

The Strategic Roadmap to the Future of Community Banking

By Mary Lange

Chapter 2: NexBank Capital, Inc.: Efficiency

Would you agree that it is an exciting time to be a community banker?

Some might say yes, others no.

Your answer may depend on what kind of bank and bank structure you have.

In this chapter on the Strategic Roadmap series, we will explore how NexBank, a commercial bank in Dallas, with 86 employees and virtually no branches, designed its institutional-focused national lending and deposit strategy.

This bank was chartered in 1922. John Holt became chief executive officer and president of both the Company (NexBank Capital, Inc.) and the Bank (NexBank) in 2011 when he was 47 years old. Assets then were \$600 Million; over the next 10 years assets grew to touch the \$10.8 billion

line; the employee count stayed at 86. John anticipates continued growth for NexBank in 2022.

As John reflected on strategy, he highlighted five tips that covered his bank's evolution encompassing two different management approaches:

Managing to stay strong, but under \$10 Billion vs.

Deciding to cross the \$10 Billion line.

He accepts the added scrutiny that comes with crossing this line.

Regulators will require him to move away from annual monitoring to continuous monitoring. This change may affect his efficiency model as he anticipates adding staff for continuous stress testing and business modeling.

Five tips from John Holt

TIP 1

"We use technology and third parties as drivers for efficiencies." As the bank grew, it created an efficient platform with streamlined processes and no legacy infrastructure.

What differentiates NexBank from other banks is the organizational structure. Clients have access to the executives. Four officers make credit decisions. This avoids the need for committees and committee managers and makes the bank more efficient than a regional bank with a sales model.

TIP 2

"We make the strategic plan a living document — not for annual review. We review it quarterly and recast our projections. This is a working document that we share with our team, our regulators and our investors. Every quarter we rework the business plan — looking forward to the next five years. We study where did we hit the mark, where did we miss and why. We understand things change — technology changes, consumer preferences change, pandemics



changed the world — and we evolve our strategy continually.” In addition, NexBank is structured to respond effectively to the shifting needs of institutional clients and financial institutions.

“We know we cannot be everything to everybody. We are an institutional-focused organization that is centered on efficiency above most things.”

TIP 3

“I believe in getting involved with the industry and the issues that confront us all. We bankers must help mold the conversations and outcomes, share best practices, get to know one another and better understand the various business models we work with. We need to make the trips to DC and Austin for legislative awareness that can shape your bank’s progress and that of the entire industry. By being involved, you will be at the forefront of who is helping your community and your industry. “

John pointed to his work on the TBA Future of Banking Task Force over the past three years; he also served on the TBA Board of Directors when Compliance Alliance Reform and Consumer Protection Act. This Act created a series of federal regulations to prevent a future financial crisis, including the formation of the Consumer Finance Protection Bureau.

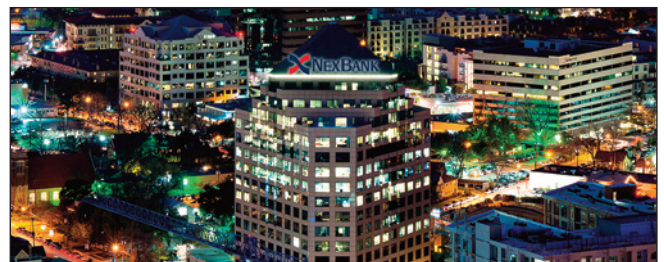
John formerly served on the TBA Board of Directors and had additional responsibilities as Chairman of the Community Bankers Council. He was also a member of several committees within the organization.

TIP 4

John attributes a change in the bank’s incentive plan, recommended by NexBank’s chairman, as a way to retain and reward his team. He noted there has been virtually no staff turnover in 18 months. The incentives are based on risk management considerations, not quotas. He noted, “We don’t say ... grow the portfolio by xx new loans; that mindset can bring in risky loans to meet a quota.”



We are an institutional-focused organization that is centered on efficiency above most things.”



NexBank is located in the heart of Dallas.



John Holt, President & CEO, NexBank Capital, Inc., and Jessica Pelache, Executive Vice President, First National Bank, Texas, lead the 2020 Future of Banking Task Force meeting at TBA Headquarters.

TIP 5

John is also a big proponent for having a succession plan and an exit strategy. He recognizes he is on the downward slope of his career. "It is time for the next generation to take over. If you don't step back, your institution's pro-

gress will be usurped. New eyes, new skill sets are good. You've got to have a succession plan in place and execute it at the right time. Decisions need to be made in the best interest of the organization. Let the next person carry the ball." ❖

The evolving banking universe

The community bank model

One of the hardest concepts for non-bankers to grasp about banking is that there is no "one size fits all" in the world of community banking.

Different types of community banks are designed to create fairness and provide access to capital while taking in deposits and distributing loans, managing risk and making a profit. Some are retail banks, some are institutional-focused banks, some are mortgage banks, some are small business-focused banks, some are hi-tech banks, some are commercial real estate banks.

The "one size fits all" model is difficult to apply across the board:

- when opening a deposit account;
- when lending money;
- when helping customers grow their businesses;
- when selecting trusted third party vendors who try to anticipate every possible question and variable answer;
- when building a board of directors and a management team;
- when determining what your bank focus is and what size it might be.

In every situation, the refrain will be ... it depends.

Regulatory scrutiny

Non-bankers are sometimes unaware of how highly regulated our industry is. More so, most do not know that banks are subject to oversight by multiple regulators. State and federal regulators supervise banks to ensure their safety and soundness. While state and federal regulators work toward establishing and applying a single set of rules, this is often not the case, resulting in multiple layers of regulations, which sometimes conflict. Furthermore, while proposed regulations may make sense from an office in a state capitol or Washington, D.C., the practical implications of those regulations once implemented is often very different. And yet, they will still apply to banks and impact all their future exams.

Why isn't banking like a utility? Let's review a few ways these for-profit businesses vary:

- Banks have different customers with different needs.

- Banks have different corporate, tax and regulatory structures.
- Banks have different ownership models and business motives.
- Banks have different ways of measuring their progress and success.

Non-bankers need to recognize that there are different banks for different needs in the economy. Just as you wouldn't go to a dentist for a broken arm, you wouldn't go to an institutional-focused bank to get a personal home loan.

As the world of banking, payments and currencies continues to evolve — with more consumer and small business requests and choices along with financial technology firms partnering with banks — a focused strategy is needed to help banking leaders step into the future.

Remember John Holt's refrain: "We are an institutional-focused organization that is centered on efficiency above most things. [...] We make the strategic plan a living document — not for annual review. We review it quarterly and recast our projections." ❖