

An Example Comparison of Bank Building Operating Costs

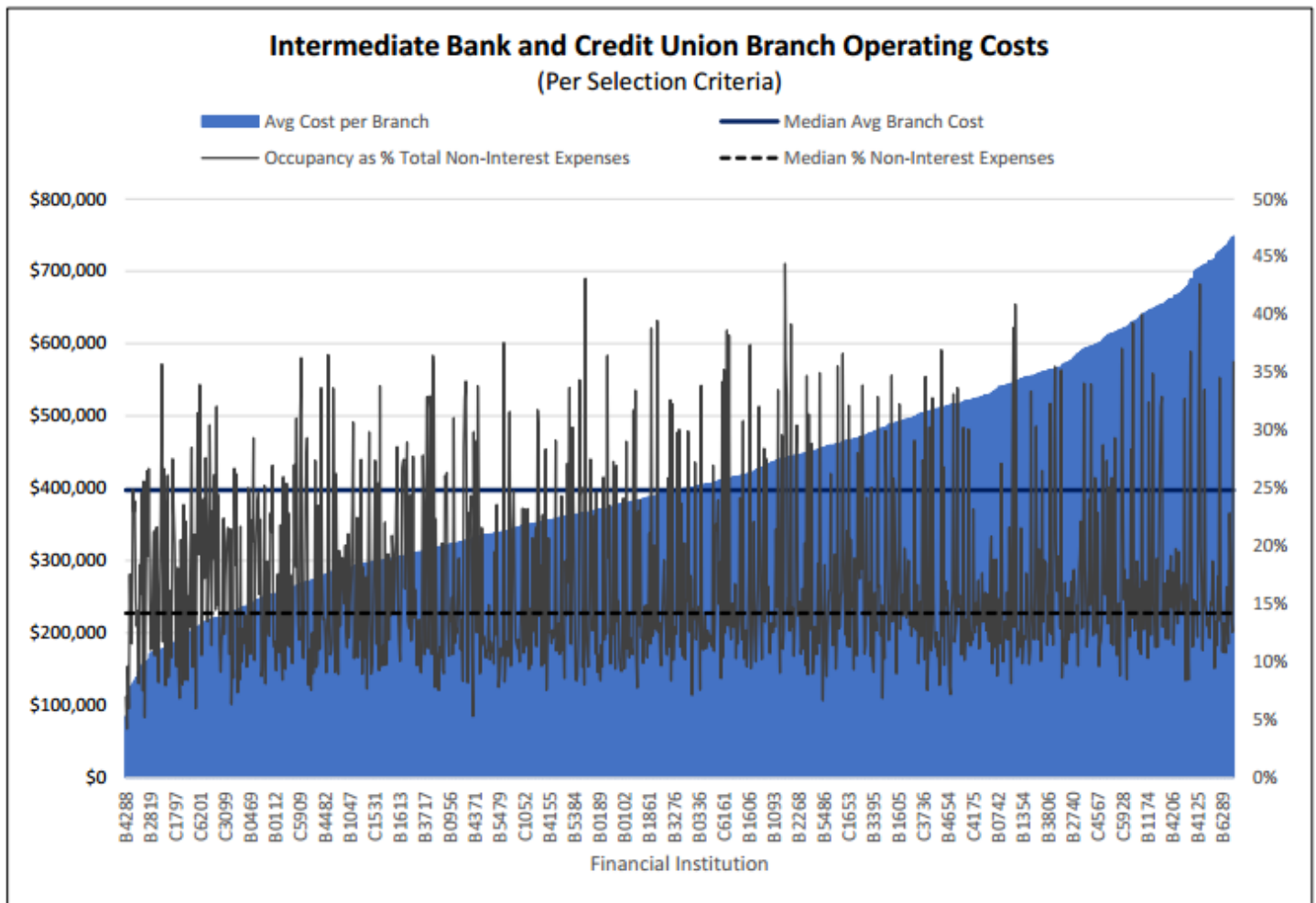


This high level example explains how facility benchmarking can provide useful insight into the operating costs of your branch buildings.

Executive Summary

Intermediate size banks and credit unions using branch locations as a customer service channel can expect their operating costs for their properties to be about 15% of their non-interest expense with a median annual cost of \$400,000 per location.

Benchmarking is a very simple and affordable method to understand these costs in an organized way, recognize areas with opportunity, and identify potential measures to realize cost savings.



This chart is based on 1,112 bank and credit unions in the US with assets of \$309 - \$1,221 million and 8 - 100 branch locations. Institutions with an average branch cost below \$20,000 or above \$750,000 were excluded from the sample. Data is based on FDIC and NCUA call reports of 12,430 institutions for 4 quarters ending September 30, 2015.

Read more about managing bank branch facility operating costs at:

<http://strategicfacilityguide.com/banks/>

The Missouri Picture

The median cost per branch for the 30 MO-based financial institutions in this group is higher than the national figures, at \$410,000, comprising 13% of the total non-interest expenses (as shown on the chart below).

Median Values of Selected Data

Cost/Branch (\$000): \$ 410
 % Non-Interest Exp.: 13%
 # Selected Institutions: 30

Selection Criteria:

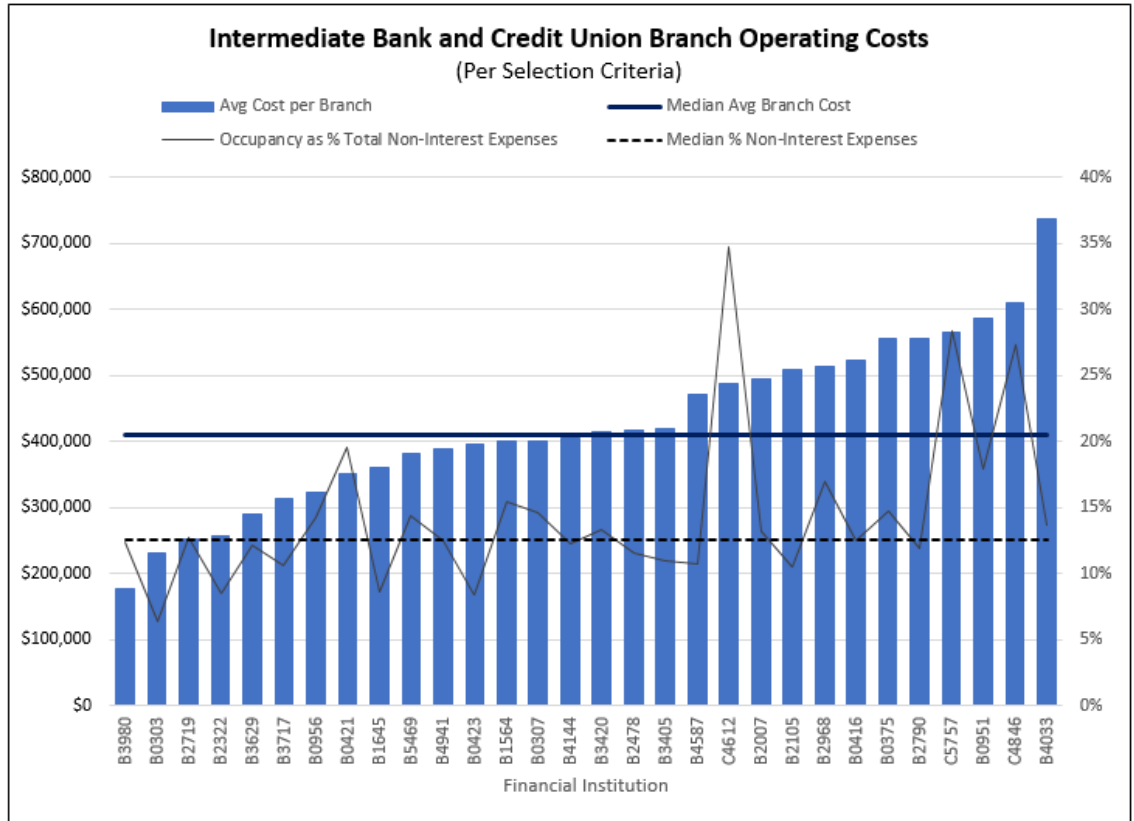
| Institution Types | |
|-------------------|-----|
| Commerical Banks: | Yes |
| Savings Banks: | Yes |
| Credit Unions: | Yes |

| Size (Assets in \$000,000's) | |
|------------------------------|-------|
| Minimum: | 309 |
| Maximum: | 1,221 |

| Number of Branches | |
|--------------------|-----|
| Minimum: | 8 |
| Maximum: | 100 |

| Locations (up to 4 states) | |
|----------------------------|----|
| State or All: | MO |
| Add'l State: | |
| Add'l State: | |
| Add'l State: | |

| Valid Data (\$/Branch in \$000's) | |
|-----------------------------------|-----|
| Minimum: | 20 |
| Maximum: | 750 |



This interactive chart file is available for download at <http://strategicfacilityguide.com/bankdata/>.

Financial Institution includes active banks, thrifts, and credit unions listed in the source data.

Branch or **Location** is based on the "Number of Offices" as reported in the source data and the count of the branch locations listed for credit unions in the source data.

Non-Interest Expenses are the "Total Non-Interest Expense" as reported in the source data.

Premise Costs are the "Expenses of premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)" as reported by banks in the source data, and the combination of "Office Occupancy Expense" and "Office Operations Expense" as reported by credit unions in the source data.

Avg Cost per Branch is the Premise Costs / Number of Locations.

Occupancy as % of Total Non-Interest Expense is the Premise Costs / Non-Interest Expenses.

Valid Data is the range of estimated likely Avg Cost per Branch; values outside this range are believed to have missing or atypical data values needing further review.

Overview of the Branch Facility Challenge

Physical bank branches are still valued by customers and remain an important channel for many financial organizations. However, they can be more expensive than other channels, so cost management is imperative to reap the value of having these venues.

The first part of the challenge is to find areas of spending that can be reduced without adversely impacting the value and operation of the branch facility. The quality and upkeep of these facilities needs to be maintained to reflect the appropriate image to customers and provide a productive (and profitable) work environment.

Many intermediate size banking institutions have multiple branches that are a combination of owned and leased properties. Executive involvement is common during development of the branch facility and for major building renovation or rebranding projects. There may or may not be systematic management of the operational costs even though these costs comprise a significant part of the total non-interest expense of the banking operation. Often, operational decisions are often made at the local branch by managers with little facility management training.

The second part of the challenge is how to provide dispersed decision makers with useful information and guidelines to improve awareness of facility operating cost implications associated with local operations. This can improve decisions about which operational practices provide the best overall value.

How Benchmarking Can Help

The charts above are the most basic type of benchmarking – it compares similar data for a selected peer group to identify the reasonable range of data values. This example shows how quickly and easily you can see how you compare to the group and identify if you have significant opportunities to explore.

The potential value for benchmarking branch building operation costs is high because of its simplicity. A program is inexpensive, does not require a large time commitment, and the results are easily understood by managers used to looking at figures. But this is just part of the value. Benchmarking is most effective as part of a continuous improvement process. It supports discussions about operational practices and sharing information about their effectiveness.

Facility benchmarking participants have been documented to obtain a 1.4% savings in controllable costs over a 10-year period, without a decrease in quality. A utility industry group using this approach has been able to achieve savings of over \$16 million per participant for a ten year period.*

This suggests that the potential savings at just one branch location exceeds the cost of a full year's benchmarking program.

* Source: <https://facilityissues.com/utilities-council/wp-content/uploads/IFMA-UC-White-Paper.pdf>

About the Benchmarking Program

The banking institution facility benchmarking program is offered through Facility Issues, modeled after four successful and long-running programs in other industries. The focus of this program is headquarters offices and branch banking facilities.

We use structured surveys to collect comparable data about facility costs and operational practices at a level that is granular enough for insight. We work with you to help you assemble and understand your own data, and then coordinate an anonymous comparison among industry participants.

Read more about managing bank branch facility operating costs at:

<http://strategicfacilityguide.com/banks/>

About Us

RAL Location Strategies is a niche consulting firm that helps executives better understand their facility assets and operations, and how they can apply a strategic approach to improve the value of their facilities for their organization. We do this with two main programs:

Strategic Facility Guide, a high level assessment approach using available data to understand and improve management of facility assets (the actual properties and buildings used by the organization).

Benchmarking to understand and improve facility operations (how the assets are operated); offered in conjunction with Facility Issues.

Contact me to discuss whether one of these programs is right for you.

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