Fee, Prime

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.70%		
Annual Net Income	$7,700.16	$0.00	$7,700.16
Capital	$30,000.00	$0.00	$30,000.00
Projected ROE	25.67%	0.00%	25.67%
Target ROE	18.00%		22.00%
ROE Rate	7.74%		8.14%

Strunk

COPYRIGHT: Strunk, LLC

Consistently Price for Risk

Get more from the highest risk customer you are willing to lend to

Give your 'A' customers the best possible deal

$500K CRE / A+ Credit

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.53%		
Annual Net Income	$8,400.34	$0.00	$8,400.34
Capital	$46,723.43	$0.00	$46,723.43
Projected ROE	17.98%	0.00%	17.98%
Target ROE	18.00%		22.00%
ROE Rate ?	6.71%		7.11%

$500K CRE / C Credit

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.13%		
Annual Net Income	$8,447.62	$0.00	$8,447.62
Capital	$46,922.49	$0.00	$46,922.49
Projected ROE	18.00%	0.00%	18.00%
Target ROE	18.00%		22.00%
ROE Rate ?	7.31%		7.71%

Strunk

COPYRIGHT: Strunk, LLC

Expected Life is a Key Assumption

But be careful…a bad expected life assumption can have a significant impact on profit

$500K CRE / 120 Month Expected Life

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.81%		
Annual Net Income	$7,728.28	$0.00	$7,728.28
Capital	$42,843.91	$0.00	$42,843.91
Projected ROE	18.04%	0.00%	18.04%
Target ROE	18.00%		22.00%
ROE Rate ?	7.20%		7.59%

$500K CRE / 60 Month Expected Life

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.88%		
Annual Net Income	$8,428.21	$0.00	$8,428.21
Capital	$46,840.68	$0.00	$46,840.68
Projected ROE	17.99%	0.00%	17.99%
Target ROE	18.00%		22.00%
ROE Rate ?	7.06%		7.46%

Strunk

COPYRIGHT: Strunk, LLC

Origination and Servicing Cost must be Considered

Not just variable costs

Fixed costs – buildings, furniture, fixtures, lights, equipment, etc.

Cost should vary based on type of loan

Cost should vary based on size of loan

Complexity relative to a particular loan type should also be considered

Strunk

COPYRIGHT: Strunk, LLC

Utilization is Key on LOC and Construction Loans

Base these assumptions of actual past experience wherever possible

$500K LOC / 80% Utilization - No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.21%		
Annual Net Income	$7,182.75	$0.00	$7,182.75
Capital	$40,000.00	$0.00	$40,000.00
Projected ROE	17.96%	0.00%	17.96%
Target ROE	18.00%		22.00%
ROE Rate ?	8.40%		8.80%

$500K LOC / 20% Utilization - No Fee

ROE

	Loan	Deposits	Relationship
Net Interest Margin	5.94%		
Annual Net Income	$1,799.43	$0.00	$1,799.43
Capital	$10,000.00	$0.00	$10,000.00
Projected ROE	17.99%	0.00%	17.99%
Target ROE	18.00%		22.00%
ROE Rate ?	11.13%		11.53%

Strunk

COPYRIGHT: Strunk, LLC

One Final Word on Consistency

Today's interest rate environment is a perfect example of a consistency 'disruptor'

$500K Commercial Real Estate / 5/31/2024 Rates — 6/2/2024

ROE

	Loan	Deposits	Relationship
Net Interest Margin	3.02%		
Annual Net Income	$8,436.79	$0.00	$8,436.79
Capital	$46,919.24	$0.00	$46,919.24
Projected ROE	17.98%	0.00%	17.98%
Target ROE	18.00%		22.00%
ROE Rate	7.20%		7.59%

Yield Curve

Months	Yield
0	5.47%
1	5.47%
3	5.50%
6	5.48%
12	5.25%
24	4.99%
36	4.81%
48	4.73%
60	4.66%
84	4.78%
120	4.87%
180	5.07%
240	5.25%
360	5.37%
prime	8.50%

$500K CRE / 6/18/2021 Rates — 6/27/2023

ROE

	Loan	Deposits	Relationship
Net Interest Margin	2.90%		
Annual Net Income	$8,247.35	$0.00	$8,247.35
Capital	$45,788.21	$0.00	$45,788.21
Projected ROE	18.01%	0.00%	18.01%
Target ROE	18.00%		22.00%
ROE Rate ?	4.20%		4.60%

Yield Curve 6/18/2021

Months	Yield
0	0.38%
1	0.35%
3	0.34%
6	0.33%
12	0.31%
24	0.60%
36	0.84%
60	1.30%
84	1.71%
120	2.01%
180	2.41%
240	2.81%

Strunk

COPYRIGHT: Strunk, LLC

What is the Value of the Relationship?

We need an *EASY* way to evaluate relationship value

Accessible by every lender

Logistics LLC 6/27/2023

Summary

	Berg / 9795- LOC	Logistics / 2417-Shop	Logistics / 2741 - Forklift	2819-2023 Landoll	Berg / 22987980 Home LN	Deposits	Total
Loan Type	Commercial Operating LOC	CRE	C&I	C&I	Residential Mortgage		
Amount	$750,000.00	$194,000.00	$100,100.00	$55,151.50	$235,000.00	$242,681.00	$1,334,251.50
Expected Life	12	84	36	36	72	N/A	N/A
Net Interest Margin	4.3058%	3.8067%	2.6789%	5.3351%	2.0019%	N/A	3.1040%
Annual Net Income	$11,797.31	$3,530.49	$418.88	$723.64	$2,786.76	$8,184.21	$27,441.29
Capital	$45,750.00	$15,776.36	$7,405.15	$3,967.51	$22,637.91	$4,853.62	$100,390.56
Projected ROE	25.79%	22.38%	5.66%	18.24%	12.31%	168.62%	27.33%
Targeted ROE	18.00%	18.00%	18.00%	18.00%	15.00%	N/A	N/A
ROE Rate	8.72%	3.64%	8.50%	9.23%	6.75%	N/A	N/A

Strunk

COPYRIGHT: Strunk, LLC

Profitable vs. Unprofitable Customers

It's not always a bad thing to lose a customer relationship…if you are not able to price up

Strunk Financial III	Larger Profitable Client	6/2/2024

Summary

	CRE Example / Example	C&I Example / Example	LOC Example / Example	Deposits	Total
Loan Type	CRE	C&I	Commercial Operating LOC		
Amount	$2,500,000.00	$50,000.00	$750,000.00	$450,000.00	$3,300,000.00
Expected Life	60	60	12	N/A	N/A
Net Interest Margin	2.7218%	3.7361%	3.7041%	N/A	2.7689%
Annual Net Income	$43,542.90	($200.05)	$11,385.25	$12,888.99	$67,617.09
Additional Relationship Income					$3,750.00
Total Net Income	$43,542.90	($200.05)	$11,385.25	$12,888.99	$71,367.09
Capital	$234,264.79	$2,709.58	$45,000.00	$9,000.00	$290,974.37
Projected ROE	18.59%	-7.38%	25.30%	143.21%	24.53%
Targeted ROE	18.00%	18.00%	18.00%	N/A	N/A
ROE Rate	6.94%	10.43%	7.78%	N/A	N/A

Strunk Financial III	Smaller Marginally Profitable Client	6/2/2024

Summary

	Small C&I Example / Example	Small C&I Example 2 / Example	Small LOC Example / Example	Deposits	Total
Loan Type	C&I	C&I	Commercial Operating LOC		
Amount	$50,000.00	$65,000.00	$100,000.00	$10,000.00	$215,000.00
Expected Life	60	60	12	N/A	N/A
Net Interest Margin	3.7361%	3.7361%	4.2110%	N/A	3.8128%
Annual Net Income	($200.05)	$42.63	$941.60	($92.08)	$692.10
Capital	$2,709.58	$3,522.45	$6,000.00	$200.00	$12,432.02
Projected ROE	-7.38%	1.21%	15.69%	-46.04%	5.57%
Targeted ROE	18.00%	18.00%	18.00%	N/A	N/A
ROE Rate	10.43%	9.62%	9.23%	N/A	N/A

Strunk

COPYRIGHT: Strunk, LLC

Gaining Lender Buy-in

- It all boils down to confidence
- Validate assumptions
- Show favorable results on larger deals
- Identify 'lost loans' that could have been won
- Show how small loans often cannot achieve profit targets regardless of assumptions used
- Use real examples of real deals

COPYRIGHT: Strunk, LLC

Dan Roderick

Chief Executive Officer

droderick@strunkaccess.com

https://strunkaccess.com

+800-728-3116

FINAL QUESTIONS?

©COPYRIGHT 1994-2025: STRUNK, LLC. OVERDRAFT PRIVILEGE SM PROGRAM MATERIALS CONTAIN CONFIDENTIAL AND PROPRIETARY INFORMATION – generally and without limitation, this information is intended for Strunk client and business partner internal review. Strunk proprietary information is not to be copied, disclosed, distributed, forwarded to or shared with any individual or entity other than Strunk contracted clients and business partners unless required by law or court order.