



# 2017 Bank Study Project Class of 2018

## NEGOTIATE TO WIN FOR BANKERS Jim Thomas

### NOTES:

1. Please use 8 1/2" x 11" paper (or paper folded to that size).
2. Attach the **Junior Cover Sheet – Class of 2018** from <http://www.gsblsu.org/students-4/> as the first page of your project.
3. Please staple your project or use a binder clip. **DO NOT** use paper clips or any kind of folder or binder.

Complete and mail by **February 15, 2018**

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**Negotiate to Win for Bankers**  
**2017 Bank Study Project**  
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**Introduction and assumptions**

The *exclusive* focus of the **Negotiate to Win for Bankers** Bank Study Project is middle-market commercial lending within the high-quality credit tier. Inside this highly competitive market segment, risk is a secondary factor in underwriting and average spreads are small. The following factors make effective negotiating especially important in this segment:

- A. While small, spreads vary greatly among borrowers and institutions. Prices are often dramatically higher or lower than average.
- B. The majority of this price variation is driven by relationship managers.
- C. Some relationship managers consistently price above average.
- D. Some banks consistently price above average.

**I. Current middle-market commercial loan pricing**

- A. Provide a one-page summary of your institution, its clientele, and its competitive landscape.
- B. Describe in detail how your bank sets its asking price for middle-market commercial loans.
  - 1. What methodology do you use to estimate market pricing?
  - 2. What factors (other than credit standards) are actively considered?
  - 3. Is overall relationship profitability a factor?
  - 4. If so, how do you calculate it and how much weight do you give it? If not, why not?
- C. What guidelines and rules do you impose on your relationship managers' loan pricing behavior?
- D. What tools do you provide to your relationship managers to assist them in loan pricing?
  - 1. Is historic and/or competitive deal information available to them?
  - 2. Does your bank have a defined, systematic price negotiation strategy? If so, please describe it. If not, please describe your bank's approach to price negotiations.
- E. How do your closure rates, asking prices, and realized prices compare to your peers?

**II. Current incentive compensation system for relationship managers**

- A. Fully describe your bank's incentive compensation system for relationship managers, if any.
- B. If you have such a system, describe whether it primarily rewards transaction volume and generated balances *or* overall relationship profitability.

**III. Challenges caused by Items I and II**

- A. Describe how any issues identified in Items I and II above might inhibit your bank's ability to compete most effectively in this market segment. Specifically address these issues relative to:
  - 1. Your bank's ability to meet the needs of the market segment.
  - 2. Your competitors' strengths and weaknesses in this market segment.

#### IV. Proposed changes to current middle-market commercial loan pricing

- A. Spell out in detail what specific steps could be taken to better refine your bank's pricing recommendations and guidelines for relationship managers in this market.
- B. Discuss the challenges and benefits, if any, of creating a database of comparable transactions to supplement the skills and customer knowledge of your relationship managers with analytically derived negotiating ranges for individual prospects.
  - 1. Would such an "internal loan pricing reporting system" help your institution better realize the full market value of credit by providing actionable insights into customer price elasticity? Explain the reasoning behind your answer.

#### V. Proposed changes to current incentive compensation system for relationship managers

- A. Describe (*invent*, if necessary) an incentive system that would reward relationship managers less for simply closing business and more for realizing the full potential profitability of relationships. Any such system should shift motivation away from simple deal volume and toward the better attainment of suggested prices and deeper customer relationships.

#### VI. Extra credit: Write a policy memorandum for signature by your bank's Board of Directors codifying and enacting your proposed pricing and compensation changes

This should include a clear, detailed, achievable, persuasive plan for implementing your recommendations – procedures, objectives, a managing group, reporting, and metrics, as well as the specific business value that you expect to create. The goal would be to embed a unified approach to price negotiations with a common process, language, and objectives, in the bank's business culture.

#### Regulators and holding companies

If you are a regulator, please select a bank and answer from that bank's perspective. If you work for a holding company, please select a bank within the holding company and answer from that bank's perspective.

#### Format

Your paper should be typed in a 12-point font, double-spaced, and no more than 12 pages long. Any tables, charts, graphs, or other supporting material should be included in an appendix and will not count against the 12-page limit. Pages **must** be numbered. Please include the **full text** of the specific question you are answering. Grammar, spelling, and punctuation are important, because grammar, spelling, and punctuation errors drive both the reader and instructor crazy.

Any material that has been borrowed, directly or indirectly, in whole or in part, from an existing source (inside or outside of GSBSLU) **must** credit the existing source. Changing a few words doesn't keep it from being plagiarism – it's the *ideas* that matter.

#### Confidentiality

We understand that your paper contains sensitive business information. We will hold it in strictest confidence.