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## Top performing MID-SIZED BANKS

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# Loan growth—mortgage-related or otherwise—propelled top performing mid-sized banks to the top of the charts

**T**he U.S. economic expansion gained a firmer footing in 2012, and the performance of mid-sized banks reflected it. Problem loan levels continued to recede. A continuation of near-record residential mortgage refinance activity and an upturn in residential purchase activity helped many mid-sized banks record robust revenue from residential mortgage originations and solid growth in loan portfolios. The latter enabled growth in net-interest income despite generally lower yields on earning assets.

In Part Two of the 21st annual *ABA Banking Journal* performance rankings, we look at those dynamics and provide detail on the financial results and strategies of the nation's top-performing banks with total assets of between \$1 billion and \$10 billion. In June, Part Three will examine the top-performing community banks (under \$1 billion). For full rankings, and a look at the performance of the nation's largest banks (April issue), visit <http://tinyurl.com/TopBanks-ababj>.

## Selection criteria explained

Our analysis ranks the performance of federally insured, domestic-depository institutions as of Dec. 31, 2012. We divided these into two sub-groups: publicly held depository institutions (banks, thrifts, and bank or financial holding companies) and private or foreign-owned depositories (further subdivided into subchapter S and non-sub S banks). A total of 242 public and 234 private institutions qualified. They were ranked by return on average total equity for 2012. Where reported ROAE was identical for two or more institutions, 2012 return on average total assets was used as a secondary ranking criterion. (Further details about criteria appear online.)

Securities and Exchange Commission filings provided public company data, and regulatory filings provided private and foreign-owned institution data. Thomson Reuters, LLC provided data for the 2012 analysis.

## Top-performer strategies

With 16.25% average ROAE for the top 25 banks, over-

## Public banks and thrifts with total assets of \$1B - \$10B

2013 RANK	2012 RANK		Total assets (\$000)	2012 ROAE (%)	2012 ROAA (%)	Non-interest income/total revenue (%)	Capital ratio (%)	Efficiency ratio (%)	Nonperforming loans/total loans (%)
1	N/A	HomeStreet, Seattle, WA	\$2,631,230	39.18	3.43	79.45	19.31	61.50	12.80
2	239	Independent Bank Corp., Ionia, MI	\$2,023,867	22.85	1.12	40.68	14.71	77.59	2.24
3	3	Republic Bancorp., Louisville, KY	\$3,394,399	22.51	3.35	33.64	25.28	46.90	3.78
4	8	BofI Holding, San Diego, CA	\$2,874,322	17.30	1.49	22.30	14.60	38.15	1.16
5	87	Meta Financial Group, Sioux Falls, SD	\$1,763,270	17.21	1.21	53.12	22.23	84.41	2.54
6	1	Bank of the Ozarks, Little Rock, AR	\$4,040,207	16.68	2.04	25.29	19.36	48.59	0.34
7	N/A	Pacific Premier Bancorp., Irvine, CA	\$1,173,792	16.34	1.52	9.32	14.43	61.20	0.22
8	38	Cardinal Financial Corp., McLean, VA	\$3,039,187	16.02	1.70	41.06	13.04	51.37	0.42
9	N/A	Monarch Financial Holdings, Chesapeake, VA	\$1,215,446	15.81	1.25	68.78	12.05	79.93	0.33
10	132	Provident Financial Holdings, Riverside, CA	\$1,248,330	15.28	1.74	65.79	20.05	61.24	4.00
11	9	Hingham Institution for Svgs, Hingham, MA	\$1,205,884	15.05	1.15	4.21	13.79	41.54	0.63
12	7	WestAmerica Bancorp., San Rafael, CA	\$4,952,193	14.93	1.64	24.85	16.33	49.54	1.83
13	108	Fidelity Southern Corp., Atlanta, GA	\$2,477,030	14.10	1.07	52.37	13.44	68.48	3.46
14	N/A	Taylor Capital Group, Rosemont, IL	\$5,802,410	14.02	1.24	49.05	16.27	61.45	2.43
15	N/A	Burke & Herbert Bk & Tr, Alexandria, VA	\$2,620,345	13.97	1.46	10.79	15.11	48.92	1.13
16	13	First Financial Bankshares, Abilene, TX	\$4,502,012	13.85	1.75	25.69	19.00	52.15	1.05
17	70	Great Southern Bancorp, Springfield, MO	\$3,955,182	13.83	1.22	14.39	16.90	42.51	2.57
18	52	Horizon Bancorp, Michigan City, IN	\$1,848,227	13.76	1.19	31.95	13.72	61.41	2.00
19	26	Canandaigua Nat'l Corp., Canandaigua, NY	\$1,887,028	13.63	1.03	34.99	12.92	68.79	1.29
20	27	German American Bancorp, Jasper, IN	\$2,006,300	13.58	1.24	24.77	13.70	57.83	0.85
21	14	Merchants Bancshares, S Burlington, VT	\$1,708,550	13.37	0.92	17.86	16.00	67.82	0.27
22	20	Cambridge Bancorp, Cambridge, MA	\$1,417,986	13.31	0.99	30.87	15.19	69.08	0.22
23	N/A	Alerus Financial Corp., Grand Forks, ND	\$1,321,944	13.28	1.47	62.74	14.20	77.25	1.09
24	227	NASB Financial, Grandview, MO	\$1,252,524	13.24	1.75	56.31	19.00	62.93	13.35
25	92	Heartland Financial USA, Dubuque, IA	\$4,990,553	13.16	1.12	36.95	15.35	74.43	2.32

Source: Thomson Reuters, LLC, 2013

Full rankings at <http://tinyurl.com/TopBanks-ababj>



## Public banks and thrifts with total assets of \$1B - \$10B

### SUMMARY STATISTICS

	Top 25			All banks		
	2012	2011	Percent change	2012	2011	Percent change
Average ROAE (%)	16.25	15.64	0.61	6.09	3.86	2.23
Average ROAA (%)	1.52	1.44	0.09	0.74	0.44	0.30
Average non-interest income/total revenue (%)	36.69	23.99	12.70	22.22	21.58	0.64
Average capital ratio (%)	16.24	16.96	(0.72)	16.39	16.94	(0.56)
Average efficiency ratio (%)	60.60	57.11	3.49	69.11	71.27	(2.17)
Average nonperforming loans/total loans (%)	2.49	2.14	0.35	3.09	4.05	(0.96)
Average loans/deposits (%)	82.26	83.82	(1.56)	79.51	80.32	(0.82)
Average net interest margin (%)	4.10	4.15	(0.05)	3.77	3.86	(0.09)

Source: Thomson Reuters, LLC, 2013

Expanded Summary Statistics at <http://tinyurl.com/TopBanks-ababj>

all profitability reached levels comparable to those before the financial crisis. Average ROAE for all publicly held, mid-sized institutions was 6.09%. Higher loan growth was significant. The average top performer posted annual loan growth of 12.93% versus 5.51% at the average mid-sized bank.

#### Strategy 1: Residential mortgages

In 2012, residential mortgages were central to top-performer profitability. HomeStreet, Inc., Seattle, Wash., (No. 1) had record net income. Eighty percent of total revenue came from noninterest income, primarily mortgage origination and sales fees. CEO Mark Mason noted that residential mortgage lending has been a central element of the bank's operations for 92 years. A successful IPO coupled with competitive opportunities in the Pacific Northwest enabled the bank to add 389 lending and support personnel and to open 15 new mortgage origination offices. These investments helped the bank to increase the volume of closed loans to a record \$4.7 billion for the year. This performance capped a remarkable turnaround for Homestreet, which had wrestled with significant

loan problems related to developers. Mason is optimistic that as refinancing abates, the bank's other business lines will contribute more.

Bank of the Ozarks (a top-performer regular), Little Rock, Ark., (No. 6) pursued a similar strategy, where fees from mortgage originations increased 70% year-over-year. Growth in mortgage lending was attained via organic growth and acquisition. It opened five offices in 2012, including two loan production offices. It acquired the Citizens Bank, adding an office in Geneva, Ga.

Cardinal Financial, McLean, Va., (No. 8) expanded mortgage banking, helping it capitalize on lending and refinancing growth in the Washington, D.C. area. It increased staff in the division to 425 from 246 during 2012, and added eight new locations, doubling its mortgage offices to 16. This larger mortgage banking unit increased annual originations by almost 70% to \$6.6 billion.

#### Strategy 2: Organic loan growth

In the Northeast, Canandaigua National Corp., Canandaigua, N.Y., (No. 19) grew loans organically by 12.9% last year, led by double-digit growth in its indirect automobile portfolio. That growth followed a

2011 decision to replace low-yielding investments with increased originations of short- to medium-duration, higher-yielding loans. The bank benefited from customer dislocation after a sale of 125 branch locations in western New York by HSBC Bank USA. Due to market turmoil, Canandaigua acquired many new customer relationships.

Net income in 2012 for Merchants Bancshares, South Burlington, Vt., (No. 21) was second only to its record year in 2010. It had strong organic growth in loans, deposits, and trust fees. CEO Mike Tuttle partly attributes the bank's consistent performance to its credit-risk management skills coupled with its standing as the only state-wide, independent bank. The organic growth of 5.4% in net loans was led by growth in the commercial loan portfolio driven by new customers and expansion of existing relationships. The increase in the residential mortgage portfolio was driven by increased refinance volume. Interestingly, the bank has not sold a residential mortgage on the secondary market in over ten years. A biweekly mortgage product coupled with Vermonters' desire to pay off loans helps the bank to manage rate risk. Tuttle is optimistic about prospects for continued growth in 2013.

#### Strategy 3: Acquisitions

Acquisitions played a significant role in several top performers' performance. Great Southern Bancorp, Springfield, Mo., (No. 17) has pursued an expansion strategy via FDIC-assisted acquisitions. Since 2009, it consummated four such transactions. Its loan and deposit portfolios have become more diversified, and it has significantly expanded its geographic footprint by adding operations in Iowa, Kansas, Minnesota, and Nebraska. Republic Bancorp, Louisville, Ky., (No. 3) consummated two such transactions in

## Private and foreign-owned S-corporation banks and thrifts with total assets of \$1B - \$10B

2013 RANK		Total assets (\$000)	2012 ROAE (%)	2012 ROAA (%)	Non-interest income/total revenue (%)	Capital ratio (%)	Efficiency ratio (%)	Nonperforming loans/total loans (%)
1	Heartland Bancorp, Bloomington, IL	\$2,936,343	30.81	2.96	35.80	13.78	45.26	4.10
2	Stearns Financial Services, St Cloud, MN	\$1,583,584	29.77	4.08	21.68	23.40	40.06	1.27
3	WNB Bancshares,, Odessa, TX	\$1,396,641	29.28	2.03	26.60	14.80	43.68	1.12
4	Midland Financial Company, Oklahoma City, OK	\$9,895,682	28.87	2.66	39.63	N/A	57.31	27.14
5	Woodforest Financial Group, Inc, The Woodlands, TX	\$3,754,554	27.97	2.07	84.69	19.40	86.97	1.51
6	United National Corp, Sioux Falls, SD	\$2,058,751	26.74	12.68	49.24	70.25	38.49	1.69
7	Luther Burbank Corporation, Santa Rosa, CA	\$3,657,054	26.30	1.74	4.01	N/A	29.71	2.59
8	Watford City Bancshares, Watford City, ND	\$1,306,373	25.06	1.68	23.38	11.46	59.44	0.23
9	Weststar Bank Holding Company, El Paso, TX	\$1,051,488	24.68	2.17	13.77	13.66	52.74	0.84
10	Olney Bancshares of Texas, Olney, TX	\$1,881,443	23.01	2.54	11.81	13.90	43.24	1.26

Source: Thomson Reuters, LLC, 2013

Full rankings at <http://tinyurl.com/TopBanks-ababj>

## Private and foreign-owned non S-corporation banks and thrifts with total assets of \$1B - \$10B

2013 RANK		Total assets (\$000)	2012 ROAE (%)	2012 ROAA (%)	Non-interest income/total revenue (%)	Capital ratio (%)	Efficiency ratio (%)	Nonperforming loans/total loans (%)
1	Villages BanCorp, Lady Lake, FL	\$1,511,987	24.29	1.83	5.32	15.94	32.04	3.72
2	Independence Bancshares, Owensboro, KY	\$1,252,963	22.24	1.46	10.85	13.62	51.91	0.30
3	State Bankshares, Fargo, ND	\$2,648,459	18.09	1.28	45.19	12.20	69.03	0.42
4	First Security Bancorp, Searcy, AR	\$4,465,096	17.64	2.39	31.01	19.41	42.02	0.73
5	Industry Bancshares, Industry, TX	\$2,188,750	17.45	1.82	16.38	24.03	43.12	0.77
6	American Bancor, Ltd, Dickinson, ND	\$1,055,633	16.63	1.32	31.38	12.74	60.67	0.38
7	First Farmers Financial Corp, Converse, IN	\$1,166,938	16.37	1.28	22.23	11.00	54.55	0.57
8	Landrum Company, Columbia, MO	\$1,753,482	15.83	0.94	32.68	13.11	68.16	0.64
9	Liberty Bancshares, Springfield, MO	\$1,064,618	14.93	1.33	21.04	15.16	50.20	0.81
10	Blackhawk BanCorp, Milan, IL	\$1,120,558	14.31	1.42	8.09	18.13	42.21	1.86

Source: Thomson Reuters, LLC, 2013

Full rankings at <http://tinyurl.com/TopBanks-ababj>

2012, which provided entrée to the metro markets of Nashville, Tenn., and Minneapolis, Minn. Time will tell if buyers can integrate acquisitions in a way that contributes to sustainable high performance.

### Private and foreign-owned results

This segment includes non-publicly traded banks, thrifts, and holding companies, and wholly owned financial institution subsidiaries of privately held and publicly traded foreign financial services companies, where the company is not listed on a major U.S. exchange and the subsidiary's results are available.

Average ROAE among the top ten private, subchapter S banks

was 27.25%. Heartland Bancorp, Bloomington, Ill., was the top performer here, due largely to acquisitions. It acquired Premier Bancorp of Illinois and Princeton National Bancorp, the latter via an FDIC-assisted transaction. Heartland recorded \$11.4 million in bargain purchase gains. It lowered its cost of funds and provision expense, and booked a gain on loan sales.

Average ROAA for the top ten non S-corp private banks was 17.78%. Unlike many top-performing publicly held banks, this year's top-performing private, non S-corp bank, Villages Bancorp, The Villages, Fla., did not grow its loan portfolio in 2012. It relied on a \$7.2 million

gain from the sale of securities to boost net income. Improved credit quality reduced provision expense.

### Looking ahead

The year represented a return to normalcy, whereby superior performance was defined by loan growth. While economic growth was far from robust, top performers capitalized on available opportunities. We predict more of this for 2013. ▢

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