

BankExec - Decisions

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BankExec Decisions

- Decisions are input on four decision pages
 - Securities (B10 & B12)
 - Loans (B24)
 - Deposits (B44)
 - Treasury Management (B64)
- The **What-If** allows you to forecast your bank's results based on the decisions you have made
 - Can do multiple What-Ifs
 - Cost increases for each What-If
 - First is free each quarter, but subsequent What-Ifs carry a cost based on the amount chosen by your instructor

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Security Decisions

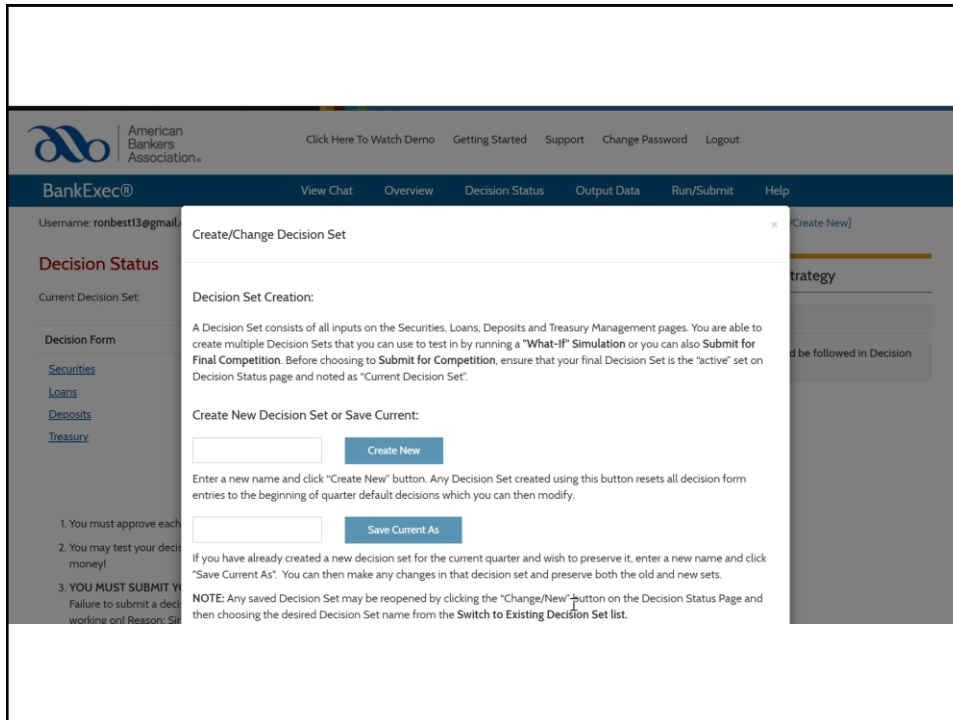
- Buy Treasuries, Agencies, Municipals, or Swaps
- Sell existing securities
- Important Considerations:
 - Treasuries, Agencies, & Swaps are marked-to-market
 - Municipals (TE) are **not** marked-to-market
 - Municipals are tax-qualified (tax equivalent yield)
 - Repos available equals amount of Treasuries held
 - Maturity/Duration
 - Liquidity
 - Potential capital gains (losses)

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The screenshot displays the BankExec® web application interface. At the top, there is a navigation bar with links: "Click Here To Watch Demo", "Getting Started", "Support", "Change Password", and "Logout". Below this is a blue header with the "BankExec®" logo and tabs for "View Chat", "Overview", "Decision Status", "Output Data", "Run/Submit", and "Help". The main content area includes a "Welcome to BankExec®" message, a "How to Play" section with a "Play the Game" button, and a "Yield Curve (in %)" graph. The graph shows data for eight teams (E1-E8) across various metrics like Stock Price, Cap./RA, RoA, RoE, NIM, Assets, and Loans. A "Basic Strategy" section on the right provides instructions on how to use the application, including viewing chat, overview, decision status, and simulation buttons.

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Loan Decisions

- Decision Required for All Loans
 - Loan Rates (more info to follow)
 - Credit Policy
 - Most restrictive = 1 ↔ Least restrictive = 5
 - Business Development
 - High (H=4); Medium (M=2); Low (L=1); None (N=0)
 - Sums assigned weights for **all loans and deposits**
 - Proportionally assigns total budget (*set on deposit page*)
 - Maximum Outstanding (concentration control)
 - Maximum balance allowed (usually keep open)
- Additional individual loan decisions
 - Commercial RE: *max maturity* and *rate adjustment period*
 - Credit Cards: *annual fee*
- Loan Packages Available for Sale

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Username: ronbest13@gmail.com
 Team: Team E6
 Time left for submission: 6845: 04: 21
 Decision Set: [\[Change/Create New\]](#) Dec 1a

Loan Decisions

Loan Policies

	Int. Rate	Mkt. Rate	Credit Policy	Bus. Dev.	Max. Outstand.	Max Mat. (Quarters)	Rate Adj. Period	Annual Fee
Business Credit Lines	6.50	6.74	3	M	200			
Business Term Loans	7.00	7.11	3	M	200			
Commercial Real Estate	6.50	7.22	3	M	200	40	4	
Residential Mortgage (FR)	5.25	5.64	3	M	200			
Home Equity Credit Lines	5.74	6.08	3	M	50			
Installment Loans	6.75	7.49	3	M	200			

Basic Strategy

- Loan Portfolio

Loans are the major asset in most commercial banks' portfolios and generate the greatest amount of income before expenses and taxes. They also exhibit the highest default risk and some are relatively illiquid, although some loans can be sold.
- Loan Strategy
- Basic Loan Decisions
- Standard Loan Products
- Additional Loan Types
- Loan Sales Decisions

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Setting Loan Rates

- Rates generally determined by adding a “spread” to an index rate
 - For example, in BankExec, Business Term Loan rates are set relative to the prime rate
- Market rates reflect the index rate plus spread, so we can use the market rates to set bank rates
 - Market rates are shown on Report C93
 - BoQ = Beginning of quarter; EoQ = End of quarter
 - Bank rates on C93 are **beginning of quarter rates**

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Loan Rates in BankExec

- **Set rates relative the current market rate**
 - Do not base on anticipated rate movements
 - Simulation adjusts your rates as quarter progresses
- **First**, determine the spread relative to the market rate that the bank used the past quarter
 - Bank rates shown on C93 are for the **beginning** of the past quarter
- **Second**, use that spread in conjunction with the new market rate to determine the implied end of quarter rate

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C93	Mkt BoQ	Mkt EoQ	Bank 1 ← BoQ
Interest Rate Charged --	-----	-----	-----
Business Credit Lines	6.43	6.74	6.50
Business Term Loans	6.89	7.11	7.00

Loan Pricing
Example

“Implied EoQ Bank Rate” = (Bank Rate – Mkt BoQ) + Mkt EoQ

For Business Credit Lines:

“Implied EoQ Bank Rate” = (6.50% - 6.43%) + 6.74% = 6.81%

- Adjust the Implied EoQ Bank Rate after examining loan results versus desired results
 - Do you want to be more or less competitive?
 - Are you changing credit policy?

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Deposit Decisions

- Fees for checking and savings
 - Monthly fee and/or item charge (transaction fee)
 - Fees can have a big impact
- Interest rates for all deposits
 - Does market rate change matter?
 - Retail time account rates priced relative to Treasuries
- Minimum Balance
 - Checking: balance required to receive interest
 - Savings: “balance” that determines standard or premium rate
- Max Issue is **new** amount that will be accepted
- Business Development
 - Emphasis for each deposit type (H, M, L, N)
 - Total Business Development Budget for **loans and deposits**
 - Salaries and Advertising & Promotion

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Deposit Decisions

Deposit Pricing

	Monthly Fee	Item Charge	Interest Rate	Mkt. Int. Rate	Business Dev.	Minimum Balance
Business Checking	10.00	0.08	1.50	1.62	M	
Individual Checking	1.00	0.10	1.00	1.17	M	1000
Individual Savings	0.00		2.00	2.15	M	
Premium Rate			3.50	3.43		1000

Retail Time Accounts	Maturity	Interest Rate	Mkt. Int. Rate	Business Dev.	Max Issue
Variable Rate	4	3.00	3.38	M	20 Clear Row
Fixed Rate	2	4.00	3.00		20 Clear

Basic Strategy

Deposit Market Strategy

The bank seeks retail deposits as a less expensive and less risky source of funding as compared to large negotiable certificates of deposits (CDs) (purchased funds) as described in the Treasury Management section. Expenses on deposits are composed of the interest rate paid (which can be two-tier rate) as well as business development expenses. The bank, in addition, can earn income from fees charged on the accounts; e.g., monthly fee; per item debit fee.

The bank acquires deposits from two types of customers--businesses and individuals. There is a wide variety of customers with differing account characteristics. For example, some customers keep relatively large deposit balances with the bank, others keep relatively small balances.


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Treasury Management

- Model uses fed funds to “balance” bank
 - No “decision amount” entered
 - Fed Funds should not exceed Total Capital
- Repos available equal total of Treasuries held
- CDs (negotiable) – 1 to 4 quarter maturities
- FHLB rate =
 - Treas. rate (same maturity) + 25 bps + 2 bps per mat year
 - Must hold 10% of assets in res. mort. to borrow FHLB
 - Amount available equals residential mortgage balance
- Decision for sub debt and common stock is dollar amount in millions that you want to raise
- Remember to enter dividends and EPS forecast

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Treasury Decisions

Decision Amounts

Source	Desired Amount (\$Millions)	Available Amount	Available Rate	Current Maturing	Current Balance
Fed Funds Borrowed	Auto	N/A	3.35	29.2	
Repos	<input type="text"/>	30	3.14	0	
CDs				20.6	
1 Quarter	<input type="text"/>	38	3.95		16.5
2 Quarter	<input type="text"/>	28	4.59		0
3 Quarter	<input type="text"/>	9	4.98		0
4 Quarter	<input type="text"/>	19	5.23		
FHLB Debt	<input type="text"/>	107	<input type="text" value="Maturity"/>	0	0

Basic Strategy

Treasury Management

The treasury management function covers a variety of purchased funds sources and capital issues. Purchased funds are available at current market rates, are not dependent on the actions of other banks in the community, rather the financial condition of your bank. Financially strong banks can purchase funds at lower rates and higher volumes than financially weak banks. The bank has five discretionary sources of funds available to it--repurchase agreements, certificates of deposit, Federal Home Loan Bank borrowing, capital notes, and common stock. Capital notes and common stock are sources of capital for the bank. These sources are used infrequently. The bank does not have direct control of Fed as these are used to balance the bank's balance sheet.

+ Purchased Funds Available

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“What If” Analysis

- The “What If” analysis allows you to simulate (forecast) your results for the next quarter
- Will not be perfect since you must estimate:
 - Change in market interest rates
 - Competitors’ average loan and deposit rate changes
- Will help you:
 - See expected impact of your decisions
 - Determine funding needs
 - Enter all decisions except Repos and CDs
 - Run “What If” simulation
 - Fed Funds indicates expected funding shortfall or surplus
 - Develop earnings per share forecast

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B10 (bottom left)

Maturity	Treasuries
1	3.59
2	4.17
3	4.53
4	4.75
6	4.97
8	5.07
10	5.11
12	5.12
20	5.15
30	5.16
40	5.16
60	5.17
80	5.17
120	5.17

C93 (bottom left)

Interest Rates Charged	Mkt BoQ	Mkt EoQ
Business Credit Lines	6.43	6.74
Business Term Loans	6.89	7.11
Commercial Real Estate	6.81	7.22
Maximum Maturity		
Rate Adjst Period		
Residential Mortgage (FR)	5.48	5.64
Home Equity	5.74	6.08
Installment Loans	6.73	7.49
Credit Card	11.17	13.17
Average Credit Quality Policy		
Loan Business Development		
Business Checking		
Monthly Fee		
Item Fee		
Interest Rate	1.50	1.62
Individual Checking		
Monthly Fee		
Item Fee		
Interest Rate	1.13	1.17
Individual Savings		
Monthly Fee		
Minimum Balance for Premium		
Basic Interest Rate	2.00	2.15
Premium Interest Rate	3.34	3.43

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Username: ronbest13@gmail.com

Team: Team E7

Time left for submission: 6827: 40: 23

Decision Set: [\[Change/Create New\]](#) Dec 1a

Decision Status

Current Decision Set: Dec 1a

Change/New

Decision Form	Viewed	Modified	Approved
Securities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Loans	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Deposits	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Time remaining:

6827: 40: 23

Change Team Name:

Best Bank Dem

Update

Basic Strategy


+ Entering Decisions

+ General Rules that should be followed in Decision Process

Please keep in mind the following

- You must approve each decision form (Securities, Loans, Deposits and Treasury) prior to final submission.
- You may test your decision set using a "what-if" simulation. Please note, the first "what-if" is free, the rest cost money!
- YOU MUST SUBMIT YOUR DECISION SET FOR FINAL COMPETITION PRIOR TO THE DEADLINE.**
Failure to submit a decision set means that we use your prior decision set (no changes) not the last one you were

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Team: Team E7

Time left for submission: 6827: 33: 46

Decision Set: [\[Change/Create New\]](#) Dec 1a

Simulation Options

Current Decision Set: Dec 1a

Change/New

You can run a "What-If" analysis of your current decisions. The "What-If" will forecast your results for the next quarter based on the decisions you have input. Please note the cost of each What-If.

Before submitting your decision set for a "What-If" simulation, you must enter Treasury rate forecasts for the end of the next quarter and forecast the average change your competitors will make to their loan and deposit rates.

Enter the expected end-of-next-quarter Treasury rates for the following maturities (1.00 = 1%).
(Enter the actual expected rate, not the expected change in the rate. If the current 1-qr rate is 3.0% and you expect it to rise to 3.25%, enter 3.25%)

1-Quarter Maturity:	<input type="text" value="3.57"/>
3-Quarter Maturity:	<input type="text" value="4.53"/>
120-Quarter Maturity:	<input type="text" value="5.17"/>

Overhead Charge Total: \$0

Next Overhead Charge: \$5000

Basic Strategy

After you create a set of decisions, you can either "SUBMIT" FOR COMPETITION or RUN A "WHAT-IF" SIMULATION. That is, you can "test drive" your decisions to evaluate what might happen in a competitive environment before submitting for competition.

Several words of caution are in order:

Just as in the "real world" financial analysis requires staff time and resources. Therefore, you will be charged a fee for the next simulation. The fee will be determined by your instructor at the beginning of the simulation. Your overhead charge for the simulations total is listed to the right by "Overhead Charge".

You can only run your "what-if" simulation ahead one quarter.

Recall that your bank is impacted by both the interest rates for the economy as well as interest rates established by

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Common Regulatory Requirements

- Fed Funds Purchased (FFP – B01)
 - $FFP \leq \text{Total Capital}$
 - $FFP / \text{Total Capital} \leq 100\%$ (shown on balance sheet)
- Owner's Equity / Total Assets (B01)
- Total Capital / Risk Assets (B05)
- Other regulations may be added at any time
 - Liquidity
 - Concentration limits
 - Investment portfolio restrictions

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