

**Bank Expansion via
Implementation of a café bank**

Community First National Bank



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Executive Summary

The intent of this capstone project is to propose an alternative expansion model to the board of directors and executive management team of Community First National Bank. This model involves expanding via the implementation of a café bank in Kerrville, Texas. Financial and non-financial components for such a strategy will be discussed throughout. The steps I have laid out are congruent with the bank's existing strategic initiatives. With the adoption of the new Kerrville 2050 plan, local businesses and government leaders are making the necessary moves for strong controlled growth over the next several years. ¹

Based on conservative assumptions, the café bank has the potential to bring in an additional \$25MM in low cost deposits, \$1.8MM annually in new loan originations and nearly \$100K in annual pre-tax revenue to the branch within five years. In order to achieve these results the basic steps needed for this process are listed below.

- Scout viable sites for the location of the café bank.
- Purchase a lot and construct a café bank.
- Partnering with local coffee shop/brewery pub Pint & Plow.
- Obtain pricing for the upgraded technology & installation.
- Recruiting, staffing & training for specialized positions within the café bank.

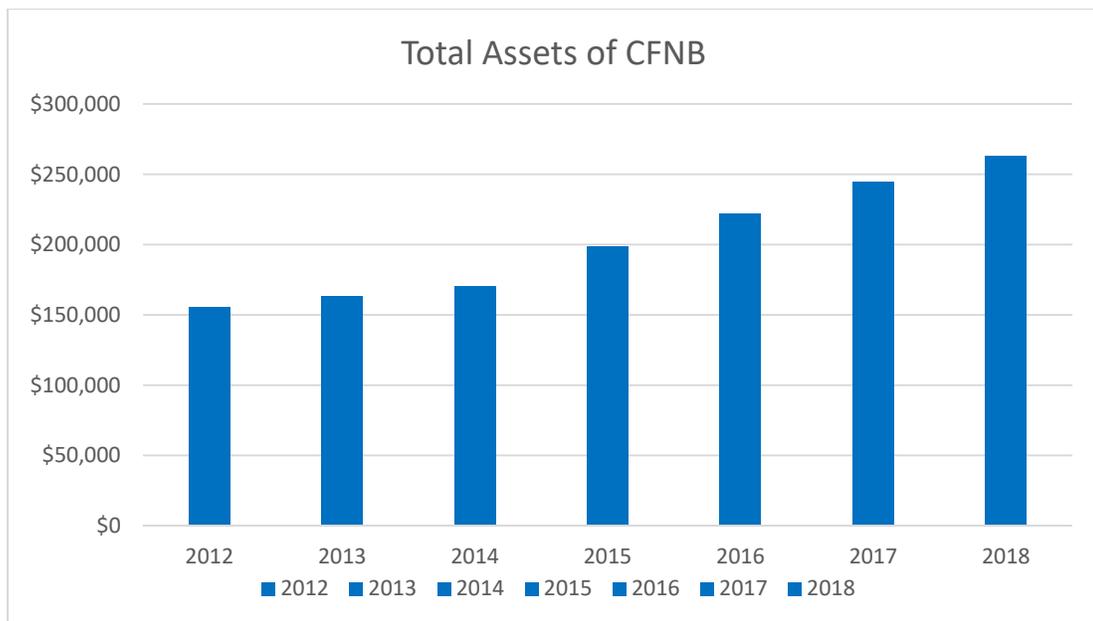
I have also analyzed the potential hurdles regarding this project and its implementation. I discovered that acceptance and support from the top down within the organization is crucial to the success of this project. A strong strategic and financial plan will help strengthen the confidence of our board and executive management team.

¹ <https://kerrville2050.com/wp-content/uploads/2018/07/Kerrville-City-Council-06-26-2018-Presentation-FINAL-rev-6-25-18.pdf>

Furthermore, strong buy-in from our employees and customers are as equally important. We will discuss in further detail how to obtain this universal buy-in from all parties throughout the course of this paper. Based on the results from my research and the strategic initiatives I have laid out, I recommend Community First National Bank move forward with the implementation of a café bank in Kerrville, Texas.

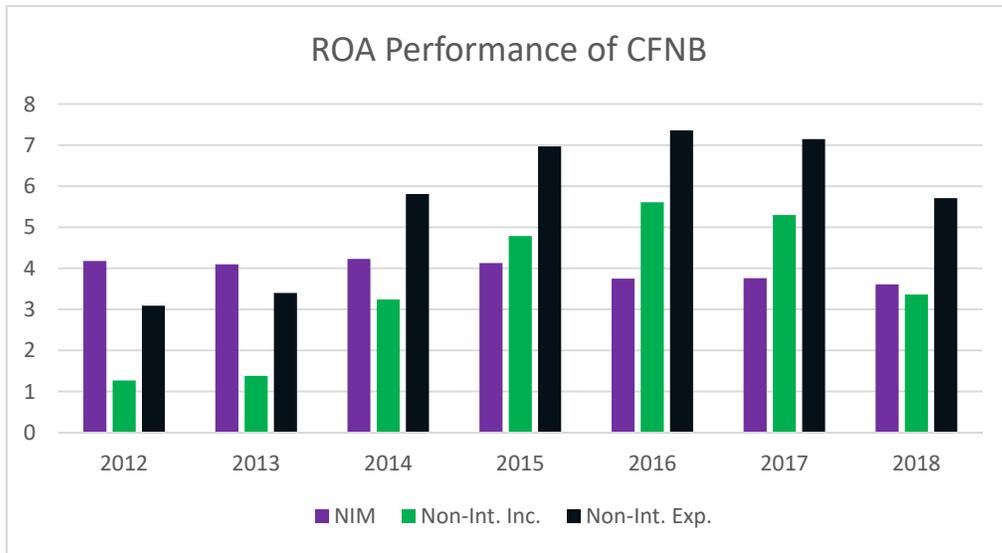
Introduction & Background

Community First National Bank (“CFNB”) received its charter on February 1, 2001 in Manhattan, Kansas. The bank was started as a response to the ownership change of several locally owned banks in the Manhattan market. It was built on the foundation of being locally owned and managed, a true “community” bank. The bank’s initial strategy, as any new bank, was to grow through core deposits and loans with a strong emphasis on loan growth. Historically, the bank has always had a large loan demand and maintained, an average loan to deposit ratio of 90% or better. The bank performed well for the first several years and continued to exceed peer group averages during the great recession of 2008. Between 2008 and 2013 the bank’s average ROA or net income was 0.90, which was, on average, better than 66% of its peer group.² During this time the bank continually increased its total assets year over year despite the economic downturn.



² UBPR Report-FFIEC Central Data Repository's Public Data Distribution-12/31/2013

In 2014, the board began looking for additional income sources outside of its main strategy of loan growth. Low rates coupled with increased regulatory and compliance costs caused the need for small community banks, not only Community First National Bank, to find other sources of income.

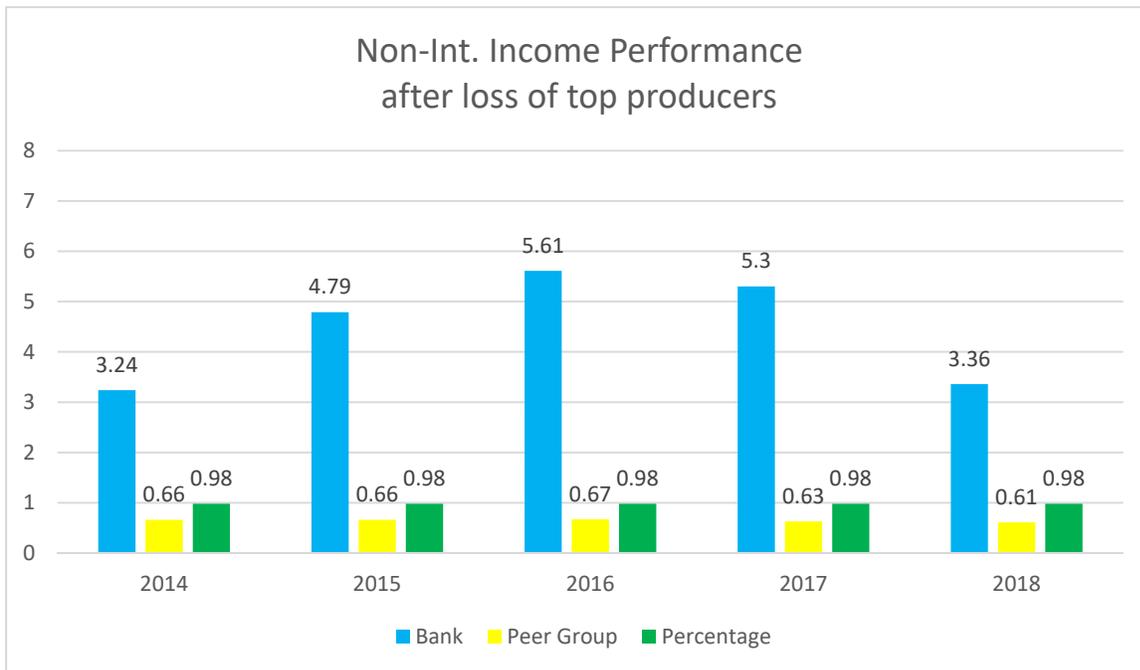


During the summer of 2014 the bank acquired a mortgage division in order to increase its non-interest income. The mortgage division had production offices in Kansas, Nebraska, Iowa, Missouri and Texas. These LPO's focus solely on originating residential loans sold in the secondary market. The graph below illustrates the improvement in non-interest income for the bank upon acquiring the mortgage company.



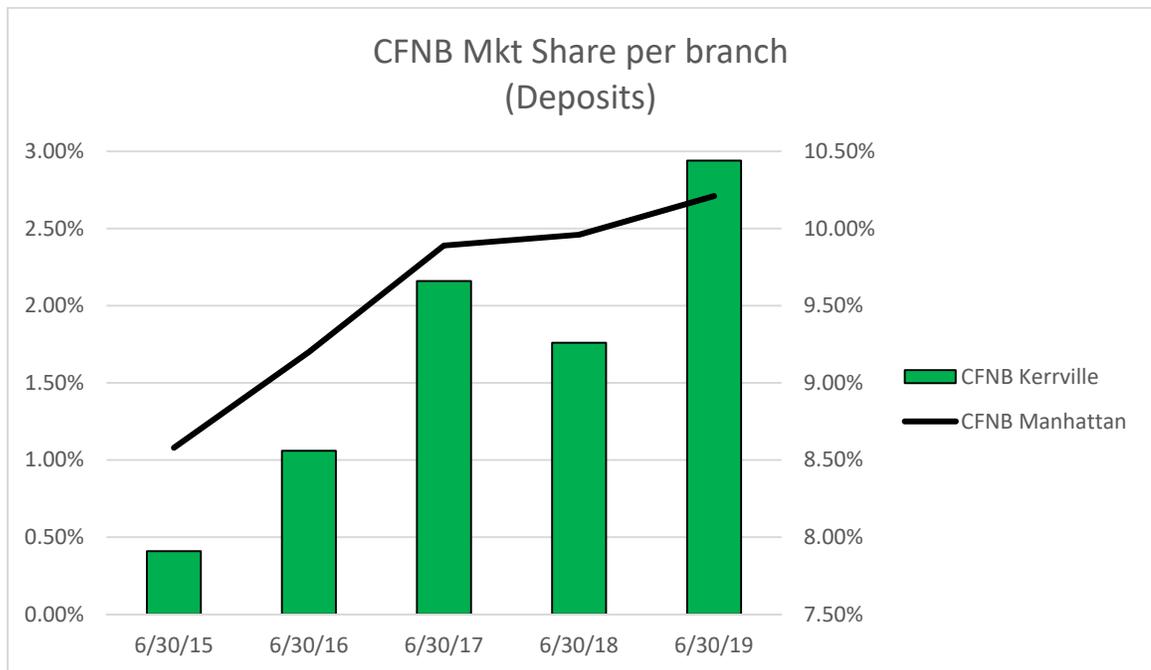
Also, in 2014 the bank opened a full-service banking branch in Kerrville, Texas. The primary goal of opening a branch was to diversify both loans and deposits. The board was comfortable with making both of these moves around the same time primarily because the branch would be managed by the former chairman of the board.

The mortgage company lost money for the first two years, however in both 2016 and 2017 it provided over \$1MM in additional income to the bank.³ The success during those two years was due to the approval of delegated underwriting for Federal Housing Administration. This helped improve pricing and more importantly, attract top quality mortgage loan officers. Because of these top producers the mortgage company was closing an average of 100 loans per month. In early 2018, there was a significant reduction in income and production. The primary reason for this was the loss of top producers from the Iowa office.



³ Internal Financial Statement-Community First National Bank-12/31/2016 & 12/31/2017.

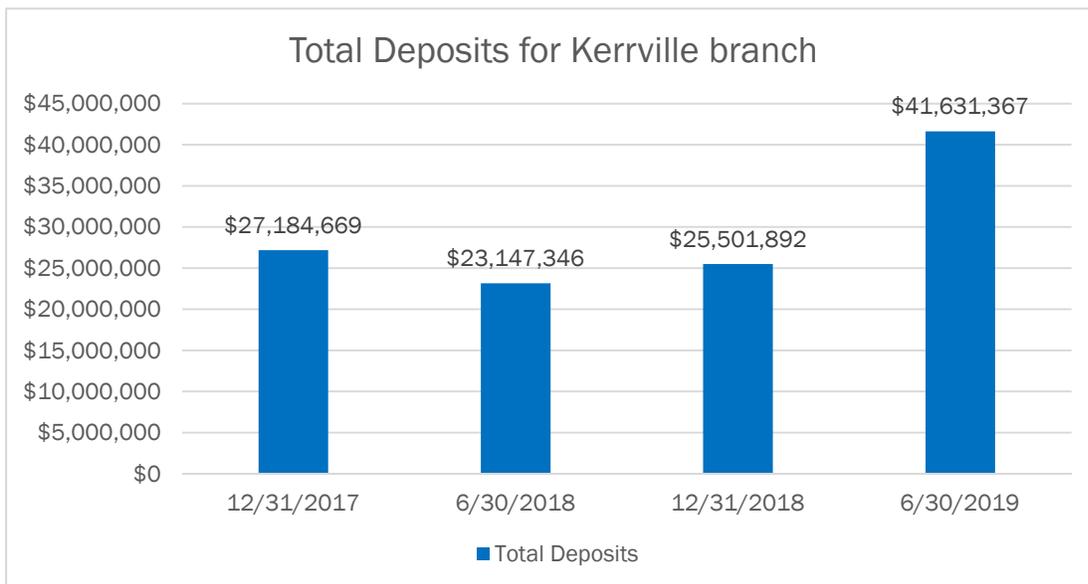
The Federal Home Loan Bank in Des Moines had a program that provided very competitive pricing that our mortgage company could not join. As a result the top producers left to join other banks that could participate in the new program. In addition, as rates began to move in late 2017 and early 2018 the market shrank and the competition between other mortgage brokers and loan officers put further strain on production. Because of this, the mortgage company worked to improve its pricing through a different product offered by the FHLB. This greatly improved their ability to be competitive when pricing and originating residential mortgage loans. This ultimately allowed the mortgage company to provide the non-interest income to the bank as it had in 2016 and 2017.



The graph above shows the Kerrville branches market share growth since June 30th, 2015. As you can see, the branch has significantly increased its deposit market share since that time with a minor decrease in June 2018 which was due to the branch not keeping up with local

market deposit rates. The Manhattan branch has been on a steady incline in market share and according to the FDIC deposit market share report they are 3rd out of 16 in total market share.⁴

The Kerrville branch as a whole has performed well since opening in 2014. However, with interest rates rising and local competitors looking for deposits the branch saw a sudden decrease in overall deposits in 2018. This arose from not adjusting the branch's deposit rates at a time when the local market was calling for an increase in rates. Historically, Kerrville has primarily been a place for banks to obtain deposits and ship them back to their headquarters or other locations where there is heavy loan demand.



The branch increased its deposit rates to the top of the local market and saw total deposit growth of nearly \$20MM in 12 months. A large portion of our deposits initially came from CD's. However, as more people heard about the bank and saw the type of service and products offered there was a consistent increase in core deposits. This demonstrates that the bank is growing with customers that are using Community First National Bank as their primary financial institution.

⁴ Offices & Deposits of all FDIC-Insured Institutions-Deposit Market Share Report-2015-2019. www5.fdic.gov/sodMarketRpt.asp?

Deposit growth along with the branch's total loan portfolio nearing \$30MM are positive indicators that the branch is moving in the right direction as well as getting closer to becoming a significant income source for the bank.

This is due to the city's socio-economic status and demographic. In the past there has been a high concentration of elderly retired individuals who at one time were high wage/income earners. Those individuals typically had large amounts of time sensitive money. As a result, there has not been high loan demand in Kerrville. This made it crucial for banks in Kerrville to be competitive and proactive when advertising deposit rates. The adoption of the Kerrville 2050 plan by both the city and county in May of 2018 provides the framework for change to the Kerrville market and its surrounding areas. This is crucial for all businesses including banks when preparing for the future.

The Kerrville 2050 plan includes a strong drive to bring in new business that will create job opportunities, build affordable for-sale housing and attract a new and younger workforce. The plan also addresses the need for the revamping and revitalization of our downtown and drawing visitors to Kerrville. The Kerrville Economic Development Corporation (KEDC) is aggressively pursuing a higher wage job creation strategy what will be developed through a broad based and inclusive planning effort that will be a key part for the 2050 plan.⁵

A five year higher wage job creation strategy will be developed based on industry research and higher wage job creation models focusing on the regions current and emerging advanced industrial sectors. The plan will drive the creation of higher wage jobs in the region overall through new-to-market business recruitment.

⁵ <https://kerrville2050.com/wp-content/uploads/2018/07/Kerrville-City-Council-06-26-2018-Presentation-FINAL-rev-6-25-18.pdf>

There are four areas of primary focus for developing a higher wage job creation strategy.

1. Business retention and expansion.
2. Strategic development leveraging existing community infrastructure.
3. Talent development.
4. Business recruitment.

Furthermore, KEDC will focus on the growth of primary jobs through the use of various tools authorized by stakeholders and other entities. To provide support for creating higher wage jobs and growth of primary jobs there are areas of priority that will be assessed. These priority areas are competitiveness improvement, marketing and promotion, business development and promotion, business networking and investor relations and engagement.

KEDC will target industries and sectors where Kerr County has a natural advantage. The sectors that will be focused on are:⁶

- Advanced Manufacturing
- Aviation, Aerospace & Defense
- Craft Agriculture
- Energy
- Food Processing & Storage
- Information, Analytics & Security
- Life Sciences & Healthcare

⁶ <https://kerrville2050.com/wp-content/uploads/2018/07/Kerrville-City-Council-06-26-2018-Presentation-FINAL-rev-6-25-18.pdf>

In order to be successful in the future the bank will have to continue to adopt new technology along with find cost effective ways to gather additional core deposits to facilitate loan growth. One option to promote growth while distinguishing ourselves from the competition is implementing a café bank. By exploring the idea of a café bank we can determine whether or not the concept can work in Kerrville or possibly move the idea to Manhattan. Without acquisitions, we will be challenged to grow the bank at a faster rate than the overall economy. With increasing loans being our primary growth strategy we will need to explore all options available to improve innovation and technology while still operating in an economical way.

This project will analyze the advantages and disadvantages of implementing a coffee shop style bank. The project will outline the necessary steps in starting, opening and operating a café bank, plus whether to buy or lease a location. We will also discuss the benefits and drawbacks this type of banking could have on the community.

Strategy & Implementation

Before we investigate what impacts a café bank might have and the technology needed to make it relevant and user friendly, let's define what a café bank actually is. If you have seen the Capitol One commercials, they look to be similar to an everyday urban coffee shop or café. They are built on the premise of obtaining deposits in markets where there is no physical retail presence. They typically offer coffee, food, free Wi-Fi, fee-free ATM's and iPads that you can use to access your account or receive financial advice/help from a universal banker. The café bank concept allows customers to get answers to everyday banking questions as well as manage their finances in a casual and hassle-free setting.

Community First National Bank would like to explore the option of expanding its current market share by implementing a café bank. Our executives and board agree that we must keep up with technology and be proactive in preparing for the future of banking. The café bank idea offers the opportunity for CFNB to be a pioneer in the new era. The bank is currently positioned well in both the Kerrville and Manhattan markets, operating in areas that complement each other well through the gathering of deposits and loan production. Though there are other ways that the bank could continue its growth and stay ahead of its competition, the idea of a café bank puts a new spin on traditional branch expansion through the use of technology and relaxed banking atmosphere. This project will explore both the financial and non-financial impacts of leveraging a café bank model for expansion.

Financially speaking, the primary goal of the café bank would be to lower our overhead and overall costs in our current markets. We would also want to gain an understanding of how the market will receive this new idea and how much yield the bank can gain in terms of new deposits

and loan growth. In 2016, we built the Kerrville branch's new location from the ground up, thus giving us a firm grasp on the costs associated with building a traditional, free standing bank.

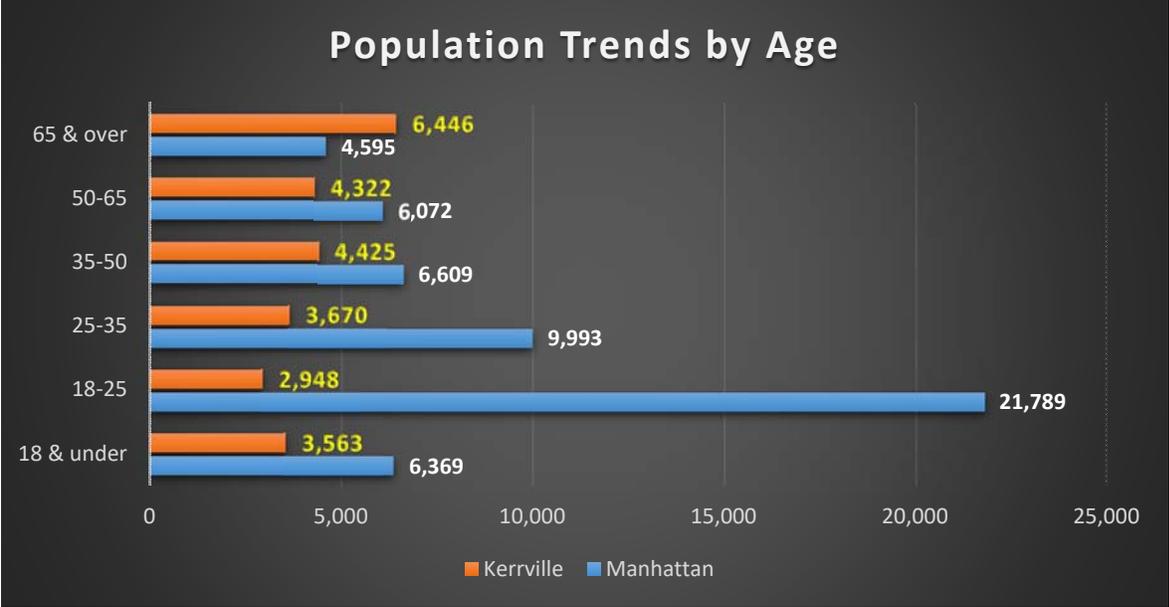
As a privately held community bank, expansion via a café bank represents a fundamental cultural shift for the company. Part of the non-financial analysis contained in this report will focus on how the company must change its current cultural paradigm in order to align with the future of banking all while maintaining sound and prudent compliance and credit standards. Part of my focus within this report will revolve around the implementation of the most new and innovative technology in banking, such as interactive teller machines and iPads used to open accounts and/or receive financial coaching.

Over the past year, CFNB has worked to upgrade its current technology and improve ease of access through our existing branch network. Those upgrades include adding Zelle and card valet to our online banking and mobile app as well as access to Apple, Google and Samsung Pay. By continuing to leverage this technology stack through the café bank concept, the company could provide a value proposition that does not exist within most community banks in small towns. This can be easily integrated through user friendly banking technology. For example, a customer can handle a majority of their personal banking through our upgraded app on one of the available iPads that would be located in the café bank lobby. The customer could even open an account, send money or lock their card without having to speak to a representative, all while enjoying a cup of coffee or pastry in a relaxed environment.

Conceivably one of the most critical outcomes of this project will be to change the cultural paradigm within the executive management team pertaining to investing in new technology and new innovative ways for expansion. All three branches of CFNB were established under a De Novo expansion strategy. As a locally/family owned private institution, CFNB has been reluctant

to expansion but has remained focused on conservative and traditional expansion practices. As the company looks to continue its trend of growth and profitability, it must be open to various expansion concepts that differ from previous methods.

Kerrville’s emerging demographic market the 18 and under category as well as the 25 to 35 age groups. As this trend continues to increase the company must find a way to reach new customers in a sustainable and sound manner, while appealing to the younger generations. The graph below demonstrates the population trends by age in Kerrville and Manhattan according the U.S. Census bureau.⁷



In my role as VP of commercial lending and branch manager of the Kerrville location, I am tasked with overseeing the day to day operations as well as growing our loans and overall customer base. I have been mentored on sight by the bank’s main founder on a daily basis since we opened the Kerrville branch together from the ground up six years ago. Because of this, the

⁷ <https://www.census.gov/quickfacts/fact/table/kerrvillecitytexas/PST045218>

branch is generally allowed to operate as an individual branch. I started off by bringing customers to the bank as well as originating, underwriting and processing. I was also responsible for booking all loans, which included consumer, commercial and mortgage loans. My role has shifted over the years as I have taken on an additional role of monitoring the branch's balance sheet and learning how to run this location as if it was its own bank. I was given this task by our executive team in order to help me grow as a banker and provide me with the knowledge needed to take on projects such as this for the entire bank.

My role in the café bank project would include, but not limited to:

- Scouting viable sites for the location of our new café bank in areas previously defined.
- Recruiting/staffing employees and designating responsibilities and goals for each individual. We would start off between 3 to 4 employees, which is similar to other café bank's I have visited.
- Obtaining prices for upgraded technology & installation. This will be explained and explored further in the financial impact section of the paper.
- Designing the layout of the café bank through a co-effort with a local coffee shop partnership. The layout will be a combination of new age with a strong presence native to the Texas Hill Country. CFNB Kerrville has already implemented this into its current location.

As this project represents a fundamental shift compared to our previous expansion model, I feel as though my involvement could prove to be integral to my future development within the organization, should the effort prove to be successful.

The executive management team at CFNB has studied what initiatives to keep CFNB at the top of the competition, these are our top ten.

1. Ability to open accounts online.
2. Input Apple pay, Google wallet and Samsung pay.
3. Person to Person technology through the use of Zelle through our system.
4. E-mail & Automatic alerts through our website and mobile app.
5. Specialized treasury management services.
6. Card valet through our mobile app.
7. E-sign all account and loan documents.
8. The ability for customers to fill out and submit online all applications and personal financial statements.
9. Assimilate AI and Block chain technologies into our systems.
10. Customer Relationship Management (i.e. digital banking, loan origination and account opening systems).

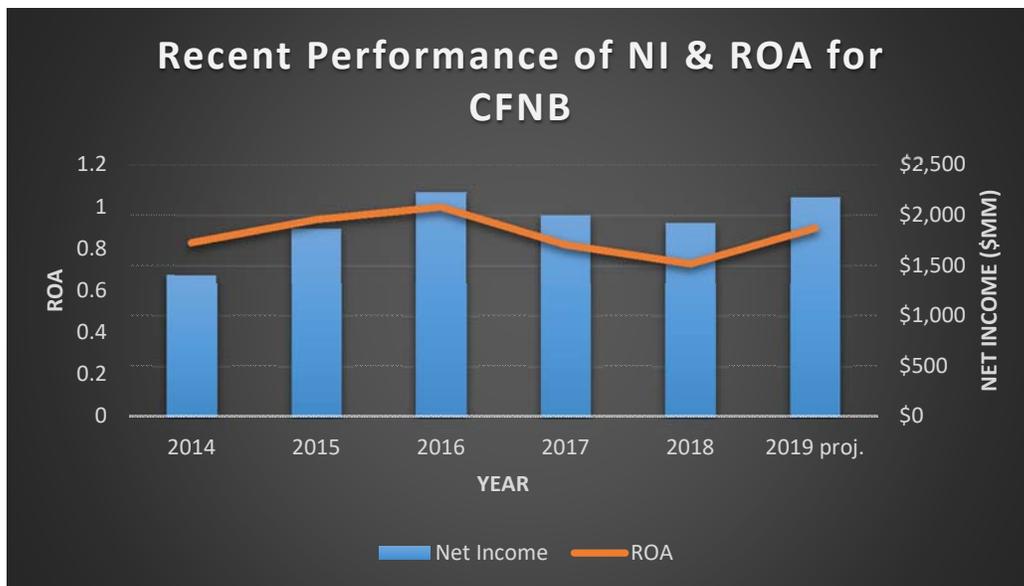
With that list we set goals for implementation as well as reception from the customer. This conversation sparked a deeper discussion into strategic impact for the company as we plan for long term possibilities. Our team decided we will explore ideas that are “outside of the box” and unique to community banking. This project is a start towards the company moving to develop a long term vision and plan.

CFNB recognizes that financial strength and profitable growth are critical to this plan and its long term success. Over the next ten years, the bank could realistically double in size with profitable compounded annual growth between 7% and 10%. In order to set and achieve profitable growth targets, the company must continue to evolve its tools and ideas used for

expansion. They must also continue the drive towards niche based products that focus on supplying added value to our customers while maximizing the banks return. Specific niche areas include top level technology, C&I lending, small business banking, origination of secondary market mortgage loans as well as growing core deposits. By focusing on these areas the bank can sustain strong year over year growth as well as solidify customer relationships.

As with any company, sustained profitable growth is a requirement to remain relevant in any industry. The financial metrics below illustrate the banks profitable growth over time with a minor dip in 2017 and 2018 which was primarily due to the drag from the mortgage company.

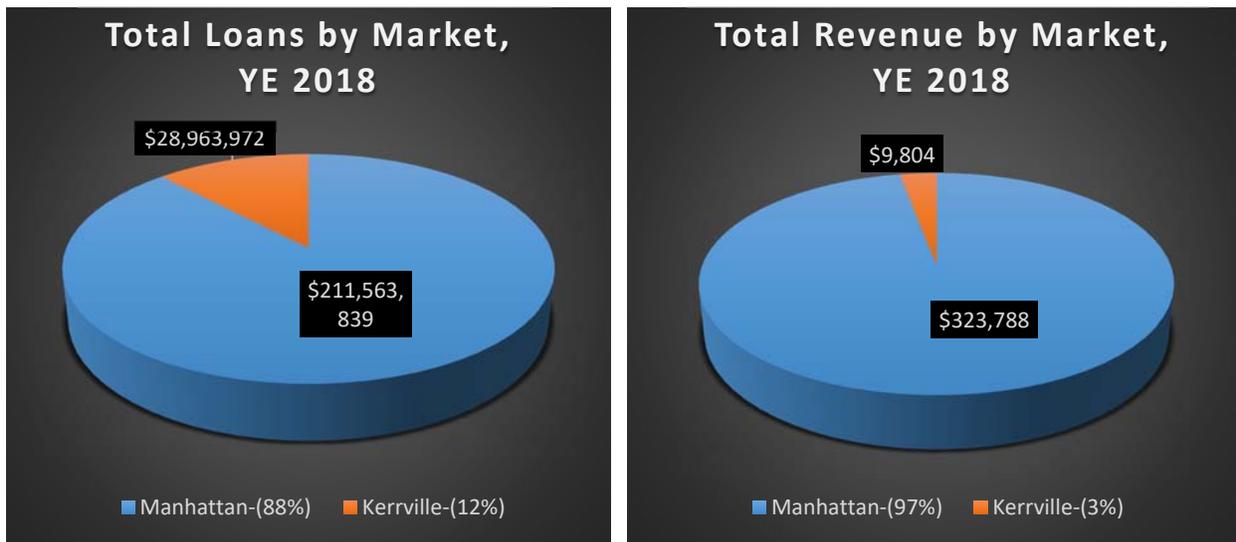
⁸The graph also indicates the needs to find creative ways to increase growth and profitability.



Relative to market focus and future investment around expansion, the emphasis and investment will be on the 25 to 40 demographic along with new and young small businesses.

⁸ <https://cdr.ffiec.gov/public/Reports/UbprReport> Community First National Bank: 12/31/2018 Internal Financial Statements-Community First National Bank 12/31/2014-12/31/2018.

The company has a strong relationship and following with the 40 and over age group, this project will provide access to the younger demographic and offer a new vehicle for growth and expansion. As you can see from the graphs below, the composition of CFNB’s revenue and assets within its Kerrville and Manhattan markets are significantly lopsided.⁹ These representations show that although the Kerrville market opened in October of 2014 there is a strong need for continued growth and revenue.



As previously stated, there is a growing trend in the younger demographic in Kerrville which is a driving force in the development of newer small businesses either opening or moving to Kerrville. By aggressively targeting this untapped demographic for its café bank expansion model, the company can help drive its balance sheet and income statement to be more reflective of its long term vision and plan.

While the advantages of a café bank expansion may vary according to each organizations strategic focus, CFNB believes that this approach will allow for the following:

⁹ Internal Financial Statements-Community First National Bank: YE 2018 FS

- **Mitigate Cost of Expansion:** The cost savings of opening a café bank versus a full service branch are an attractive feature of this idea. Although the initial start-up costs, primarily the technology, may be high, the cost savings over time could have a positive effect on the company's bottom line. The dynamics of these savings will be expanded further in the financial impact section of the project.
- **Staying Within our Defined Market Areas:** Implementing these café bank or banks in new market areas without an established presence could detract from the company's corporate culture because of the unique and relatively new idea. By strategically placing a café bank in its existing defined market areas, CFNB will still allow its officers and employees to have personalized access to key decision makers of the company. This component of doing business has been a major factor in our growth and relationships with our customers.
- **Brand Recognition and Promotion:** This is a major part of differentiating ourselves from our competition. Our brand currently signifies community and is believed by our customers in both Manhattan and Kerrville. By being involved in the small town community the company is able to reach out and connect with people from all walks of life. CFNB must continue to find ways to promote its likeness to new customers if it wants to achieve long term growth. While our current customers know and understand our brand, the implementation of a café bank would provide another avenue to bring in a different section of the market.

As with any new endeavor there are both risks and rewards that follow. In order to be properly prepared, the examination of potential future opportunities and setbacks must be explored. The primary objective with any type of expansion is obtaining organic customer

growth. Bank products have become increasingly commoditized over the past few years and new FinTech companies are becoming progressively tougher to compete against. A potential set back would be the expense of purchasing and installing the robust technology needed to exert a successful attempt at implementing a café bank. Through the strong technology that would be installed, interactive teller machines could be staffed by current employees at an existing branch. Stability in the workforce is obviously paramount, however if the bank was forced to deal with turnover at a high rate the proposed expansion could struggle. If CFNB should prove to be successful at implementing and operating a café bank, the company could use this as a template for other expansion efforts as well as create new concepts for expansion. While understanding the core of each market's demographic and economic potential is crucial to any bank's success, the ability to follow a proven template would also provide the bank with a certain amount of confidence as it expands its footprint.

This conversion assumes that the existing market economy could offer the necessary housing and employment opportunities to attract the type of demographic that would prefer a café bank over a traditional branch. In regards to the Kerrville market, as mentioned in my introduction, the Kerrville 2050 plan and its partnership with the KEDC set forth by the city and county, harbors a unique opportunity for the bank to expand its wallet share and grow organically. This plan includes growing and improving housing affordability as well as increasing employment opportunities for a younger work force.¹⁰ We will investigate later in this project the type of demographic that is optimal for a café bank as well as explore potential changes that would make a café bank ideal for the primary market demographic.

¹⁰ <http://kerrville2050.com/wp-content/uploads/2018/07/Kerrville-City-Council-06-26-2018-Presentation-FINAL-rev-6-25-18.pdf>

Corporate buy in from the board and executive management is essential in order for a strategic attempt like expansion through a café bank to be successful. One potential obstacle in this effort could arise if the company fails to properly communicate the direction and desired outcomes of establishing a café bank. It would be critical for the bank's public relations and marketing division to execute a well thought out announcement to both its external and internal stakeholders. The employees and managers overseeing the café bank must feel as though they have the full support of all functional areas of the bank. If the employees and managers did not have that particular support, the café bank could suffer and ultimately not achieve the goals previously set forth. This is also critical for our partners in the food and beverage aspect of this project. A monthly meeting between myself and the executive management team of both the bank and our partners, would be scheduled to monitor how the partnership is working and if there are any ideas or suggestions on how to become more efficient as a whole as well as any potential products or promotions we could offer.

Another aspect of this project would be for the bank to review its processes involving branch expansion. CFNB is well versed in deploying full scale bank branches, it might need to revise its standard operating procedures in order to successfully set up a café bank. There would most likely be some carryover from its current processes and procedures, a new idea like a café bank would require some additional thought and new approaches to branch expansion. The planning for teller specific IT and security items and practices would be crucial to branch deployment of this type. The bank would also need to fully understand this concept from the customer's point of view. With this type of set-up, the staff and customers will need to be comfortable with the layout of the branch. Staffing procedures would be scaled back due to the level of technology the branch will have. The interactive teller machines and iPad's providing financial services and

education would be the central point for nearly all customer service related matters. It is likely that there will be one to two universal bankers and one officer completing the staffing requirements for the café bank.

The first step to this implementation strategy is to choose whether to buy, lease or build and find the location to do so. The bank must also decide how it will provide the coffee or café aspect of the expansion. While it would be preferred for the bank to partner with a local coffee shop or restaurant, the dynamic of intermingling these two industries will play a pivotal role in the atmosphere and success of the café bank. I have spoken with a local business owner that is interested in partnering with the bank on this project. Jeremy Walther and his brother Jake own “Pint & Plow,” a craft brewery, espresso/coffee bar and restaurant. Like CFNB, they are working on building a brand in our community and have done a fantastic job of that so far. They opened their doors in 2015 and they have developed a sterling reputation by separating themselves from the local competition and the stigma of a typical urban restaurant/coffee bar. The atmosphere they provide is a mix of new age with a strong feel for the Texas Hill Country and the local culture. The bank would mimic this atmosphere as we have already taken an approach to this very culture and aesthetic feel with the Kerrville branch. Pint & Plow possesses the necessary expertise, products and community feel that is in line with what CFNB wants to achieve with opening a café bank. After discussing this idea with the owners, we both have agreed that our overall goal with this project is to have a place where people can gather to enjoy food and beverage while also handling their banking in a non-traditional environment.

The design of the café bank will provide multiple meeting areas as well as a private room that community and public organizations can use for monthly meetings and fellowship. The Kerrville Area Chamber of Commerce holds monthly “coffee talks” and they have already

mentioned that a café bank like ours would be the perfect location for future meetings. These coffee talks are open to the public at no cost and they cover a variety of focuses for local businesses and non-profit groups. Topics and courses range from tax help, accounting, advertising, financial education, body wellness and fitness. We believe welcoming all of the community regardless if they are an existing or potential customer allows for several individuals and/or groups that could hold meetings at the café bank.

If we were to move forward on a partnership with Pint & Plow we would need to find a location that is beneficial to both parties in terms of the area of town. Since Pint & Plow is located near downtown and CFNB is located on the western side, we agreed that the south side of Kerrville might be the best option. This particular area has several heavily trafficked intersections, a variety of businesses and ample housing areas that would provide the exposure needed without taking away from both parties' current locations.

There are several buildings on the south side of Kerrville that we could rent; however, CFNB's executive management as well as Jeremy and Jake of Pint & Plow believe it would be best to find a location suited to build. The bank would be responsible for purchasing the property and the majority of the construction cost, while Pint & Plow would cover the cost of its equipment and area of operation within the building. The bank is comfortable incurring the majority of the upfront expenses to ensure that both parties are pleased with the set-up and interior arrangement. Jeremy and Jake understand their minimal upfront cost in this project and have submitted that after a short trial period the bank and Pint & Plow will come to an agreement of monthly rent or sharing profits with CFNB should it be viable. We want both parties to be successful therefore, a firm agreement of payment terms between the two entities is not a major priority at the moment.

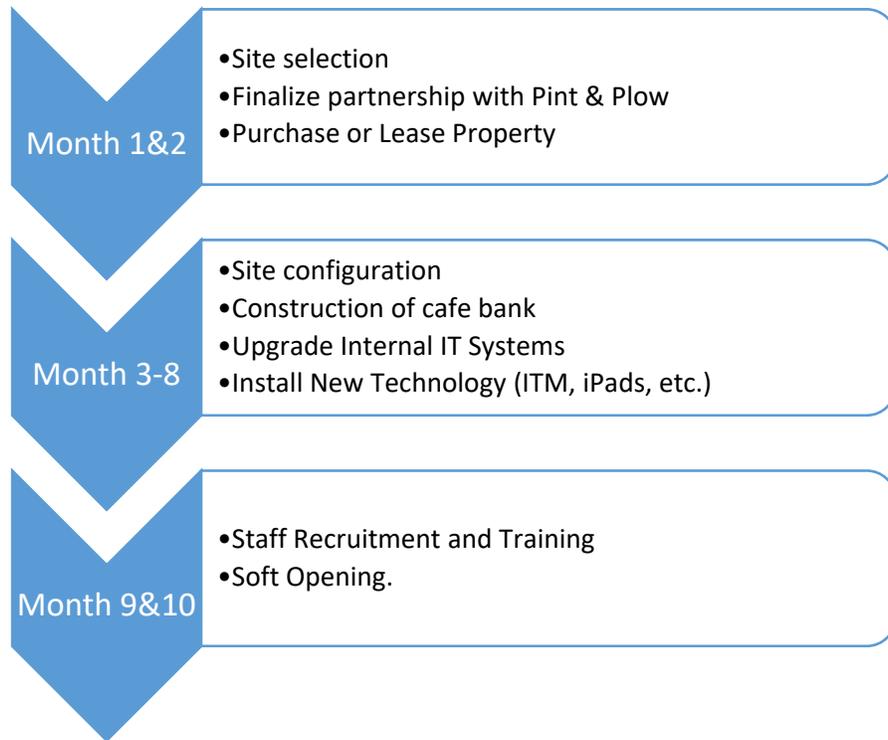
After visiting multiple café banks in San Antonio and Austin it was discovered that the staff will need to be well rounded and familiar to all aspects of banking. Given the company's existing back room operations, CFNB could establish a café bank without any significant human capital expenditures. The current structure of the company's credit, processing, documentation and workflow departments would allow for substantial expansion of its deposit base and loan portfolio without requiring additional staffing needs.

All CFNB employees are cross-trained and can operate multiple jobs within the bank. This is especially true in our Kerrville branch due to the small staff size at this location. Our tellers and FSR's are equipped to answer questions and handle actions dealing with accounts, online banking and lending. Operating this way since day one has allowed us to build a reputation with our customers based on our knowledgeable and helpful staff. This is an aspect of the small town café bank that will differ greatly from the larger regional banks that are utilizing this concept.

Their employees typically handle banking while also serving coffee and pastries. With the partnership of Pint & Plow, our staff will be able to take care of the banking business - leaving the café aspect to the professionals. Furthermore, it allows the bank to receive help in advertising and brand recognition and potential added revenue through monthly rent or profit sharing. This could allow us to continue seeking new expansion endeavors as well as product differentiation and help. The growth of the company through Pint & Plow's loyal customer base could bring a significant amount of organic growth. We will explore further into this part of the project in the coming sections.

The timeline of launching a café bank would involve several different teams working together to configure a site that would be the first of its kind for the company. The executive management team would need to be involved in scouting various locations and negotiating the terms under which CFNB would occupy the newly acquired space. The choice to buy versus lease and the financial implications of each will be discussed further in the financial impact section of this project. Once the site was selected, the company would need to assemble a team to work directly with the executive management team. This team would ensure that the café bank is set up both internally and externally proper for the theme it is trying to convey while also appealing to the local culture. There would also need to be ample time to train and transform the proposed café bank staff to universal bankers.

Lastly, it will be very important for IT, security officer, cashier and human resources to work together to ensure that all of CFNB's core systems and new technology are connected and working properly. There will more than likely need to be updates and conversions to our internal core system and IT systems in order to install and operate the new technology properly. The following project timeline illustrates the steps that will be taken in order to implement a café bank.



The company should be able to implement a café bank within ten months as long as they have adequate resources and support from the board and executive management team. It is likely that various obstacles could arise during the implementation process especially due to the lack of a procedure or template to follow. However, if the IT system upgrade and installation should cooperate with the timeframe, the company should be able to have a soft opening within six months of the initial start date.

Financial Impact

This section will focus on the cost versus savings and the impacts this project will have on the banks' balance sheet and profitability both initially and over time. We will also examine the duration it will take for the bank to recoup its investment. This assignment will be a significant undertaking for the bank that will have new and possibly unexpected costs to complete.

However, if the financial analysis proves to be a prudent move, the support from customers and executive management will only strengthen this projects probability for success. The first step in understanding the total budget of this venture will be to determine the cost of purchasing the piece of property or land to build the café bank versus leasing. Depending on whether the property purchased had an existing structure or was a vacant lot would determine if the bank could remodel or would need to build a new building. If the bank was to lease a space construction cost would still come into play in regards to remodeling or build to suit.

Below is a breakdown of land costs that would suit this project in regards to location and size. The figures are based on current market data from local realtors as well as MLS listings.

Real estate costs for ideal size and location for a café bank.			
Type of RE	Size of Lot	Location	Listing Price
Office Bldg.	12,944 sq. ft.	2125 Sidney Baker St./North Side	\$1,250,000
CML Lot	2.8/Acres	1311 E. Water St./East Side	\$1,200,000
CML Lot	4.3/Acres	Loop 534/East Side	\$449,000
CML Lot	1.94/Acres	2190 Bandera Hwy/South Side	\$345,000
Office Bldg.	4,213 sq. ft.	1700 Broadway/East Side	\$329,000
Office Bldg.	1,452 sq. ft.	400 Thompson Dr./South Side	\$298,000
CML Lot	1.02/Acres	2411 Memorial Blvd./East Side	\$296,000
Office Bldg.	12,400 sq. ft.	2210 Bandera Hwy/South Side	\$496,000
Office Bldgs. (2)	3,310 & 3,388 sq. ft.	843 Sidney Baker St./North Side	\$674,900
	Avg. Price for Office Bldg.		\$609,580
	Avg. Price for CML Lot		\$572,500

You can gather from the chart on the previous page that there are a limited number of locations that will be acceptable for a café bank. There are also a wide range of sizes in regards to square footage and acreage. The larger lots or additional building space could be leased to other businesses or kept for future endeavors the bank might explore. As the market currently sits, the bank should be prepared to spend at minimum \$570K on location alone. According to local commercial contractors, construction cost is currently ranging from \$250-\$300 sq.ft. This coupled with the cost of the dirt alone would result in a significant investment on the banks part.

The next option would be to rent a space and either build to suit or remodel. After speaking with several real estate agents, I found that there are more options that are better suited for our endeavor if we were to lease a space. Depending on the lease terms and the cost of renovation this could be helpful cost saver for initial implementation. Additionally, it provides a temporary option to test the project without initial long term risk. Although, the ultimate goal would be to move into something more permanent after the café bank was established and profitable. We will examine which option is best financially later in this financial impact analysis.

<u>Rent/Lease costs for location of a café bank.</u>			
<u>Type of RE</u>	<u>Sq. Ft.</u>	<u>Location</u>	<u>Rent/Mo.</u>
Office Bldg.	2,666 sq.ft.	2210 Bandera Hwy/South Side	\$4,000
Office Bldg.	3,200 sq.ft.	93 Coronado Dr./West side	\$2,400
Office Bldg.	1,680 sq.ft.	827 Junction Hwy/West side	\$1,680
Office Bldg.	3,682 sq.ft.	1456 Sidney Baker/North side	\$3,387
Office Bldg.	2,286 sq.ft.	236 Junction Hwy/South side	\$2,951
<u>Avg. Mo. Rent/Lease Cost:</u>			<u>\$2,884</u>
<u>Avg. Annual Rent/Lease Cost:</u>			<u>\$34,604</u>

After visiting other established café banks in both Austin and San Antonio, I found that they ranged in size at approximately 3,500 ± sq.ft., with the largest being over 4,206 sq.ft.¹¹ I gathered that the square footage needed to accomplish our goals of implementation and accommodate customer quantity as well as technology, our café bank will not need to be similar in size. Due to the size of our community and our customer base, I feel we can operate efficiently in a 1,200 sq. ft., preferably 1,400 to 1,800 sq. ft. Although smaller than typical café banks, this will allow adequate space for the coffee/pastry bar from Pint & Plow as well as provide comfortable lounging and meeting room space for customers as well as the community and local organizations.

In order to create the desired aesthetic look and atmosphere of the café bank we will need to include the cost of hiring an architect as well as an interior decorator. Both of these aspects are crucial to the initial acceptance of our current and future customer base. The architecture firm will need to be well versed in modern design while still keeping the nostalgia and beauty of the Texas Hill Country. The interior decorator will need to have many of the similar skills and knowledge.

Obviously this level of skill in these professions will cost more than average but will be necessary in order to complete the project in the manner we desire. We can confidently estimate that the cost of the architect will range from \$60 to \$125 per hour, not including draft person fees which could add another \$800 to \$2,800 to the total cost.¹² The cost of the interior decorator will be easier to recognize due to the bank using Nancy Watts of Nancy Watts Interiors. She was the designer of our Kerrville branch and has just the type of experience and skill that will fit with our

¹¹ <http://www.weitzmangroup.com/properties/6th-congress-retail-capone>

¹² Peter Lewis Architects & Associates-Kerrville, Texas (Peter Lewis, Owner); <http://www.homeadvisor.com/cost/architects-and-engineers/hire-an-architect/>

design desires. Nancy is considered a high-end decorator locally but compared to national average she is middle of the road in terms of cost. After speaking with Nancy about this project and what I am looking to accomplish she estimated approximately \$10K for her services.¹³ This in line with what her fee was when we built the Kerrville location.

Another cost we have to consider is furniture cost, Nancy will be helping us pick out the furniture we need but the purchasing of the actual furniture is not included in her cost. Based on estimates from multiple office furniture supply companies it is fair to say that we will need to be prepared to spend between \$55K and \$70K.¹⁴ This cost range is based on the maximum 1,800 sq. ft. and provides a max look at total furniture cost. Budgeting in this range will allow for all necessary office furniture needed to fill the bank. This price range is also based on medium to high-end furniture. Although we will most likely not purchase all high-end furniture, it is important to note what the ceiling could be for this particular implementation need.

A key component and cost of this entire implementation of a café bank project is the technology. In order to achieve the desired results, we will need to have the newest and most innovative tech products in banking. As previously mentioned, there will be interactive teller machines, kiosk and tablet areas, fast/free Wi-Fi, plus upgrades to our internal core system as well as our mobile app and online banking. The cost breakdown on the following page shows the banks initial and future ongoing costs for the proposed technology of the café bank.

These figures are based on quotes from our Fiserv sales representative that would be helping us with finding and purchasing this type of technology. I have also verified through other various

¹³ Nancy Watt Interiors-Kerrville, Texas (Nancy Watts, Owner); <http://www.huffpost.com/entry/room-makeover-how-to-budget>:
<http://www.homeguide.com/cost/interior-designer-cost>

¹⁴ <http://thespaceplace.net/furniture-budget-pricing-matrix/www.rosiinc.com/budget-calculator/?v=75>

sources the pricing provided by our Fiserv representative. The actual equipment cost along with the installation cost will be amortized over 5 years.

Technology Implementation Costs			
One-Time Costs			
	Unit Price	Qty.	Total Cost
ITM Hardware Cost	\$60,000	2	\$120,000
ITM Installation/Software Cost	\$95,000	2	\$190,000
Tablet Kiosk Hardware & Installation Cost	\$2,250	3	\$6,750
Upgrade of Internal Core System (Fiserv)	\$7,500	1	\$7,500
Upgrade of Online Banking/Mobile App	\$1,850	1	\$1,850
Installation of Wifi & Internet	\$1,900	1	\$1,900
Furniture & Fixtures	\$64,000	1	\$64,000
Subtotal	\$232,500		\$392,000
Ongoing Annual Costs			
	Unit Price	Qty.	Total Cost
ITM Maintenance/Support Cost	\$10,000	2	\$20,000
Tablet Kiosk Maintenance/Support Cost	\$1,000	3	\$3,000
Core System Maintenance/Support Cost	\$1,000	1	\$1,000
Wifi & Internet Annual Cost	\$2,400	1	\$2,400
Subtotal	\$14,400		\$26,400
Grand Total Technology Cost	\$392,000		
<i>amortized over 5 years</i>	<i>\$78,400</i>		

¹⁵ After the building and finish out along with all installation and support completed we will need to begin recruiting staff for the café bank as well as training them on the new equipment. Based on the café banks I have visited there are typically four to six employees on duty. Due to our smaller building size and the adoption of one to two interactive teller machines, it is my opinion we can properly staff the café bank with one to two employees. Those individuals would need to be well rounded bankers, versed in tellering, accounts and lending.

¹⁵ <https://blog.qualitydatasystems.com/itm-cost>; www.thefinancialbrand.com; www.42gears.com; www.fiserv.com

As stated previously, the way our small branch in Kerrville operates we are already equipped with these types of employees. Having this staffing luxury will allow us to cut down on recruitment and training time. By having the interactive teller machines that have the ability to act as ATM's, take deposits as well as handle coin, we can have our tellers at other branches cover those ITM's. Preferably we would want to use the teller's in Kerrville due to the location of the café bank and the familiarity our customers have with our staff. Although if needed, we could connect with one of the branches in Manhattan to help cover. Allowing those tellers that are already employed to handle transactions through the ITM's will cut down on the need for the typical staffing requirements for a branch. More importantly, the cost savings in salaries for the bank is a critical part of the projects financial impact and success.

As we saw in the previous page, the implementation cost of the technology is much higher than that of a traditional branch bank technology needs. This was understood when taking on this project, however a key driver financially was the ability to cut down on typical overhead of a branch bank, i.e., salary expense, office supplies and other classic branch costs. The savings on these costs over time will allow the bank to recapture its initial investment. The chart on the next page shows the major expenses of our current branch and the café bank. Those figures are based on actual expenses from our Kerrville branch as well as the pricing/costs provided through Fiserv as well as other vendor outlets.¹⁶

¹⁶ <https://www.thefinancialbrand.com>; www.fiserv.com; <https://blog.atrivity.com/how-to-use-technology-to-reduce-compliance-costs-in-banking>; Community First National Bank-Internal Financial Statements

Current V.S. Future Costs for Operating a Café Bank					
<i>(figures are annualized)</i>					
Salary Expense	Current	v.s.	Add'l Cost	v.s.	Total
Tellers (2)	\$56,803		\$0		\$56,803
FSR's (3)	\$95,321		\$0		\$95,321
<u>Possible Additional Hire</u>	<u>\$0</u>		<u>\$32,800</u>		<u>\$32,800</u>
TOTAL	\$152,124		\$32,800		\$184,924
Other Expenses					
Office Supplies	\$31,041		\$12,521		\$43,562
Maintenance & Support (Technology)	\$82,362		\$36,000		\$118,362
Additional Training	\$18,318		\$1,500		\$19,818
Telephone & Utilities	\$17,453		\$2,400		\$19,853
<u>Other Professional Services</u>	<u>\$2,932</u>		<u>\$1,292</u>		<u>\$4,224</u>
TOTAL	\$152,107		\$53,713		\$205,820
Non-Interest Income					
Lease Income from Pint & Plow	\$0		\$30,000		\$30,000
TOTAL	\$0		\$30,000		\$30,000
GRAND TOTAL:	\$304,230		\$56,513		\$360,743

These expense items do not include all expenses for the current branch or the café bank, however these are key expenses that provide a realistic picture of the type of savings the bank could recognize by implementing a café bank versus a typical branch. The potential revenue should be noted as well. Although there is not a compensation plan between the bank and Pint & Plow the lease income at market rate provides a solid additional source of revenue. A plan could be devised between the two entities that was based on a percentage of profits from Pint & Plow. This could be a lucrative opportunity for the bank should the project be a success for both parties.

We have discussed the initial and ongoing costs associated with this project individually, however we have not seen what the total project cost will be or when we expect to recoup our investment based on our revenue projections.

On the next page you will find a complete breakdown the total initial project cost as well as initial implementation cost needed to open a café bank. The table also represents the difference between building on a vacant lot and remodeling. You will see that option #1 is actually the most optimal financial choice for this project. The cost to rent and renovate a space after further digging shows that it would be an imprudent financial decision to invest that amount of money into a space that the bank does not own. These figures were based on actual quotes from local contractors, realtors and sub-contractors. Those figures were also verified through other outlets and vendors both regionally and nationally.¹⁷

Therefore, by purchasing a lot and building the café bank from the ground up the bank can put itself in a better investment position as well as not be inhibited by any barriers associated with a current building or lease space. However, it is still a workable option to purchase a current structure and remodel to our specifications. That being said, my recommendation would be to purchase a lot and build from the ground up.

¹⁷ <http://loopnet.com/texas/kerrville>; <http://rsmeans.com/re-model/pages/bank>; <http://www.homeadvisor.com/cost>

Total Initial Project Cost of Implementing a Café Bank.					
Real Estate Cost	Option 1	<i>v.s.</i>	Option 2	<i>v.s.</i>	Option 3
Renting/Leasing Cost (12/mo.)	\$0		\$0		\$34,604
Lot Purchase	\$572,500		\$0		\$0
<u>CML Building Purchase</u>	<u>\$0</u>		<u>\$609,580</u>		<u>\$0</u>
Total	\$572,500		\$609,580		\$34,604
Construction Cost					
New Construction on vacant lot	\$495,000	<i>v.s.</i>	\$0	<i>v.s.</i>	\$0
Renovation/Build to Suit (Lease or new const.)	\$0		\$423,000		\$405,000
Architect & Drafter	\$40,000		\$30,000		\$20,000
<u>Nancy Watts Interior Decorator</u>	<u>\$10,000</u>		<u>\$10,000</u>		<u>\$10,000</u>
Total	\$545,000		\$463,000		\$435,000
Technology & Equipment Cost					
ITM Hardware & Tablet Kiosk Cost	\$120,000	<i>v.s.</i>	\$120,000	<i>v.s.</i>	\$120,000
ITM & Tablet Kiosk Installation & Software Cost	\$190,000		\$190,000		\$190,000
Fiserv/Online Banking/Mobile App Cost	\$16,100		\$16,100		\$16,100
Installation of Wifi & Internet	\$1,900		\$1,900		\$1,900
<u>Furniture & Fixtures</u>	<u>\$64,000</u>		<u>\$64,000</u>		<u>\$64,000</u>
Total	\$392,000		\$392,000		\$392,000
Staffing Cost					
Possible Additional Hire	\$32,800		\$32,800		\$32,800
Total	\$32,800		\$32,800		\$32,800
Additional Costs					
Office Supplies	\$12,521	<i>v.s.</i>	\$12,521	<i>v.s.</i>	\$12,521
Maintenance & Support (technology)	\$36,000		\$36,000		\$36,000
Telephone & Utilities	\$2,400		\$2,400		\$2,400
Education & Training	\$1,500		\$1,500		\$1,500
<u>Other Professional Services</u>	<u>\$1,292</u>		<u>\$1,292</u>		<u>\$1,292</u>
Total	\$53,713		\$53,713		\$53,713
Grand Total Implementation Cost					
	\$1,596,013		\$1,551,093		\$948,117
<i>Depreciation Amortized over 30 years:</i>	<i>\$18,167</i>		<i>\$15,433</i>		<i>\$21,750</i>
<i>Technology & Eq. Cost Amortized over 5 years:</i>	<i>\$78,400</i>		<i>\$78,400</i>		<i>\$78,400</i>
<u>All remaining costs w/no amortization:</u>	<u>\$659,013</u>		<u>\$696,093</u>		<u>\$121,117</u>
Grand Total Amortized Implementation Cost:					
	\$755,580		\$789,926		\$221,267

*The \$21,750 is based on a 20 year amortization/lease.

*All figures above are based off actual quotes, budgets and executive management of the bank.

The revenue projections are based on year over year growth in deposits, loans and investments. I have discussed these figures with executive management based on what the Kerrville branch has done historically as well as what we feel this project can provide once it is open and operating.

Revenue Projections	Year 1	Year 2	Year 3	Year 4	Year 5
Total Deposits	\$ 5,000,000	\$10,000,000	\$15,000,000	\$20,000,000	\$25,000,000
Loan Portfolio	\$ 300,000	\$ 650,000	\$ 1,025,000	\$ 1,425,000	\$ 1,850,000
Total Investments	\$ 4,700,000	\$ 9,350,000	\$13,975,000	\$18,575,000	\$23,150,000
INCOME					
Int. Income-Investments	\$ 94,000	\$ 187,000	\$ 279,500	\$ 371,500	\$ 463,000
Int. Income-Loans	\$ 18,000	\$ 39,000	\$ 61,500	\$ 85,500	\$ 111,000
<i>(Less Interest Expense)</i>	<u>\$ (83,500)</u>	<u>\$ (167,000)</u>	<u>\$ (250,500)</u>	<u>\$ (334,000)</u>	<u>\$ (417,500)</u>
Net Interest Income	\$ 28,500	\$ 59,000	\$ 90,500	\$ 123,000	\$ 156,500
Non-Int. Income-Activity Charge					
Non-Int. Income-Activity Charge	\$ 1,500	\$ 3,000	\$ 4,500	\$ 6,000	\$ 7,500
Non-Int. Income-Loan Fees	\$ 3,000	\$ 3,600	\$ 4,800	\$ 5,400	\$ 6,000
Non-Int. Income-Other	<u>\$ 1,320</u>	<u>\$ 1,440</u>	<u>\$ 1,560</u>	<u>\$ 1,680</u>	<u>\$ 1,800</u>
Total Non-Int. Income	\$ 5,820	\$ 8,040	\$ 10,860	\$ 13,080	\$ 15,300
EXPENSES					
Depreciation Expenses	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)
FF&E Depr. Expenses	\$ (78,400)	\$ (78,400)	\$ (78,400)	\$ (78,400)	\$ (78,400)
Payroll Expense	\$ (32,800)	\$ (32,800)	\$ (32,800)	\$ (32,800)	\$ (32,800)
All Other Operation Expense	<u>\$ (80,113)</u>				
Total Expenses	\$ (209,480)				
<i>Lease Income from Pint & Plow</i>	\$ 30,000	\$ 30,000	\$ 33,600	\$ 34,800	\$ 36,000
Net Income/Loss Before Taxes	\$ (145,160)	\$ (112,440)	\$ (74,520)	\$ (38,600)	\$ (1,680)
<i>Add Backs</i>					
Construction Depr. Exp.	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)
FF&E Depr. Exp	<u>\$ (78,400)</u>				
<i>Total Add Backs</i>	<u>\$ (96,567)</u>				
Cash Flow	\$ (48,593)	\$ (15,873)	\$ 22,047	\$ 57,967	\$ 94,887

Understandably, we expect to see slower than usual growth and income compared to a typical branch bank expansion. This will be due to the uniqueness of this project and the time it will take to accurately market and voice the intended purpose and atmosphere that we are trying to portray. We believe that the café bank will not only be able to stand on its own over time but also provide additional traffic and growth for our current Kerrville branch. Since we are not cannibalizing our current customer base we expect to see growth in loans and deposits from our existing customers as well as future customers. The primary reason for this will be due the visibility and experience they will encounter in our café bank.

The café bank will serve a purpose different than that of our present Kerrville branch. Obviously, there will be banking services available to customers that flock to the café bank, however the reason customers will be going to the café bank will be different from the reasons they patronize our, or any other typical branch bank. The experience and overall feel is what will drive customers to the café bank. We believe this will be a key driver in not only increasing traffic at our current branch but increasing our footprint in the Kerrville market.

Now that we have discussed the basic cost of implementation as well as the potential savings we could see, we need to understand the risks with this project are and how they can be mitigated. The first risk that comes to mind, should the project not be successful and we purchased the site and either rebuilt or remodeled to our specifications we could be stuck with an asset that depending on the market may not be easy to sell. In addition to the volatility of the real estate market, we could suffer a capital loss ultimately impacting the banks' earnings adversely.

After examining the previous graphs and charts we saw that the best option is to buy and build from the ground up. Therefore, one option to mitigate the risk of having an investment of this amount in an asset is to either rent or lease the space to another business or turn it into a

usual branch bank location. Being prepared for this situation puts even more emphasis on the importance of location. If we can find a location in a highly trafficked area with easy entrance and exit access we can overcome the failure of the café bank and continue operating as a typical branch. A worst case scenario for this project would be exactly this type of situation but again the site of the location is the key point in overcoming the lack of success of a café bank and the ability for the bank to recapture its investment within a reasonable time frame. We will examine in more detail potential risks and how to properly mitigate them during our process.

The need to be prudent financially and mitigate any possible risks to the bank is obviously priority one. We have seen what the potential implementation and ongoing costs would be to this project. We have examined the possible financial outcomes as well as the potential barriers and set-backs associated with a café bank. We have also studied how we can mitigate these barriers and set-backs and have shown that there is more of a positive probability for success than failure.

By purchasing a lot and building our café bank with the vision and mission we have discussed in this section, the implementation of a café bank in Kerrville is a viable option for the bank to consider as we look for new expansion and growth opportunities. The market research and polling of locals and current customers about the possibility of implementing a café bank drew positive responses. This coupled with a strong location and the Pint & Plow partnership we strengthen our probability for future success. Therefore, it is my opinion that the implementation of a café bank completed in the steps and manner previously mentioned will be worthwhile and financially beneficial to the bank.

Non-Financial Impact

The purpose of this section is to identify and address certain non-financial hurdles that could pose a threat to the success of the new café bank. Most obstacles in the banking industry remain constant (i.e. regulatory burden, increased competition, technology advances, etc.), the content discussed in this section will be specific to Community First National Bank and its implementation of a café bank.

The most important aspect when analyzing any possible hurdles for this project is gaining the acceptance of the board and executive management team. The success of this venture relies heavily on their support and embracement of not only this idea but the need to stay relevant. In order to gain the confidence of the board and executive team that a café bank can be a fruitful endeavor, a strong plan and financial analysis needs to be done to prove the project is viable and financially beneficial to the bank.

In previous sections I have proposed the strategy of implementing a café bank as well as several different financial scenarios that present a picture of what our costs will be and what level of income can be generated. This is only part of gaining their acceptance and approval; how the project will be introduced and the philosophy behind it will be the final key in unlocking the door of acceptance. Additionally, it is not just the board and the executive management team that we need approval from, it is our employees and customers that need to be on board as well.

Introducing the idea and concept behind establishing and implementing a café bank is a critical part of getting people committed to this project. This project could be viewed as a big city bank notion that overwhelms our small close knit community which would not be taken well in this area. The bank will need participation from top to bottom as well as customers to help sell

this to the community. We must also articulate clearly too all parties involved why and how we are taking on this endeavor. Having our message and vision unmistakably understood will ultimately lead to quicker acceptance and success of the café bank.

When introducing a new product or idea it is typical to argue its uniqueness and how it stands out from your competitors. The old adage of “there’s nothing new under the sun,” generally holds true.¹⁸ Although café banks are not new, the vision behind our version of a café bank is new. In order to demonstrate this, we must first make our claim and back it up. (Hakobyan, 2018) Our claim is that this isn’t just a place to do your banking and get a cup of coffee, we are selling an experience.

Currently our bank motto is “putting relationships first,” and we intend to continue that into our café bank. Because we have done such a great job providing excellent customer service and building strong relationships with our customers, I feel our claim is valid and has been backed up through our past performance. Furthermore, I expect our customers to believe our new claim due to their experiences with our bank in the past. The individual relationships that our employees have with our customers will empower them to push this idea, ultimately committing to this project and its success. As for the board and executive management team they will be comfortable with this claim because we are not straying from the foundational principles that they adopted when the bank was first opened.

The second thing we must do is personalize our message and vision so that the café bank appeals to not only young people but all ages and demographics. We can accomplish this by providing the experience and feel of a “community center.” The meeting rooms and flexible

¹ <http://customerthink.com/6-ways-to-present-your-product-to-customers-that-stand-out/>

workspaces will not only appeal to the lions club but the young professional's organizations too. Other areas that are vital to the introduction and approval aspect are not getting bogged down by initial statistics and connecting with influencers that will help us sell this concept. As bankers we tend to be fixated on the numbers and while having accurate figures and statistics is crucial we need to be focused catching the customer's attention and building relationships. By introducing this project in this way, backed by the strategy and financial analysis we can gain acceptance from top to bottom.

One last item that needs to be addressed when seeking acceptance and approval for a new idea such as this, is ensuring that our partner Pint & Plow is fully on board and shares our same vision. This partnership has been cultivated and the plan discussed numerous times between myself and the owner, Jeremy Walther. He too believes in selling an experience and creating something new and exciting for Kerrville. Jeremy is fully on board with this project and has been instrumental in helping design and plan out this effort. More importantly, Jeremy has a significant following from Pint & Plow by doing exactly what we are trying to achieve with the café bank. Their reputation is rock-solid and because of their notoriety and success it provides the café bank with another level of legitimacy. Having this partnership is vital to gaining acceptance by all that are involved including our customers and the community as a whole.

Another major obstacle to overcome is finding the right type of people to staff the café bank. The type of individual needed for this particular style of bank would need to be adept to change, crave interaction with people, have strong knowledge about all bank products and services, as well as be willing to graciously serve coffee and pastries. Obviously this would require a special individual and could not be the typical teller or FSR. This position would need an ambitious and smart self-starter. As you well know these types of individuals are out there but

they come with a price tag. Luckily for the bank, our Kerrville branch has multiple individuals that would fit this position and not cost an arm and a leg. This is unique and not common, but due to our small size most all employees are crossed trained in all areas of the bank. It would be easier to replace a typical teller or FSR, than to find individuals that would fit this position. We can overcome this potential set-back due to the people we currently have on staff. Furthermore, because we don't need to staff the café bank with the same number of people as a traditional branch, we could afford to either hire someone that fits the description needed or train an existing employee.

Training costs are inevitable with this type of project and we have it included in our budget, therefore I am not concerned with the need or the potential amount of training that our people might require. The main focal point of training will be geared toward understanding and mastering the use of the new technology. Our people are already well-versed in our deposit and loan products leaving only the coffee and pastry aspect to master.

After speaking with Jeremy about how to overcome our employee's lack of knowledge in this area, he suggested the training program he uses when bringing on new hires. His staff consists of mostly high school and college age individuals and assures me that our staff will be able to catch on quickly to what they will need to know when asked about anything pertaining to the café. While this won't be our banker's main function, it will be good for us to be well-informed with jobs and tasks inside the café bank. Finding the right people to staff the café bank is essential. Fortunately because of the strength of our current Kerrville branch staff, finding the right "fit" for the position is not a major obstacle I feel we will have to overcome or deal with in the immediate future.

When considering all non-financial impacts we could encounter on this project, I think it is important to know what our plan would be should the café bank fail. Although we do not plan to fail and believe in the success of the project, a contingency plan should be noted. The implementation of the café bank would have provided the necessary items and basic equipment to operate any type of bank, thus making the transition from a café bank back to a classic branch nearly seamless. The coffee shop portion would be liquidated to either Pint and Plow or other merchants requiring that type of equipment and material. Afterwards we would turn that space into FSR or teller stations.

Now that we have identified the non-financial impacts of this project and how to overcome them, we need to understand how these impacts will affect our customers as well as our organization. In regards to the customers, both current and future I believe by undertaking this project it shows that we are working to adapt and appeal to all demographics in our community. Our current traditional branch can continue to serve our customers that prefer to conduct their banking business in the typical manner. The café bank will provide the new-age and modern feel of banking without being overwhelming and preserving the “small town feel.”

By having these two options for our customers to choose from we can continue to gain market share without alienating any one age group or demographic. The employees that will staff the café bank are younger individuals and are more accepting of the new age and modern technology that banking is moving towards. One other small issue we may have, is our customers learning to properly operate the new equipment. Having our people properly and adequately trained while maintaining solid relationships with our customers will overcome this potential obstacle.

Due to our executive board and management team understanding that we as a bank must stay relevant and distinguish ourselves from our competitors, I feel this project will have a profoundly strong impact on our organization as a whole.

Conclusion

Throughout this discussion we have explored all avenues on how to implement a café bank in Kerrville, Texas. I have provided detailed research to ensure this move is both financially and strategically sound. If executed properly, a café bank remaining true to the “small town feel,” will be a fruitful endeavor for Community First National Bank. This will also allow for expansion in a non-traditional manner. By implementing the latest innovative technology and having the right staff we would be able to deliver world class customer service. There are risks to consider as with any new expansion effort. However, I feel the bank is poised to handle any challenges we may face because of the financial health and overall support structure. The aforementioned reasons are why I am in favor of the expansion strategy laid out within this project.

Appendix A: Year 1-5 Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Deposits	\$ 5,000,000	\$ 10,000,000	\$ 15,000,000	\$ 20,000,000	\$ 25,000,000
Loan Portfolio	\$ 300,000	\$ 650,000	\$ 1,025,000	\$ 1,425,000	\$ 1,850,000
Total Investments	\$ 4,700,000	\$ 9,350,000	\$ 13,975,000	\$ 18,575,000	\$ 23,150,000
INCOME					
Int. Income-Investments	\$ 94,000	\$ 187,000	\$ 279,500	\$ 371,500	\$ 463,000
Int. Income-Loans	\$ 18,000	\$ 39,000	\$ 61,500	\$ 85,500	\$ 111,000
<i>(Less Interest Expense)</i>	\$ (83,500)	\$ (167,000)	\$ (250,500)	\$ (334,000)	\$ (417,500)
Net Interest Income	\$ 28,500	\$ 59,000	\$ 90,500	\$ 123,000	\$ 156,500
Non-Int. Income-Activity Charges	\$ 1,500	\$ 3,000	\$ 4,500	\$ 6,000	\$ 7,500
Non-Int. Income-Loan Fees	\$ 3,000	\$ 3,600	\$ 4,800	\$ 5,400	\$ 6,000
Non-Int. Income-Other	\$ 1,320	\$ 1,440	\$ 1,560	\$ 1,680	\$ 1,800
Total Non-Int. Income	\$ 5,820	\$ 8,040	\$ 10,860	\$ 13,080	\$ 15,300
EXPENSES					
Depreciation Expenses	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)
FF&E Depr. Expenses	\$ (78,400)	\$ (78,400)	\$ (78,400)	\$ (78,400)	\$ (78,400)
Payroll Expense	\$ (32,800)	\$ (32,800)	\$ (32,800)	\$ (32,800)	\$ (32,800)
All Other Operation Expense	\$ (80,113)	\$ (80,113)	\$ (80,113)	\$ (80,113)	\$ (80,113)
Total Expenses	\$ (209,480)				
<i>Lease Income from Pint & Plow</i>	\$ 30,000	\$ 30,000	\$ 33,600	\$ 34,800	\$ 36,000
Net Income/Loss Before Taxes	\$ (145,160)	\$ (112,440)	\$ (74,520)	\$ (38,600)	\$ (1,680)
<i>Add Backs</i>					
Construction Depr. Exp.	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)	\$ (18,167)
FF&E Depr. Exp	\$ (78,400)	\$ (78,400)	\$ (78,400)	\$ (78,400)	\$ (78,400)
<i>Total Add Backs</i>	\$ (96,567)	\$ (96,567)	\$ (96,567)	\$ (96,567)	\$ (96,567)
Cash Flow	\$ (48,593)	\$ (15,873)	\$ 22,047	\$ 57,967	\$ 94,887

Appendix B: Initial Project Costs for Implementation

<u>Total Initial Project Cost of Implementing a Café Bank.</u>					
<u>Real Estate Cost</u>	<u>Option 1</u>	<i>v.s.</i>	<u>Option 2</u>	<i>v.s.</i>	<u>Option 3</u>
Renting/Leasing Cost (12/mo.)	\$0		\$0		\$34,604
Lot Purchase	\$572,500		\$0		\$0
<u>CML Building Purchase</u>	<u>\$0</u>		<u>\$609,580</u>		<u>\$0</u>
Total	\$572,500		\$609,580		\$34,604
<u>Construction Cost</u>					
New Construction on vacant lot	\$495,000	<i>v.s.</i>	\$0	<i>v.s.</i>	\$0
Renovation/Build to Suit (Lease or new const.)	\$0		\$423,000		\$405,000
Architect & Drafter	\$40,000		\$30,000		\$20,000
<u>Nancy Watts Interior Decorator</u>	<u>\$10,000</u>		<u>\$10,000</u>		<u>\$10,000</u>
Total	\$545,000		\$463,000		\$435,000
<u>Technology & Equipment Cost</u>					
ITM Hardware & Tablet Kiosk Cost	\$120,000	<i>v.s.</i>	\$120,000	<i>v.s.</i>	\$120,000
ITM & Tablet Kiosk Installation & Software Cost	\$190,000		\$190,000		\$190,000
Fiserv/Online Banking/Mobile App Cost	\$16,100		\$16,100		\$16,100
Installation of Wifi & Internet	\$1,900		\$1,900		\$1,900
<u>Furniture & Fixtures</u>	<u>\$64,000</u>		<u>\$64,000</u>		<u>\$64,000</u>
Total	\$392,000		\$392,000		\$392,000
<u>Staffing Cost</u>					
<u>Possible Additional Hire</u>	<u>\$32,800</u>		<u>\$32,800</u>		<u>\$32,800</u>
Total	\$32,800		\$32,800		\$32,800
<u>Additional Costs</u>					
Office Supplies	\$12,521	<i>v.s.</i>	\$12,521	<i>v.s.</i>	\$12,521
Maintenance & Support (technology)	\$36,000		\$36,000		\$36,000
Telephone & Utilities	\$2,400		\$2,400		\$2,400
Education & Training	\$1,500		\$1,500		\$1,500
<u>Other Professional Services</u>	<u>\$1,292</u>		<u>\$1,292</u>		<u>\$1,292</u>
Total	\$53,713		\$53,713		\$53,713
<u>Grand Total Implementation Cost</u>					
	<u>\$1,596,013</u>		<u>\$1,551,093</u>		<u>\$948,117</u>
<i>Depreciation Amortized over 30 years:</i>	\$18,167		\$15,433		\$21,750
<i>Technology & Eq. Cost Amortized over 5 years:</i>	\$78,400		\$78,400		\$78,400
<u>All remaining costs w/no amortization:</u>	<u>\$659,013</u>		<u>\$696,093</u>		<u>\$121,117</u>
<u>Grand Total Amortized Implementation Cost:</u>					
	<u>\$755,580</u>		<u>\$789,926</u>		<u>\$221,267</u>

*The \$21,750 at the bottom of column 3 is amortized over 20 years.

Appendix C: Technology Costs

Technology Implementation Costs			
One-Time Costs			
	Unit Price	Qty.	Total Cost
ITM Hardware Cost	\$60,000	2	\$120,000
ITM Installation/Software Cost	\$95,000	2	\$190,000
Tablet Kiosk Hardware & Installation Cost	\$2,250	3	\$6,750
Upgrade of Internal Core System (Fiserv)	\$7,500	1	\$7,500
Upgrade of Online Banking/Mobile App	\$1,850	1	\$1,850
Installation of Wifi & Internet	\$1,900	1	\$1,900
<u>Furniture & Fixtures</u>	<u>\$64,000</u>	1	<u>\$64,000</u>
Subtotal	\$232,500		\$392,000
Ongoing Annual Costs			
	Unit Price	Qty.	Total Cost
ITM Maintenance/Support Cost	\$10,000	2	\$20,000
Tablet Kiosk Maintenance/Support Cost	\$1,000	3	\$3,000
Core System Maintenance/Support Cost	\$1,000	1	\$1,000
<u>Wifi & Internet Annual Cost</u>	<u>\$2,400</u>	1	<u>\$2,400</u>
Subtotal	\$14,400		\$26,400
Grand Total Technology Cost	\$392,000		
<i>amortized over 5 years</i>	<i>\$78,400</i>		

Appendix D: Current vs. Future Operating Costs: Café Bank

Current V.S. Future Costs for Operating a Café Bank					
<i>(figures are annualized)</i>					
Salary Expense	Current	v.s.	Add'l Cost	v.s.	Total
Tellers (2)	\$56,803		\$0		\$56,803
FSR's (3)	\$95,321		\$0		\$95,321
Possible Additional Hire	<u>\$0</u>		<u>\$32,800</u>		<u>\$32,800</u>
TOTAL	\$152,124		\$32,800		\$184,924
Other Expenses					
Office Supplies	\$31,041		\$12,521		\$43,562
Maintenance & Support (Technology)	\$82,362		\$36,000		\$118,362
Additional Training	\$18,318		\$1,500		\$19,818
Telephone & Utilities	\$17,453		\$2,400		\$19,853
Other Professional Services	<u>\$2,932</u>		<u>\$1,292</u>		<u>\$4,224</u>
TOTAL	\$152,107		\$53,713		\$205,820
Non-Interest Income					
Lease Income from Pint & Plow	<u>\$0</u>		<u>\$30,000</u>		<u>\$30,000</u>
TOTAL	\$0		\$30,000		\$30,000
GRAND TOTAL:	<u>\$304,230</u>		<u>\$56,513</u>		<u>\$360,743</u>

Appendix E: Real Estate Purchase Costs for Location

<u>Real estate costs for ideal size and location for a café bank.</u>			
<u>Type of RE</u>	<u>Size of Lot</u>	<u>Location</u>	<u>Listing Price</u>
Office Bldg.	12,944 sq. ft.	2125 Sidney Baker St./North Side	\$1,250,000
CML Lot	2.8/Acres	1311 E. Water St./East Side	\$1,200,000
CML Lot	4.3/Acres	Loop 534/East Side	\$449,000
CML Lot	1.94/Acres	2190 Bandera Hwy/South Side	\$345,000
Office Bldg.	4,213 sq. ft.	1700 Broadway/East Side	\$329,000
Office Bldg.	1,452 sq. ft.	400 Thompson Dr./South Side	\$298,000
CML Lot	1.02/Acres	2411 Memorial Blvd./East Side	\$296,000
Office Bldg.	12,400 sq. ft.	2210 Bandera Hwy/South Side	\$496,000
<u>Office Bldgs. (2)</u>	<u>3,310 & 3,388 sq. ft.</u>	<u>843 Sidney Baker St./North Side</u>	<u>\$674,900</u>
<u>Avg. Price for Office Bldg.</u>			<u>\$609,580</u>
<u>Avg. Price for CML Lot</u>			<u>\$572,500</u>

Appendix F: Real Estate Lease Costs for Location

<u>Lease costs for location of a café bank.</u>			
<u>Type of RE</u>	<u>Sq. Ft.</u>	<u>Location</u>	<u>Rent/Mo.</u>
Office Bldg.	2,666 sq.ft.	2210 Bandera Hwy/South Side	\$4,000
Office Bldg.	3,200 sq.ft.	93 Coronado Dr./West side	\$2,400
Office Bldg.	1,680 sq.ft.	827 Junction Hwy/West side	\$1,680
Office Bldg.	3,682 sq.ft.	1456 Sidney Baker/North side	\$3,387
Office Bldg.	2,286 sq.ft.	236 Junction Hwy/South side	\$2,951
<u>Avg. Mo. Rent/Lease Cost:</u>			<u>\$2,884</u>
<u>Avg. Annual Rent/Lease Cost:</u>			<u>\$34,604</u>

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