2018 RMA COMMUNITY BANK INCENTIVE COMPENSATION SURVEY

EXECUTIVE SUMMARY REPORT

DATA COLLECTED: NOVEMBER-DECEMBER 2018
REPORT DATE: FEBRUARY 2019

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ACKNOWLEDGMENTS

The 2018 survey is intended to capture the current status of the incentive compensation structure across a range of RMA member institutions. The survey focuses on the following:

1. Incentive Compensation Framework.
2. Compensation Staff.
3. Incentive Plan Monitoring.
4. Other: Lending.
5. Other: Mortgage Origination.

The final report provides participants' responses, while protecting the confidentiality of individual institutions by masking the source of the responses.

Note: Due to rounding, percentages in the tables may not add up to 100.

The RMA staff members contributing to the study were Edward J. DeMarco, Jr., and Sylwia M. Czajkowska.

Institutions (30) that participated in the survey:

Amalgamated Bank
Amarillo National Bank
Bangor Savings Bank
Bank of Lake Mills
Bank of San Antonio
California Business Bank
Citizens Trust Bank
Commerzbank AG
Dacotah Bank
Drake Bank
EagleBank
Enterprise Bank
Equitable Bank
Equity Bank
Fidelity Bank
First National Bank of Layton
First State Bank of the Florida Keys
Heritage Bank NA
Horicon Bank
Ion Bank
Kish Bank
Maine Community Bancorp
One South Bank

Penn Community Bank
Silvergate Bank
Southwestern Business Financing Corporation
Soy Capital Bank & Trust Company
St. Louis Bank
Western State Bank
Winchester Savings Bank

RMA would like to thank the community banks that contributed to this study. Credit for participation was given to all 30 institutions regardless if respondents skipped certain questions or not, yet provided valuable data to the majority of the questions.

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The Risk Management Association (RMA) is a not-for-profit, member-driven professional association serving the financial services industry. Its sole purpose is to advance the use of sound risk management principles in the financial services industry. RMA promotes an enterprise approach to risk management that focuses on credit risk, market risk, operational risk, securities lending, and regulatory issues. Founded in 1914, RMA was originally called the Robert Morris Associates, named after American patriot Robert Morris, a signer of the Declaration of Independence. Morris, the principal financier of the Revolutionary War, helped establish our country's banking system.

Today, RMA has approximately 2,500 institutional members. These include banks of all sizes as well as nonbank financial institutions. RMA is proud of the leadership role its member institutions take in the financial services industry. Relationship managers, credit officers, risk managers, and other financial services professionals in these organizations with responsibilities related to the risk management function represent these institutions within RMA. Known as RMA Associates, more than 18,000 of these individuals are located throughout North America and financial centers in Europe, Australia, and Asia.

Members actively participate in the RMA network of chapters. These chapters are run by RMA Associates on a volunteer basis and they provide our members with opportunities in their local communities for education, training, and networking throughout all stages of their financial services career. Chapters are located across the U.S. and Canada as well as in global financial centers.

RMA members also avail themselves of benefits offered through headquarters in Philadelphia, Pennsylvania. To assist members in advancing sound risk management principles, RMA keeps members informed and provides access to industry information at this site; publishes *The RMA Journal* and a variety of newsletters, books, and statistics; conducts workshops and seminars; holds conferences, including an annual convention (Annual Risk Management Conference); and has numerous committees working on a variety of projects.

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Note: As a not-for-profit, professional association, RMA does not lobby on behalf of the industry.

EXECUTIVE SUMMARY

The survey was conducted by The Risk Management Association (RMA) between November and December 2018. Most of the questions were multiple choice with opportunities to provide comments. Some questions were open text, designed to provide information and insight about best and current practices.

A total of 30 responses were received from a range of community banks headquartered in the United States.

- Asset size less than $250 million: 5 responses.
- Asset size between $251and 500 million: 7 responses.
- Asset size between $501 million and 1 billion: 6 responses.
- Asset size between $1 and 3 billion: 5 responses.
- Asset size between $3 and 5 billion: 5 responses.
- Asset size over $5 billion: 2 responses.

The following areas were addressed in the survey:

Incentive Compensation Framework.
Compensation Staff.
Incentive Plan Monitoring.
Other: Lending.
Other: Mortgage Origination.

Incentive Compensation Framework

Incentive compensation programs are evolving quickly and are present in many activities of the bank. When asked about areas of the discipline at which the incentive compensation plans are applicable, respondents identified four (4) key areas. Business lending was selected by the majority of the participants with over 85%, followed by business banking (53%), management (43%), retail banking/personal banking (39%), and mortgage (39%).

The first section of the survey focused on gathering information on incentive compensation plans in the program. The participants were asked about the number of incentive plans that currently exist in their program as well as estimate how that number will look in the next two to three years. There is diversity in the numbers of incentive compensation plans that are in place in the institutions that contributed to the 2018 study. For the number of plans currently in the program, the range of responses varies from 0 to 14. A majority of the participants indicated that they have two plans in place (27%), one plan (23%), and four plans (19%). Out of those who provided information to that question, 50% expect no changes to the number of incentive compensation plans within the next two to three years. Some respondents believe that the number of plans will increase slightly in the future (by one to three plans). Only one bank predicts that the number of their plans will be lower.

Approximately 43% of respondents have not made or planned any changes in regards to their bank's incentive compensation team/reporting structure. Those who are planning to make changes (36%) provided additional information on their implementation or forthcoming implementation.

We asked the same question on the RMA 2017 Incentive Compensation survey that was distributed to banks with asset sizes between $10 billion and $250+ billion. For that group, close to 58% of respondents have not made changes or were not planning to make changes to their incentive compensation plan structures. In comparison, when it came to the number of incentive plans, all of the respondents predicted that the number of plans will decrease within the next 2 to 3 years.

The 2018 community bank survey data shows that 46% of respondents distribute cash bonuses on an annual basis. Some institutions provide their employees with non-cash incentives, in addition to cash bonuses. The cash incentives with top scores include: Restricted Stock Option (50% of respondents), Incentive Stock Option (42%), and Membership (33%). For close to 90% of respondents, the plan allows management discretion.

Participants were then asked about their mix between Short-Term Incentives (STI) and Long-Term Incentives (LTI) in their overall plans. About 40% indicated that they offer only STI. However, approximately 12% indicated that they include half STI and half LTI in their plans.

Compensation Staff

Total incentive compensation staff levels range from one to four people, with slightly higher levels for one to two people. In 50% of cases, the incentive compensation staff comprises of only full time employees. The remaining respondents commented how the split between full-time and part-time staff looks in their respective institutions.

When looking historically at how the current staff levels compare with last year's numbers, we see that for 60% of participants, there have been no changes made. The compensation staff has been added within the past 12 months in 36% of institutions.

In comparison, when looking at the RMA 2017 Incentive Compensation survey that was distributed to banks with asset sizes between $10 billion and $250+ billion, close to 17% of participants have decreased compensation staff in the last 12 months, and 58% have added staff (with a majority adding just one person to their team). All indicated that they did not plan on any additional changes in 2018.

Incentive Plan Monitoring

We have asked our participants to comment on their practice regarding auditing their incentive compensation program. Participants provided various examples of who participates in the audit process.

Based on the recent attention to sales practices issues, we were interested in the efforts that companies make when investing in technology or processes to help them capture valuable information that will provide them with a more holistic view. The tools used will allow banks to monitor and aggregate information such as: account opening activity, documentation of customer consent, customer complaints specific to sales practices, social media trends, internal employee hotline reporting, whistleblowing incidents, and other HR-related inputs. Banks are split between investing (52%) and not investing (48%) in the technology. Some examples of technology mentioned in the survey included: CRM systems, Horizon, Salesforce and Paylocity.

When comparing the results from the RMA 2017 Incentive Compensation survey that was distributed to banks with asset sizes between $10 billion and $250+ billion, about 83% continue to invest in technology or processes that will help them monitor and aggregate information about processes and trends in order to provide a more holistic, enterprise view of their sales practices.

Other: Lending and Mortgage Origination

When asked if incentives are based on gross loans or net loans, in a majority of cases (28%), they are based on gross loans. Companies use various tools to reduce incentive compensation, with some of them being charge-offs (47%) or past due loans (23%). Loan officers are being incentivized in 80% of cases.

When it comes to mortgage origination, 85% of institutions provide their originators with base salary and incentives. The processors in 68% of responding banks do not receive per file fee nor other types of incentives.