diversifying your commercial portfolio

Drive Growth with Treasury Management

Today's economic environment is challenging for banks.

Rising rates have squeezed margins, deposits have fled to the highest bidder, and commercial real estate (CRE) is on shaky footing.

To combat these headwinds, you can enlist digital technology to improve your portfolio diversification and create additional revenue sources.

you're not alone

If your bank is CRE-rich, you're in good company.

In fact, 30% of banks have an elevated concentration of CRE loans. Those located in rural or smaller metropolitan areas hold 64% of the CRE volume while all FDIC regions have experienced an increase in the median CRE loan concentration level compared to the previous year.[1]

When the FDIC issued an advisory (*Managing Commercial Real Estate Concentrations in a Challenging Economic Environment)* in late December 2023, six key risk-management actions were identified.

Many of these recommendations likely fall under the direct purview of your ALCO committee and senior leadership, including the maintenance of strong capital levels, increased portfolio review, careful review of loan loss provisions, and bolstering your loan workout infrastructure.

Two others – maintaining updated financial and analytical information and maintaining adequate liquidity and diverse funding sources – can be directly impacted by your business bankers and bolstered by the use of treasury management or commercial cash management solutions.

creating diverse funding sources

To help diversify your portfolio and attract and retain a more diverse commercial clientele, consider using the advanced financial management tools within treasury management solutions.

With only 23% of finance and payment professionals feeling their banks fully meet their cash or treasury management needs,[2] it's an easier market to crack than you might think.

strategic alignment: industries best suited for treasury management

To be most effective, focus your initiatives on businesses within your market that can leverage the advanced payments and cash management tools offered by treasury management, especially those with funding needs other than CRE.

Here are some industries that often fit the bill:

- **Transportation or trucking companies.** These firms rely heavily on receivables, often seeking funding to fill gaps to cover fuel costs, payroll, and short-term expenses. Longer term capital expenditures for equipment provide potential for additional loan growth, while their reliance on careful reconciliation make them good candidates for treasury management tools like cash forecasting and financial reporting.

Within one year of implementing treasury management, banks have experienced **between 10% and 15%** of commercial portfolio growth.

- **Temporary staffing firms.** With hundreds or thousands of contractors, these companies require easy access to flexible payroll and short-term working capital – both of which you can supply via your commercial lending team and a strong treasury management tool.

- **Municipalities.** From town or city accounts to state or community colleges and universities, municipal accounts have the potential to provide a wealth of diversification to your portfolio. Being fraud-aware and loss-resistant, this market segment appreciates and requires the Positive Pay technology that comes with treasury management services. While their funding needs will vary, they can cover both short- and long-term working capital, revolving lines of credit, and more.

- **Religious organizations.** With an increasing number of religious organizations offering automatic debits as a means to donate or tithe, the ACH functionality of treasury management combined with remote deposit capture help these organizations securely manage receivables. Funding needs vary, as different organizations navigate capital projects, payroll, and infrastructure needs.

- **Non-profit organizations.** Spanning every variety of industry, non-profit organizations are often overlooked as potential candidates for lending opportunities or more powerful treasury management tools. Many of these organizations can benefit greatly from the convenience of a line of credit to fill in dry times between funding drives or working capital for projects. Non-profit organizations also benefit from ACH, fraud protection through Positive Pay, and the enhanced visibility into their cash position that treasury management provides.

Though not an exhaustive (or prescriptive) list, these industries often find themselves perfectly placed to leverage both treasury management and commercial funding needs.

visibility and analysis

Charged by the FDIC with maintaining updated financial and analytical information for your CRE portfolio, a treasury management solution can do the heavy lifting for your borrowers.

> Treasury management technology is an **essential component** to any well-rounded commercial banking strategy.

With a robust treasury management solution, businesses can easily and conveniently generate cash flow statements and other necessary financial reporting for their customers. A treasury management system with flexible entitlements empowers your commercial accountholders to configure access, reporting, and workflows for employees and accountants and outsources financial professionals alike.

Beyond providing a superior user experience, this access also lends itself to simplifying document collection for analysis.

diversification powered by technology

Today, community banks hold an outsized proportion of CRE loans … and it's likely your institution is already acting on the FDIC's advisory recommendations.

As your management team practices sound lending to reduce risk and manage liquidity, take time to consider how technology like JHA Treasury Management™ can contribute to your efforts by helping you attract and retain new commercial accounts.

With benefits that go beyond increased portfolio diversification to deposit growth and increased fee income – between 10% and 15% of your commercial portfolio in your first year – it's time to consider treasury management technology as an essential component to any well-rounded commercial banking strategy.

diversify your commercial clientele

Contact our team to learn how you can attract and retain commercial customers with robust treasury management technology.

For more information about Jack Henry, visit jackhenry.com.

sources

1. FDIC. *2023 Risk Review – Section 3: Credit Risks*.
2. Christine Barry and Paul Kizirian. *Aite Matrix: U.S. Cash Management Technology Providers*, Aite Novarica, accessed January 12, 2024.