

**ABA STONIER GRADUATE SCHOOL OF BANKING**

**CAPSTONE PROJECT 2022**

**PRIVATE BANKING PROGRAM**

**DAVID D. RAMSEUR**

**MARCH 1, 2022**

# Table of Contents

<b>Executive Summary .....</b>	<b>3</b>
<b>Introduction / Background.....</b>	<b>5</b>
<b>History.....</b>	<b>5</b>
<b>Business Model / Strategy.....</b>	<b>6</b>
<b>Financial Condition.....</b>	<b>8</b>
<b>Market Share / Competition.....</b>	<b>11</b>
<b>Strategy.....</b>	<b>12</b>
<b>Opportunity Statement.....</b>	<b>12</b>
<b>Purpose of Proposed Opportunity.....</b>	<b>13</b>
<b>Bank Strategy / Competitive Advantage.....</b>	<b>16</b>
<b>Proposed Products and Services.....</b>	<b>18</b>
<b>Implementation.....</b>	<b>18</b>
<b>Vision.....</b>	<b>20</b>
<b>Traction.....</b>	<b>22</b>
<b>Future Opportunities.....</b>	<b>24</b>
<b>Financial Impact.....</b>	<b>25</b>
<b>Non-Financial Impact.....</b>	<b>32</b>
<b>Conclusion.....</b>	<b>35</b>
<b>Bibliography.....</b>	<b>36</b>

## Executive Summary

For over 27 years, First Community Bank has strived to be the premier community-based bank by developing long-standing relationships with local businesses, professionals, and organizations. As a result of this focus and dedication, in 2021 Greenville Business Magazine recognized First Community Bank as the top Community Bank in South Carolina.<sup>1</sup> Since its founding in 1995, the bank has performed exceptionally well, including exceeding its annual loan and deposit goals for the last 4 consecutive years. However, in spite of all the financial success, First Community Bank continues to experience a downward pressure on its net interest margin. With interest rates expected to rise and the prospects of the economy slowing down, loan production could decelerate in 2022 and perhaps beyond. If First Community Bank is unable to deploy its excess liquidity through loan growth in a rising rate environment, it could further compress its net interest margin. To illustrate, the bank's Chief Financial Officer prepared a 3-year financial forecast that assumed an annual growth in deposits of 2.00%, and a minimum annual growth in loans of 5.00%, which is well below the bank's average annual growth rate; the result reflected a 30 basis point decline in the net interest margin over the 3-year period.

In an effort to increase bank revenues and improve the net interest margin, the purpose of the proposed Capstone project is to create a private banking program specifically designed to target a significant opportunity that lies within each of the bank's three primary markets – the medical community. First Community Bank's three markets, the Midlands and Upstate of South

---

<sup>1</sup> Greenville Business Magazine – December 2021 Edition

Carolina, and Augusta, Georgia, are each home to a major medical school and hospital system. Historically, the bank has never made a concerted effort to specifically target the medical community. The proposed program will utilize First Community Bank's existing lines of business as outlined in the following presentation. The core of the program will be to increase the bank's in-house residential mortgage portfolio by offering specialized mortgage products to both tenured and new medical professionals. As it currently stands, the vast majority of mortgage loans generated are sold to the secondary market for a fee. Through this program, the bank will now retain these mortgages, resulting in a higher loan volume and producing an additional source of revenue to the bank in the form of interest income. With the mortgage products opening the door to the medical community, the hope is to expand these relationships through the bank's other lines of business.

In conclusion, to illustrate the importance of increasing the bank's loan volume, the Chief Financial Officer prepared a second 3-year financial forecast that reflected a higher annual growth in loans of 10%. As a result, the 5% increase not only significantly improved the net interest margin from the previous model, but also improved the bank's ROE, ROA, and Efficiency Ratios. Obviously, there are a lot of factors that can influence a forecast model, but at a high-level it demonstrates how an increase in loan production can impact a bank. The intent of the proposed private banking program outlined in this presentation is designed to do just that.



## **Introduction/ Background**

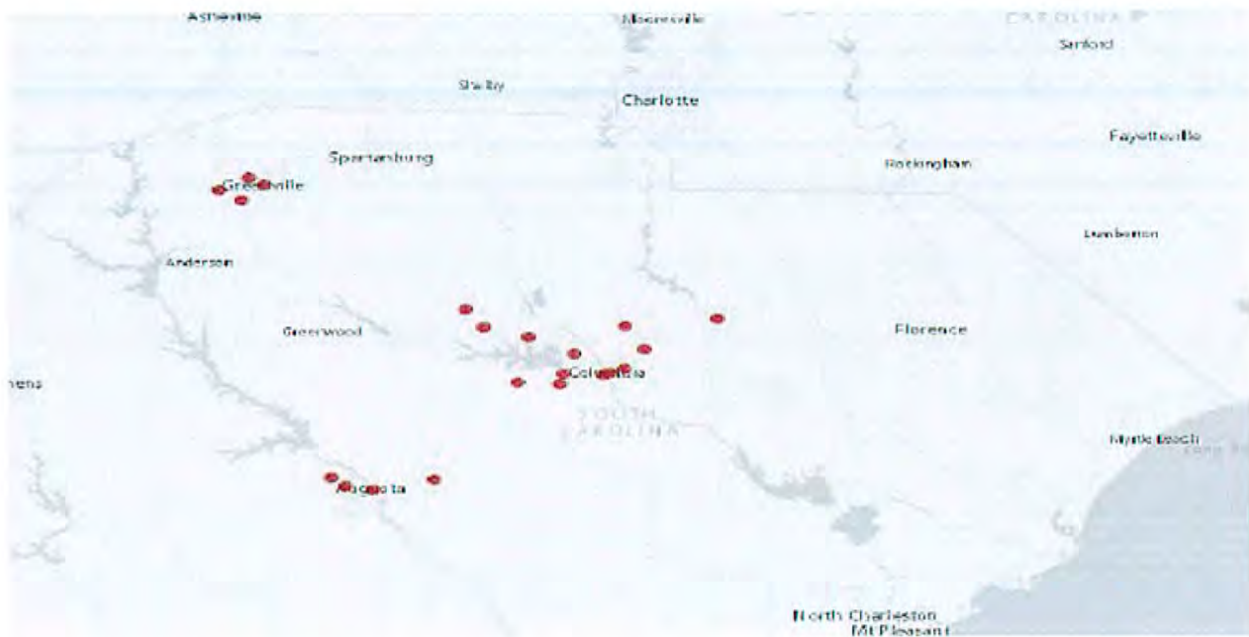
### **First Community Bank: History**

In 1995, Jim Leventis and Mike Crapps founded First Community Bank on the belief that local business owners deserved a better financial partner, one that would truly match their stride and invest in their long-term growth. In an effort not to isolate itself to a specific market, the founders opened their first two offices in separate locations simultaneously; one office in the city of Columbia in Richland County and another office in Lexington County, both of which are considered to be in the Midlands region of South Carolina.

First Community Bank's initial strategy was to be the premier community-based bank in the Midlands market. In addition to adding more offices throughout the Midlands, the bank acquired a financial planning practice in 2008 and a residential mortgage company in 2011 for the purpose of providing additional services to the bank's growing customer base.

After twenty successful years in the Midlands market, the Executive Leadership Team recognized the need to expand into new market areas in order to continue growing the bank. Consequently, in 2014 First Community Bank purchased Savannah River Financial located in Augusta, Georgia. In October 2017, First Community Bank established a presence in the Upstate region of South Carolina through the acquisition of Cornerstone Bank. As reflected below, First

Community Bank has twenty-one branches throughout its market footprint which includes 250 total employees. The bank's total assets are \$1.5 million. First Community Corporation, the holding company for First Community Bank, is publicly traded on the NASDAQ Capital Market under the symbol "FCCO." First Community Bank operates First Community Financial Consultants, a financial planning and investment advisory division and Palmetto South Mortgage, a separate mortgage division.

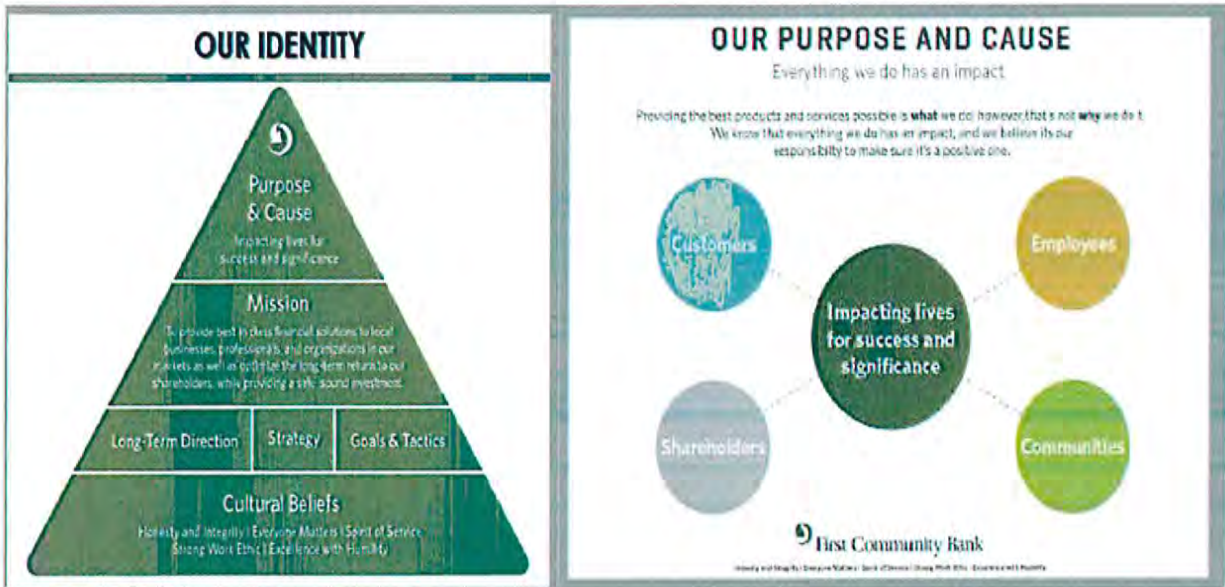


## First Community Bank: Business Model / Strategy

With an ever-increasing decline in community-based banks due to mergers, First Community Bank strives to be the “go to” bank for local businesses within the communities it serves. For more than twenty-five years, the bank's motto has been “The Bank Behind Your Business.” As illustrated below, the foundation for First Community Bank's identity is built on five cultural beliefs: Honesty and Integrity, Everyone Matters, Spirit of Service, Strong Work Ethic,



and Excellence with Humility. The foundation is then layered with the bank’s long-term direction, strategy, goals and tactics, mission, and purpose and cause.



In an effort to maintain a commitment to its identity and culture, First Community Bank conducts an annual planning session known as the Competitive Path. During the 4<sup>th</sup> quarter of each year, the Executive Leadership Team will identify four to five specific goals for the subsequent calendar year. The Executive Leadership Team will outline the strategies and tasks needed to achieve these goals, and then assign each goal to a Tactical Team comprised of six to ten employees from various departments, backgrounds, and locations. Over a six-month period, these Tactical Teams will implement and present their respective plan to the Executive Leadership Team for consideration. While there are various benefits to conducting the annual Competitive Path, the bank’s primary reasons for this exercise are to help instill and reinforce the bank’s cultural beliefs and to ensure inclusion of all employees – “Everyone Matters.” Below is an example of the First Community Bank’s Competitive Path.

## 2021 COMPETITIVE PATH

PURPOSE	MISSION	GOALS	STRATEGIES
<div style="background-color: #4F81BD; color: white; padding: 5px; text-align: center;"> <b>Impacting Lives for Success and Significance</b> </div>	<div style="background-color: #FFD700; padding: 5px;"> <b>To provide best in class financial solutions to local businesses, professionals and organizations in our markets, as well as optimize the long-term return to our shareholders, while providing a safe and sound investment.</b> </div>	<b>1. Earnings / Performance</b> <ul style="list-style-type: none"> <li>• Core Net Income <span style="float: right;">\$10,954 M</span></li> <li>• Core EPS <span style="float: right;">\$1.46</span></li> <li>• ROA <span style="float: right;">0.60%</span></li> <li>• ROTCE <span style="float: right;">9.12%</span></li> </ul> <small>*Core excludes securities gains/losses, debt retirement expense &amp; merger expense.</small>	<div style="border: 2px solid red; padding: 5px; margin-bottom: 5px;"> <b>1. People / Culture</b> </div>
		<b>2. Balance Sheet</b> <ul style="list-style-type: none"> <li>• Loan Growth (ex. PPP &amp; BDC) to achieve December 2021 average of \$850.8 MM – Growth of \$48.4 MM (6.0%)</li> <li>• Pure Deposit Growth to achieve December 2021 average of \$1,055.5 MM</li> </ul>	<div style="border: 2px solid blue; padding: 5px; margin-bottom: 5px;"> <b>2. Systems / Process</b> </div>
		<b>3. Revenue</b> <ul style="list-style-type: none"> <li>• Net Interest Income <span style="float: right;">\$41,639 M</span></li> <li>• Net Interest Margin (NIM) <span style="float: right;">3.25%</span></li> <li>• Mortgage Revenue <span style="float: right;">\$ 5,596M</span></li> <li>• FCFC Revenue <span style="float: right;">\$2,755 M</span></li> </ul>	<div style="border: 2px solid green; padding: 5px; margin-bottom: 5px;"> <b>3. Revenue / Growth</b> </div>
		<b>4. Other</b> <ul style="list-style-type: none"> <li>• Efficiency Ratio <span style="float: right;">71.54%</span></li> <li>• Credit Costs <span style="float: right;">\$1,634,904</span></li> </ul>	<div style="border: 2px solid purple; padding: 5px;"> <b>4. Risk</b> </div>
			<div style="border: 2px solid purple; padding: 5px;"> <b>5. Other</b> </div>

### First Community Bank: Financial Condition

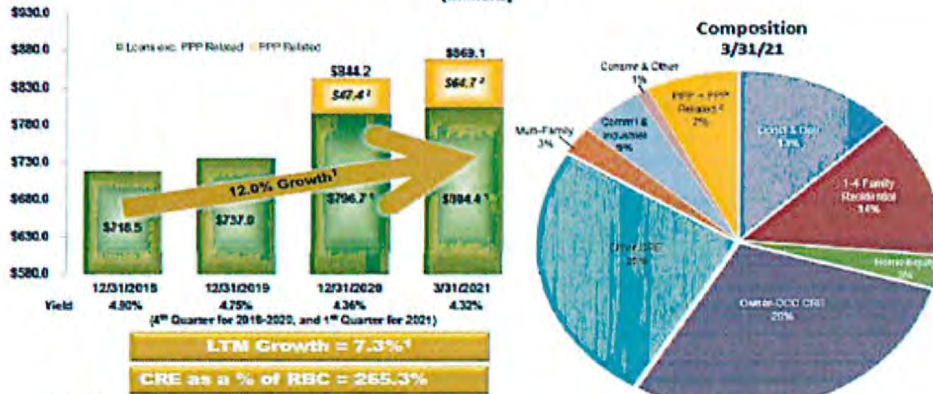
As evidenced in the first quarter of 2021 earnings release, First Community Bank’s total loan growth, excluding Paycheck Protection Program (“PPP”) loans and a related credit facility, increased by \$7.7 million on a linked quarter basis. Despite a very strong non-PPP loan production of \$40.2 million in the first quarter, the growth was muted due to elevated payoffs and paydowns. The bank’s pure deposits, which are defined as total deposits less certificate of deposits, increased by \$84 million, from \$1.059 billion at December 31, 2020 to \$1.143 billion at March 31, 2021. <sup>2</sup>

<sup>2</sup> FCCO Earnings Release - 4Q 2021



# PERFORMANCE

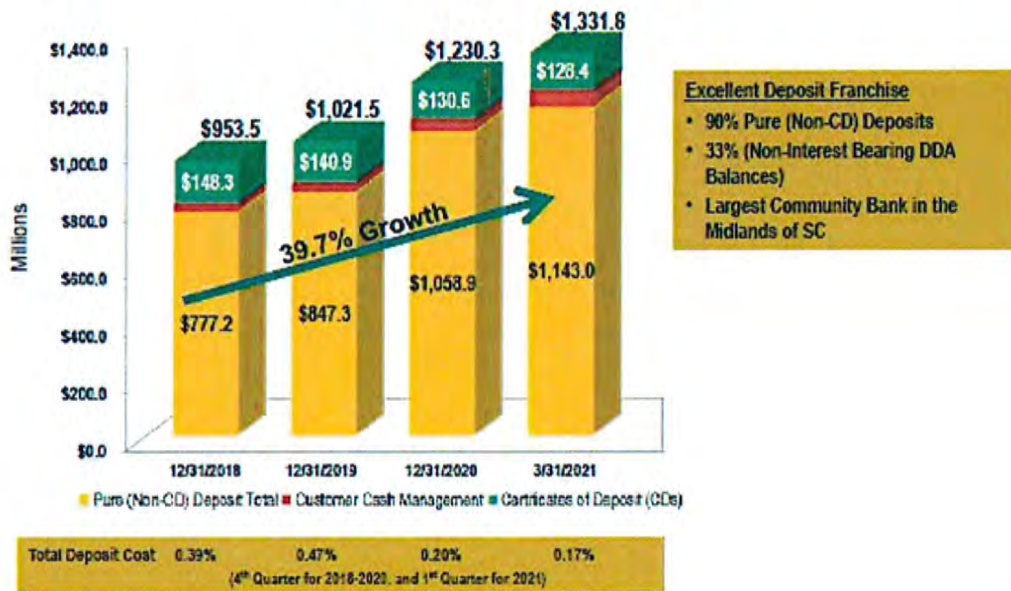
## Loan Portfolio (millions)



<sup>1</sup>Excludes PPP and related LOC to SBA partner.  
<sup>2</sup>Includes \$61.8 million in the remaining balance of PPP loans originated by First Community Bank and \$2.9 million in remaining balance of a \$10 million line of credit to an SBA partner, who funded PPP loans on behalf of First Community Bank customers.

# FOUNDATIONAL FRANCHISE VALUE

## Pure Deposit Growth

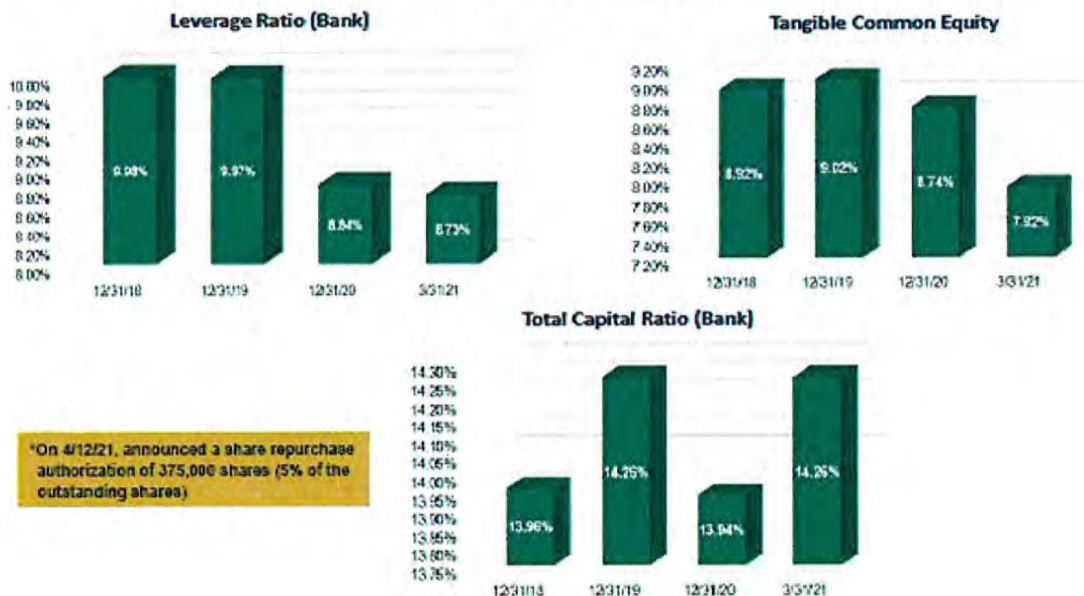


As of March 31, 2021, First Community Bank's asset quality metrics continues to remain sound. The non-performing asset ratio was 0.38% of total assets with \$5.6 million in non-performing assets compared to 0.50% and \$7.0 million at December 31, 2020. During the first quarter of 2021, the bank experienced a net loan charge-off of only \$8 thousand, and a loans past due 30 days or more of only 0.04%.

During the first quarter of 2021, the First Community Bank Board of Directors approved a cash dividend of \$0.12 per common share; this represented the bank's 77<sup>th</sup> consecutive quarter for paying out a cash dividend. At March 31, 2021, the bank's regulatory capital ratios - Leverage, Tier 1 Risk Based, and Total Risk Based - were 8.73%, 13.13%, and 14.26%, respectively.

## FOUNDATIONAL FRANCHISE VALUE

### Capital Ratios



For the first quarter of 2021, First Community Bank reported a net income of \$3.3 million, compared to \$3.4 million on a linked quarter basis and \$1.8 million year-over-year. Pre-tax, pre-provision earnings for the first quarter of 2021 were \$4.3 million, compared to \$4.6 million for the fourth quarter of 2020 and \$3.3 million for the first quarter of 2020.

## PERFORMANCE

### Core Net Income<sup>1</sup> / Core EPS<sup>1</sup> / Pre-Tax Pre-Provision Earnings



<sup>1</sup>Core net income and EPS exclude merger and acquisition costs, gains (losses) on sale of securities and other assets, write-downs on premises held-for-sale, losses on early extinguishment of debt, SC State income tax credit, and one-time deferred tax expense related to The Tax Cut and Jobs Act passed on December 22, 2017. See Non-GAAP reconciliation on page 36.

<sup>2</sup>This compares to 1Q20 results of \$1,797 and \$0.24, respectively.

<sup>3</sup>This compares to 1Q20 results of \$3,307.

29

## Market Share / Competition

First Community Bank is strategically located in three distinct markets – the Midlands, the Upstate of South Carolina, and Augusta, Georgia. The Midlands has a total market share of 2.91%. Lexington County has a larger market share of 9.86% compared to Richland County’s 1.09%. The Upstate and Augusta markets have a much smaller market share of .70% and 1.57% respectively. <sup>4</sup>

<sup>4</sup> FDIC.Gov – Deposit Market Share Report – June 30, 2021



All three markets have a combination of National, Regional, and local-community based banks due to the strong demographics and economic conditions. Like most markets, Wells Fargo, Bank of America, and Truist lead in market share; however, these larger institutions are not viewed as competitors due to their sheer size and lending capacities. First Community Bank's primary competitors are South State Bank, Southern First, and First Citizens, which happen to be headquartered in South Carolina and North Carolina respectively.

## **Strategy**

### **Opportunity Statement**

Due to the combination of the reduction of the federal funds rate by the Federal Reserve in 2019 and 2020 and the current competitive loan pricing environment, First Community Bank has experienced a downward pressure on its net interest margin over the last several years. Like most traditional community banks, First Community Bank has three dedicated lines of business – commercial/retail banking, mortgage lending, and financial planning. In an effort to increase bank revenues and improve the margin, a proposed opportunity to create a private banking program designed to target medical professionals is set forth below.

There are three major medical schools within the bank's primary market areas: Medical College of Georgia University in Augusta, University of South Carolina School of Medicine in Columbia, and the University of South Carolina School of Medicine Greenville in the Upstate. First Community Bank has strategically and successfully focused on building relationships with

local businesses; however, the bank has never made a concerted effort to take advantage of a major opportunity that lies within each of its three markets - the medical community.

The proposed program will utilize First Community Bank's existing three lines of business, with a specific focus on growing the bank's residential mortgage portfolio. The proposed Tenured Physicians Loan Program and a New Physicians Loan Program will provide specialized mortgage products to two distinct segments: established physicians and medical residents/fellows. In addition to the specialized mortgage products, the goal is to expand the overall relationship between these customers and First Community Bank by leveraging the bank's financial planning consultants and business services consultants as described below.

## **Purpose of Proposed Opportunity**

In early 2021, the Executive Leadership Team created a plan targeting the following metrics by 2024:

- Return on Assets ("ROA"): 1.20%
- Return on Equity ("ROE"): 14.00%
- Efficiency Ratio: 65.00%

Recently the bank's Chief Financial Officer released the following 3-year Financial Forecast:

# FINANCIAL FORECAST

First Community Corporation  
 Base Case 2024 Forecast  
 No Federal Reserve Interest Rate Changes

(Dollars in thousands except for per share amounts)	Month Averages		
	Jun 2021	Dec 2024	CAGR
<b>Selected Balance Sheet Information</b>			
Non PPP Loans	830,987	981,719	5%
Deposits	1,285,530	1,380,259	2%
Pure Deposits + Customer Cash Management / Repos	1,218,814	1,316,638	2%
<b>Selected Income Statement Information</b>			
Core Net Income	9,060	13,027	10%
Core EPS	1.21	1.73	9%
<b>Selected Performance Metrics</b>			
	FY 2020	FY 2024	Goal
Net Interest Margin (NIM)	3.34%	3.04%	NA
Return on Assets (ROA)	0.78%	0.81%	1.20%
Return on Tangible Equity (ROTE)	8.94%	8.67%	14.00%
Efficiency Ratio	70.51%	69.39%	65.00%

The forecast assumes a historical average growth in deposits of 2.00%, and a 5.00% growth in loans on an annual basis. Based on these assumptions, the First Community Bank will fall short of its stated goals on all three metrics. As a result, this year, the Executive Leadership Team has specifically tasked Competitive Path planning session participants with finding solutions to help improve the bank's revenues, profitability, and financial metrics.

With regards to the First Community Bank's Competitive Path planning sessions, the Executive Leadership Team maintains a "Performance Scorecard" on the bank's twelve most important financial metrics. As reflected below, Net Interest Margin and Mortgage Production are the only two metrics behind the year-to-date goals.



# PERFORMANCE UPDATE

## 2021 Competitive Path Goals

Category	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	2021 ACTUAL	2021 YTD GOAL	2021 GOAL
Net Core Income	\$1,088.0	\$964.0	\$1,204.0	\$1,011.0	\$1,169.0	\$1,382.0	\$1,404.0	\$1,716.0					\$9,917.0	\$7,221.0	\$10,954.0
Core EPS	\$0.15	\$0.13	\$0.16	\$0.13	\$0.16	\$0.18	\$0.19	\$0.23					\$1.32	\$0.99	\$1.46
ROAA	0.92%	0.87%	0.96%	0.82%	0.91%	1.10%	1.08%	1.31%					1.00%	0.78%	0.93%
ROATE	8.71%	8.26%	11.87%	10.47%	11.46%	13.70%	13.47%	16.06%					12.33%	9.33%	9.12%
Loans (ex. PPP)	\$767.8	\$764.5	\$761.8	\$807.3	\$824.0	\$831.0	\$834.3	\$849.0					\$849.0	\$834.8	\$850.7
Pure Deposits	\$1,101.6	\$1,140.7	\$1,181.6	\$1,299.2	\$1,222.7	\$1,218.8	\$1,231.3	\$1,251.9					\$1,251.9	\$1,020.9	\$1,055.8
Net Interest Income	\$3,584.0	\$3,348.0	\$3,638.0	\$3,653.0	\$3,676.0	\$3,766.0	\$3,844.0	\$4,292.0					\$29,795.0	\$27,820.0	\$41,840.0
Net Interest Margin (non-FTE YTD)	3.24%	3.25%	3.11%	3.18%	3.09%	3.26%	3.19%	3.49%					3.23%	3.25%	3.25%
Mortgage	\$347.0	\$268.0	\$356.0	\$243.0	\$549.0	\$351.0	\$448.0	\$369.0					\$2,950.0	\$3,652.0	\$5,592.0
FCFC	\$330.0	\$265.0	\$281.0	\$375.0	\$289.0	\$293.0	\$385.0	\$331.0					\$2,681.0	\$1,807.0	\$2,755.0
Efficiency Ratio	69.27%	73.24%	66.59%	69.72%	70.00%	64.57%	62.48%	58.35%					66.55%	71.91%	71.54%
Credit Costs	\$19.0	(\$51.0)	\$12.0	\$5.0	\$3.0	\$158.0	\$7.0	(\$71.0)					\$82.0	\$1,050.0	\$1,634.9

In conclusion, the purpose of this proposal is to provide First Community Bank an additional source of revenue, with the anticipation of helping the bank achieve its 3-year goals. Furthermore, the proposal will elevate the mortgage department's revenues by providing them with specialized products needed to compete in markets that are inundated with medical professionals.

## Bank Strategy / Competitive Advantage

Creating a new private banking division under the First Community Bank umbrella would consume a significant amount of time, resources, and expense, so the proposed strategy is to utilize the bank's existing resources and team members. First Community Bank operates First Community Financial Consultants, a financial planning and investment advisory division and Palmetto South Mortgage, a separate mortgage division. On top of traditional retail branches and commercial lenders, the bank has a dedicated mortgage loan officer and a financial consultant in each of the three markets.

# OVERVIEW

## Three Lines of Business





First Community Bank also has a unique and specialized business services consultant serving each of those markets. When First Community Bank opened its doors in 1995, the Executive Leadership Team created the business services consultant position in an effort to differentiate the bank from its competitors. The business services consultant is often described as the “private banker” for all business-related services. These individuals are responsible for establishing and maintaining all business accounts, electronic banking, remote capture, and cash management services. The reason this role is referred to as a “private banker” is because these employees will deliver all products and services to a client’s place of business. In theory, the client may never have to step foot inside any of the bank’s retail offices. Each market has one business services manager dedicated to meeting the needs of all business clients. In the event a business services manager is unavailable, the client has direct access to a centralized business services associate, who operates from the First Community Bank headquarters in Lexington. The business services associate is exclusively dedicated to helping both the business services consultant and the client.

This specialized role has proven to be very successful for First Community Bank as evidenced by the strong pure deposit growth over the years. With a business services consultant already established in each market, they will be able to play an integral role in serving as the “private banker” for medical professionals who typically have busy schedules and little time to focus on their own banking and investment needs. The business services consultant gives First Community Bank a considerable advantage over competitors due to the unique services they provide.



## Proposed Products and Services

The first step to this proposal will be to develop and market a residential mortgage product designed to target medical professionals. The purpose of this initial offering is to establish a relationship with medical professionals, with the expectation of utilizing the bank's other lines of business to help strengthen those relationships. As noted above, First Community Bank will create two specific loan programs – a Tenured Physicians Loan Program and a New Physicians Loan Program. The Tenured Physicians Loan Program will target established doctors, dentists, and pharmacists, while the New Physicians Loan Program will target medical residents/fellows who are currently conducting their post-graduation training. In addition to the mortgage, the bank will utilize the expertise of the business services consultant to serve as the “private banker” responsible for establishing deposit products and services, and the financial consultant will oversee investment opportunities. Commercial bankers could also have prominent roles in providing commercial-related products to existing medical practices.

## Implementation

As illustrated above, First Community Bank is focused on maintaining its identity and culture through its Competitive Path processes. The Executive Leadership Team has used Competitive Path planning sessions to give employees opportunities to participate in planning the bank's future growth and direction. First Community Bank utilizes the Entrepreneurial Operating System (EOS) Vision/Traction Organizer in its planning sessions. EOS Worldwide, LLC provides companies concepts and tools to clarify, simplify, and achieve their strategic vision. Below is a standard template the Competitive Path teams use for each strategic project.

# FIRST COMMUNITY BANK COMPETITIVE PATH ORGANIZER

Strategy	
Tactic	
Problem / Opportunity Statement	
2-Year Picture of Success	

# FIRST COMMUNITY BANK COMPETITIVE PATH TRACKER

1 Year Plan / Goals	Quarter Goals	Issues / Topics to Consider / Process
1.	1.	1.
2.	2.	2.
3.	3.	3.
4.	4.	4.
5.	5.	5.

<sup>5</sup> EOS Worldwide LLC – Vision/Traction Organizer

The first part of the model focuses on the overall vision and requires each Competitive Path team to identify a specific strategy and tactic and encourages the team to create a problem/opportunity statement as its focus. The vision also allows the team to forecast what successes they hope to achieve by implementing the specific strategy. The traction section of the model provides the team the foundation to achieve the stated strategy by creating specific timelines and goals and identifying issues that need to be addressed.

For the fiscal year 2022, First Community Bank will create a Competitive Path team for the specific purpose of preparing and presenting the proposed private banking program to the Executive Leadership Team for consideration. The team will include one commercial banker, one business services consultant, as well as the bank's Chief Mortgage Officer and Chief Credit Officer. As with all Competitive Path projects, the team will utilize the EOS model as their guide to developing and implementing the program. My role as the commercial banker will be to serve as the "team leader." The team leader will be responsible for formulating a preliminary EOS model, coordinating and scheduling all of the Competitive Path planning sessions, and provide periodical updates to the Executive Leadership Team. Since the proposal is essentially a product-based program, it is not expected to impact the commercial banker's day-to-day responsibilities.

## **The Vision**

The primary strategy is to provide an additional source of revenue for First Community Bank by developing a residential portfolio mortgage product designed to target a specific segment, medical professionals. This program will also provide the opportunity to establish and grow these relationships by leveraging the bank's other lines of business. Additionally, the team



constructed a list of future successes and goals it hopes to achieve and maintain after a three-year period, as reflected below.

## FIRST COMMUNITY BANK COMPETITIVE PATH ORGANIZER

<b>Strategy</b>	Revenue / Growth
<b>Tactic</b>	Develop a portfolio mortgage product designed to target medical professionals including a cross-selling strategy
<b>Problem / Opportunity Statement</b>	To reach a new customer segment of medical professionals with a mortgage portfolio product with an opportunity that leads to cross-selling all three lines of business
<b>3-Year Picture of Success</b>	<ul style="list-style-type: none"> <li>• Projected Volume: \$20 - \$25 million annually</li> <li>• Profitability: Overall relationship to produce a minimum ROE 12%</li> <li>• Cross-Selling: 85% of new relationships to have 3 or more products with the bank</li> <li>• Performance: Past Due Ratio below 10 Basis Points</li> </ul>

As illustrated in the Performance Update report above, the mortgage department is the only line of business behind budget for 2021 as it relates to projected revenues. Currently, the majority of all mortgage loans originated are sold to the secondary market; rarely does the bank retain these loans within its in-house portfolio. Unlike the commercial loan portfolio, the mortgage division generates a minimal amount of interest income because they are sold to the secondary market for a fee. However, with the proposed mortgage program, the bank anticipates these loans will be retained within the bank's in-house portfolio. Therefore, the expectation is this program will result in a higher loan volume for the bank, which subsequently will provide an additional source of revenue in the form of interest income.

With regards to profitability, First Community Bank utilizes the Pacific Coast Bankers' Bancshares (PCBB) Pricing Model platform as a means to control and preserve the bank's ROE. Ideally, when pricing loans, the bank tries to maintain a minimum ROE of 12% for each transaction, although sometimes this is not always feasible. In order for the proposed mortgage product to be profitable for the bank, cross-selling and developing additional relationships with the medical professional is imperative. As noted in the EOS model above, a stated picture of success is for 85% of the new relationships to have 3 or more products with the bank at the of 3 years.

## Traction

The traction section to the EOS model is critical for any Competitive Path team as it identifies a one-year goal, the tasks for each quarter, and a rolling and ever-changing "issues" list. Below is an opening tracking report based on the team leader's initial discussion with the proposed Competitive Path teammates.



# FIRST COMMUNITY BANK

## COMPETITIVE PATH TRACKER

1 Year Plan / Goals	Quarterly Goals – 1 <sup>st</sup> Quarter	Issues / Topics to Consider / Process
<p>1. Pilot the proposed program in the 4<sup>th</sup> quarter of 2022</p>	<p>1. Discuss with Credit Administration, Marketing, and 3<sup>rd</sup> party underwriters the logistics to the proposed program</p>	<ol style="list-style-type: none"> <li>1. Pricing on the two proposed mortgage products</li> <li>2. Determine credit standards, qualifications, and product(s) features</li> <li>3. Utilizing the existing mortgage platform for any In-House portfolio loans (i.e. most likely for new physicians mortgage product)</li> <li>4. Utilize MGIC underwriting standards and guidelines or In-House</li> <li>5. Marketing strategies and readiness</li> <li>6. Create process for tracking cross-selling and profitability performance</li> </ol>

Since a Competitive Path planning session occurs over one fiscal year, the proposed team’s one-year goal will be to launch a pilot program by the 4<sup>th</sup> quarter of 2022. The initial first quarter goal will be to receive some general input/feedback from First Community Bank’s credit administration, marketing, and third party underwriting partners. The one-year plan and quarterly goals are designed to keep the team on track and to hold them accountable throughout the process.

The Issues/Topics to Consider/Process section are very important and will continue to evolve throughout the process. The initial key issues will include developing the product, which comprises of determining a competitive rate program and identifying the credit standards and qualification requirements among other things. In addition, the logistics to launching such a program will be very critical to understanding, such as using the bank’s existing mortgage



platform and documentation for in-house portfolio loans, utilizing the bank's third-party underwriting partners for guidance, and preparing a marketing strategy for the proposed product. Once the Competitive Path team concludes the strategic planning process, the team leader will present the proposal to the Leadership Executive Team for consideration and implementation.

## Future Opportunities

As part of this strategic plan, the recommendation will be to launch a pilot program by the 4<sup>th</sup> quarter of 2022 starting in the Augusta, Georgia market. The pilot program will run for 6 months and then will be evaluated. The evaluation process will determine if the program achieved the goals set out by the Competitive Path team to include but not limited to, increasing mortgage loan production and revenues, establish additional relationships through the cross-selling process, and the bank's ability to effectively process and manage the additional mortgage portfolio exposure. At the end of the evaluation period, the program may be extended, suspended, or rolled out to the other markets.

Assuming the program is successful and reaches the standards laid out under the three-year "Picture of Success" in the EOS model, First Community Bank may consider extending this program to other high performing professional groups, including but not limited to, attorneys, CPA's, and engineers.

## **Financial Impact**

The initial monetary impact will be relatively minimal as the bank will utilize its existing resources and bank teammates. In preparing the initial EOS model, the team leader has had preliminary discussions with several key decision makers from the bank, including the Chief Mortgage Officer, Chief Credit Officer, Chief Human Resources and Marketing Officer, Chief Compliance Officer, among others. Based on these preliminary discussions, the team leader has derived the following conclusions as it relates to the monetary impact of the proposed program:

### **Personnel:**

As stated above, the proposed program will utilize First Community Bank's existing three lines of business and their respective personnel. The personnel will include a mortgage loan officer, a business services consultant, a financial consultant, and a commercial banker within each of the three major markets. The mortgage loan officer will take the lead role in implementing and marketing the proposed mortgage products for the medical professionals. As these mortgage prospects come to fruition, the business services consultant and/or financial consultant will be responsible for developing cross-selling opportunities with each prospective client. The commercial bankers may provide additional support by utilizing their connections and relationships with the medical professionals. Presently, there is no immediate need to hire additional personnel outside the aforementioned existing lines of business for the proposed program.

As illustrated in the EOS model's "3-year picture of success", the goal is to generate an additional \$20 - \$25 million annually in new loan volume. In talking with the Chief Mortgage Officer, he expressed confidence that the existing mortgage processors can adequately manage the additional volume expected from the program.

**Processing Platform:**

According to the Chief Mortgage Officer, the bank will be able to utilize its existing mortgage processing platform known as Encompass to process the new mortgage products. He indicated it would take approximately 4 to 5 weeks to add the new products to the system. In addition, the bank can also use its standard Fannie Mae/Freddie Mac mortgage documents.

**Marketing:**

Dating back to the days First Community Bank opened its doors in 1995, the bank has used Riggs Partners out of Columbia, South Carolina for all its marketing and branding strategies. Implementing a specific marketing strategy for the proposed program will result in an initial expense to the bank, although somewhat minimal. In talking to the bank's Chief Human Resources and Marketing Officer, it generally takes Riggs Partners approximately 6 weeks to prepare a marketing campaign and the collateral material for marketing purposes.



### **Risks of the Proposal:**

As with any new investment or opportunity, there will be risks associated with it. In reviewing the proposed program, the bank's Chief Compliance Officer indicated there appears to be no red flags as it relates to Fair Lending regulations. However, when promoting a specialized product, it is imperative the bank provide a "balance" in all of its advertising campaigns and marketing materials. For instance, the bank needs to be cognizant and deliberate in including information about its low-income mortgage products, such as the First Time Homebuyer program. From a compliance standpoint, when promoting a new mortgage product, it is important that the bank provides each perspective client information on all available options, and not just one product that may benefit the mortgage originator and/or bank. It will be essential to provide each individual the proper disclosures, such as The Anti-Steering Loan Options Disclosure, in an effort to avoid any compliance related issues.

From a credit-risk perspective, proper underwriting for this specialized mortgage product is particularly important. The recommendation from the Chief Mortgage Officer is to utilize one of the mortgage division's existing business partners, MGIC. MGIC is the principal subsidiary of MGIC Investment Corporation and is one of the bank's mortgage insurance providers. According to the Chief Mortgage Officer, MGIC has a specific "Portfolio Playbook" designed to provide mortgage product solutions to medical professionals. The bank will engage MGIC to help provide support and guidance when underwriting these specialized mortgage loans.

**Profitability:**

In order for the proposed program to be profitable, cross-selling and developing additional relationships with these medical professionals will be critical. As stated earlier, the bank utilizes the Pacific Coast Bankers' Bancshares (PCBB) Pricing Model as a means to obtain a minimum target ROE of 12% for each transaction/relationship. In an effort to demonstrate the potential profitability of the proposed program, the team leader prepared two pricing models - 1). An owner-occupied residential mortgage loan, and 2). An owner-occupied commercial real estate loan to a medical professional. With the exception of the product code, all of the data entries are identical (i.e. loan amount of \$450,000 / 3.75% rate for 10 years / 30-year amortization / 1.00% Origination Fee / \$20,000.00 deposit relationship, etc.).

**Residential Mortgage Loan**

**Commercial Real Estate Loan**

<b>Loan Model For Doctor loan 5 Prospective Loan</b>		<b>Loan Model For Doctor loan 6 - Prospective Loan</b>	
<b>Profit Summary</b>		<b>Profit Summary</b>	
<b>Item</b>	<b>Simulation</b>	<b>Item</b>	<b>Simulation</b>
<b>Relationship Profitability</b>		<b>Relationship Profitability</b>	
Total Loan Balance	450,000.00	Total Loan Balance	450,000.00
Total Loan Commitment	450,000.00	Total Loan Commitment	450,000.00
Total Deposit Balance	20,000.00	Total Deposit Balance	20,000.00
Total Average Deposit	20,000.00	Total Average Deposit	20,000.00
ROE	13.380 %	ROE	12.490 %
ROA	1.580 %	ROA	1.470 %
Annual Net Income	6,859.36	Annual Net Income	5,786.28
Lifetime Net Income	47,382.81	Lifetime Net Income	37,927.99
<b>Account Profitability</b>		<b>Account Profitability</b>	
ROE	13.020 %	ROE	12.340 %
ROA	1.580 %	ROA	1.520 %
NIM	2.247 %	NIM	2.348 %
Annual Net Income	5,669.80	Annual Net Income	5,695.68
Lifetime Net Income	45,518.24	Lifetime Net Income	37,021.65
<b>Credit Risk</b>		<b>Credit Risk</b>	
Probability of Default	0.690 %	Probability of Default	1.310 %
Loss Given Default	24.000 %	Loss Given Default	24.000 %
Expected Loss %	0.186 %	Expected Loss %	0.314 %
<b>Rates</b>		<b>Rates</b>	
Current Rate to Client	3.750 %	Current Rate to Client	3.750 %
Current Index Rate	0.000 %	Current Index Rate	0.000 %
<b>Costs</b>		<b>Costs</b>	
Origination Cost	688.00	Origination Cost	1,638.00
Monthly Maintenance Cost	41.00	Monthly Maintenance Cost	78.00

<sup>6</sup> Pacific Coast Bankers' Bancshares Pricing Model



The residential pricing model reflects a ROE of 13.02%, which is 68 basis points higher than the commercial real estate model. Generally, an “owner-occupied” commercial real estate pricing model will yield the highest profitability than any other commercial related scenario. As a result, the proposed mortgage products for the medical professionals can be very profitable to the bank as illustrated in the side-by-side pricing models. Consequently, if the deposit relationship increased from \$20,000 to \$100,000, the ROE increases significantly to 16.15%. This helps demonstrate the power of cross-selling and the impact it can provide with additional relationships.

In addition, the probability of default on the residential mortgage scenario is significantly less at .69% versus 1.31% with the commercial real estate loan. The lower probability of default is most likely attributed to the fact the product code is owner-occupied / primary residence, which is a valuable asset and a top priority for individuals. This also helps demonstrate the credit-risk is relatively low compared to commercial loans.

**Proposed Financial Impact:**

As stated above, the Executive Leadership Team created a specific plan targeting three important financial metrics by 2024 – ROA: 1.20%, ROE: 14.00%, Efficiency Ratio: 65.00%. As a recap, the bank’s Chief Financial Officer prepared a financial forecast which assumed a historical average growth in deposits of 2.00%, and a 5.00% growth in loans on an annual basis. It should be noted, First Community Bank’s deposit growth over the last couple of years exceeded the “historical” 2.00% average reflected in the financial forecast due to various factors such as individuals and businesses having excess liquidity, stimulus money from the Payroll Protection



Program and other government stimulus programs, and organic growth. However, the Executive Leadership Team anticipates this deposit growth will taper off to a level averaging around 2.00% over the next few years. With regards to loan growth, the bank is currently projecting a 6.50% increase in 2022 but anticipates it leveling out to around the 5.00% range over the 3-year period.

From a high-level perspective, based on the current budget projections for 2022, hypothetically if the bank were able to generate an additional \$25 million annually from the proposed mortgage products for medical professionals, this would increase the loan growth to nearly 10%. So with that in mind, the Chief Financial Officer created another 3-year financial forecast reflecting a 10% growth on an annual basis.

**First Community Corporation  
Base Case 2024 Forecast with Loan CAGR at 10%  
No Federal Reserve Interest Rate Changes**

<b>(Dollars in thousands except for per share amounts)</b> <b>Selected Balance Sheet Information</b>	<b>Month Averages</b>		
	<b>Jun 2021</b>	<b>Dec 2024</b>	<b>CAGR</b>
<b>Non PPP Loans</b>	830,987	1,154,190	10%
<b>Deposits</b>	1,286,530	1,380,259	2%
<b>Pure Deposits + Customer Cash Management / Repos</b>	1,218,814	1,316,638	2%
<b>Selected Income Statement Information</b>	<b>FY 2020</b>	<b>FY 2024</b>	<b>CAGR</b>
<b>Core Net Income</b>	9,060	15,304	14%
<b>Core EPS</b>	1.21	2.03	14%
<b>Selected Performance Metrics</b>	<b>FY 2020</b>	<b>FY 2024</b>	<b>Goal</b>
<b>Net Interest Margin (NIM)</b>	3.34%	3.28%	NA
<b>Return on Assets (ROA)</b>	0.78%	0.95%	1.20%
<b>Return on Tangible Equity (ROTE)</b>	8.94%	10.00%	14.00%
<b>Efficiency Ratio</b>	70.51%	65.38%	65.00%

Although the hypothetical forecast still falls short of the leadership's 3 metric targets, it helps demonstrate the significance and impact of growing the loan portfolio at a higher rate. The ROA and ROE improved effectively by 14 and 133 basis points respectively from the original forecast; however, the efficiency ratio had the greatest impact by nearly reaching the aspirational goal of 65.00% in 2024. With regards to the deposit growth, the Chief Financial Officer conservatively held the rate at 2.00% because it is difficult to quantify how the cross-selling efforts will transpire. With that said, if the three lines of businesses can successfully cross-sell and develop additional relationships with these prospects, the results will have a greater impact on the three financial metrics.

As previously mentioned, the recommendation is to launch a pilot program in the Augusta, Georgia market over a 6-month period. Monitoring and evaluating the results of this pilot program will be critical to the future of its success. At the end of the evaluation period, will this proposed program answer/address the goals set out in the EOS model – can First Community Bank be competitive in this market? Will this help grow the mortgage division and the bank's loan portfolio? Can we successfully cross-sell and develop new relationships? And will this be profitable to the bank?

In conclusion, the First Community Bank has the infrastructure, capacity, and existing personnel in place to adequately support the proposed program at a very minimal cost to the bank. However, if the program turns out to exceed expectations and is expanded to include other professional groups, the bank may incur some future expenses to accommodate the additional loan volume.



## **Non-Financial Impact**

### **Organizational Hurdles:**

As illustrated in the financial impact section, the expectation is the proposed program will generate an additional source of revenue, which subsequently will improve the bank's financial metrics at a fairly minimal cost. However, generally when a company introduces and/or implements a new program, process, or any change for that matter, there will most likely be logistical and organizational hurdles to confront. As it relates to this proposal, there will be several hurdles, with the most evident being the leadership and the employee's commitment or "buy-in" to the program.

Establishing a Competitive Path team will be critical in attaining the Executive Leadership Team's acceptance and approval into the proposed program. As noted earlier, the Competitive Path team will consist of a commercial banker, a business services consultant, the Chief Mortgage Officer, and the bank's Chief Credit Officer. In addition, the team leader will recommend having the bank's Chief Financial Officer serve in an advisory role for the team. The Chief Financial Officer can be pivotal in helping demonstrate the potential financial impact of the proposed program via financial forecasting, similar to what was presented above. Having the Chief Credit Officer and the Chief Financial Officer's support for the program will be instrumental in garnering approval as they are both part of the Executive Leadership Team.

As it relates to the personnel, First Community Bank undoubtedly has a well-defined culture that believes every employee, from the teller to the CEO, has a vital role in ensuring the bank's success and maintaining its identity and core beliefs. Despite this unique culture, perhaps



the most notable shortfall for the bank is the disconnect among the three lines of business. It is no secret the vast majority of business generated by the Mortgage Lenders and Financial Consultants derive from commercial and retail referrals; unfortunately, the referral situation is not reciprocal. Rarely do the Mortgage Lenders and/or Financial Consultants refer opportunities to the commercial and retail officers. Over the years, the bank has struggled to develop an equitable referral program among the three lines of business. In fact, the bank even created a Competitive Path team several years ago for the specific purpose of creating such a referral program, but in the end was unsuccessful.

As indicated in the Opportunity Statement above, First Community Bank has never made a concerted effort to target the significant opportunity that lies within each of the three major markets – the medical community. The cornerstone to the proposed program is the residential mortgage product for the new and tenured medical professionals. The expectation is this specialized product will serve as the catalyst for opening the doors and gaining access to a target base that historically has been inaccessible to all facets of the bank. Ultimately, the intent of the proposed program is to give the bank the resources to compete in a presently untapped market, in addition to bridging the relationship among the three lines of business together.

Although not really considered a “hurdle,” the proposed program may have a positive non-financial impact by improving First Community Bank’s market share and brand recognition, especially in the newer markets such as Augusta, Georgia, and the Upstate of South Carolina. As of today, First Community Bank is the third largest bank headquartered in South Carolina and has the greatest market share outside the larger national and regional banks in the Midlands. The bank has been in the Midlands for over 27 years and is home to thirteen of the total twenty-one

branches. As a result, the bank does not allocate a lot of marketing dollars or resources to the Midlands area. In fact, in 2021 the bank allocated 50% of its marketing budget to the Augusta area and 50% to the Upstate area. Clearly the Executive Leadership Team is specifically focused on growing the bank's market share and brand recognition in these two markets. With three major medical schools located within First Community Bank's primary market areas, the proposed program gives the entire bank the opportunity to increase its market share. Furthermore, creating an effective marketing campaign could conceivably help elevate the bank's much needed recognition in both the Augusta and Upstate markets.

Lastly, tracking and measuring the results will be fundamental in determining the success and duration of the proposed program. As stated in the preliminary EOS model from above and referenced below, the projected "3-year picture of success" comprises of an annual loan volume up to \$25 million, profitability target of 12% ROE, a cross-selling goal of 85% for all new relationships, and a Past Due ratio of 10 Basis Points or less.

<b>3-Year Picture of Success</b>	<ul style="list-style-type: none"><li>• <b>Projected Volume: \$20 - \$25 million annually</b></li><li>• <b>Profitability: Overall relationship to produce a minimum ROE 12%</b></li><li>• <b>Cross-Selling: 85% of new relationships to have 3 or more products with the bank</b></li><li>• <b>Performance: Past Due Ratio below 10 Basis Points</b></li></ul>
--	--

According to the Chief Credit Officer, the bank has the ability to create a specific product code for the new mortgages to help track the loan volume and past due reporting. However, there is currently no means or structure in place for reporting the profitability or cross-selling



results. This responsibility will require a designated individual to manually track this information on a quarterly basis for reporting purposes. Tracking the cross-selling results accurately will be critical in determining the impact the proposed program will have on the bank's profitability. The residential mortgage loan example used in the PCBB Pricing Model above reflected a ROE of 13.02%; this model assumed a \$50,000 deposit relationship. As pointed out, adjusting the deposit relationship from \$50,000 to \$100,000 created a significant increase in the ROE up to 16%. The assumption is that medical professionals have a fairly significant financial wherewithal, especially for the tenured professionals. Therefore, if the cross-selling efforts are successful, these relationships could potentially be very profitable to the bank. Ideally if implemented, the program could help exemplify the power of cross-selling, in addition to bringing cohesion among the three lines of business.

## **Conclusion**

As demonstrated in the Performance Scoreboard reflected above, First Community Bank is ahead in ten out of the twelve financial metrics identified by the Executive Leadership Team. The only two metrics not exceeding the bank's expectations are net interest margin and mortgage production. The intent of the private banking program is to provide First Community Bank an additional source of revenue by targeting medical professionals through specialized mortgage products and cross-selling opportunities. By adding an additional source of revenue, the expectation is the program will help improve the bank's net interest margin, as well as increasing the mortgage division's annual production.



# Bibliography

## Internal Interviews

Internal interviews were conducted with the Chief Financial Officer, Chief Credit Officer, Chief Mortgage Officer, Chief Human Resources and Marketing Officer, and Chief Compliance Officer

## Footnotes

<sup>1</sup> Greenville Business Magazine – December 2021 Edition

<sup>2</sup> FCCO Earnings Release - 4Q 2021

<sup>3</sup> FCCO D A Davidson Presentation – October 2021

<sup>4</sup> FDIC.Gov – Deposit Market Share Report – June 30, 2021

<sup>5</sup> EOS Worldwide LLC – Vision/Traction Organizer

<sup>6</sup> Pacific Coast Bankers' Bancshares Pricing Model