WHY PLANNING AHEAD PAYS OFF BIG LEAGUE

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SITUATION

Two banks owned by the same holding company, Charter Bank Eau Claire ($590M) in Wisconsin and Community Bank of Chaska, Minnesota ($200M) processed with the same core IT vendor separately. Because they were running two distinct instances of the same core system, they were viewed (and priced) as two separate entities, despite the combined assets of $790M. This particular supplier bases their pricing on assets, which provides a disincentive for growth without the benefit of the lower cost of processing for a larger institution. The fact is it does not cost twice the amount to process a $1B as compared to a $500M bank. Industry estimates suggest an increase of 15 to 20 percent of hard-dollar cost for a service bureau to provide twice the computing and support capacity. The banks were considering a merger in the future, but were fearful of the repercussions that might be caused due to the existing contracts and asset-based pricing structures.

STRATEGY

Paladin assessed the situation, keeping in mind that the banks may merge and included merger-related terms into the new contract. After six months of intense negotiations, the supplier accepted the new terms.

A few months later, the banks did decide to merge, and a new contract from the supplier was sent over to the senior management. Unbeknownst to the banks, the new contract attempted to rescind the negotiated terms with a financial penalty for conversion and termination in excess of $1 million – for merging with a bank processed on the same core platform.

Because the holding company reached out to Paladin before signing the proposed addendum, they were able to preserve the pre-negotiated benefits and incentives for an internal merger, remaining safe from contractual legalese that vendors like to throw in in hopes of outsmarting their clients. It's an important lesson that although price focus is a major factor, the small details can be just as valuable.

RESULTS

- **Reduced existing cost structures by $2.2 million**
- **Mitigated $1 million in merger costs by avoiding to sign a tricky vendor proposal**
- **Contracts updated to market standard**