BankBeat Community Banking Podcast
Episode 2: Kevin Forristall

Jackie:

This is the BankBeat Community Banking Podcast and I'm Jackie Hilgert, editor-in-chief. BankBeat is the online source for community banking news and opinion and is published by the same company that has, since 1992, published *NorthWestern Financial Review* magazine. Today I am at the Bank Holding Company Association's 2018 Spring Seminar, which offered a high-performance banking panel which featured three successful bankers who shared their insights into what it takes to innovate in today's environment. One of those bankers, Kevin Forristall, joins us today. Kevin is chief strategy officer and CIO of TS Banking Group based in Treynor, Iowa. The holding company is officially Treynor Bancshares, with combined assets of about $891 million. The company operates three subsidiary banks: Treynor State Bank, Treynor, Iowa; The Bank of Tioga, N.D.; and First National Bank and Trust, DeWitt, Ill.

Kevin, when I look at the numbers of your organization they indicate you have an infrastructure suited to a much larger organization. What's the strategy there and are you preparing for growth?

Kevin:

That was something that emerged between 2008 and 2014. We operate in a very deep-driven manner as an organization. One thing I had mentioned on the panel is that we really approach our balance sheet as an organization with a Moneyball approach -- really looking at what the best risk-reward propositions are for the bank, and that's forced us to have more of an analytics environment. For a long time, a lot of people might think that risk management is an expense. When we looked at investments that we can be approaching and the risk management that we needed to do in order to justify these investments, we all of a sudden noticed it's not just a risk management expense, it's actually an investment because we can unlock a lot of the upside in what we pursue. Still, it became true that we had very large overhead expense for the size of the organization, and in fact, we had a lot of outside participants (including regulators) saying you're built for an organization 10 to 20 times the size you are. We believe in being great at what we do. A lot of areas of our organization that people might typically say is an expense, we look at how it might become an investment over time, whether that's marketing, HR, IT, etc. It obviously comes at an expense. In 2014, we started acquisitions and we acquired four banks in about a two-and-a-half-year time period. Even since I've started in 2008, we've gone from $100 million in assets to just about $900 million in assets. I would say that through all that growth we're in a season of pause right now, focusing on the areas that we need to delve into and address in order to be great. We will continue to grow and look to acquire banks in 2019 and beyond.

Jackie:

You've got somewhat of a dual strategy: grow by acquisition and also making money through sophisticated management of your investment portfolio. Can you talk about the latter?

Kevin:

I would say one unique thing about our organization is that our CEO grew up in farming and his dad owned the bank, but he has never considered himself a banker. He didn't rise to the top through making loans and the like. He's a very analytical person; he grew up more so on the capital market side. One thing that we say we are is asset agnostic, which means we're indifferent as to if something is a loan or an investment. We invest in bonds and bonds are loans at the end of the day. There are a lot of fundamental characteristics that are shared with the investments that we go into versus the loans. But a lot of the times people treat them very differently or there are biases involved. Here's an example involving municipal bonds. In 2012, a lot of people had concerns about the state of California and its budget problems. One sector of investments that we like are school district investments. The repayment on the school district bonds really has nothing to do with the overall state budget, it has more to do with the individual cities and the enrollment rates. Now, for those to be a problem a town would have to become a ghost town and everyone would have to move out. One thing we've found is we would buy a bound in very northern California and compare it to a bond in very southern Oregon and the bond in California would get 1.5% more for it just because it had the name California on it. There's a lot of bias in the label of investments, and so there are times where we look at something that might have headline concern and we do a fundamental analysis, very numbers driven approach, to really understand the risk and the return of that investment independent of what its name is. We've found a lot of opportunities going down that path. What we might see as a risk management expense is actually a big investment, and we can begin unlocking opportunities like that. We've even had examiners tell us that if they hadn't seen the name California on the school district, they wouldn't have been able to tell that it was any different than a school district in Iowa. That's a bit of a description of that strategy.

Jackie:

One thing you mentioned in the panel is that your company gives back 10% of its profits to the community. That's a huge commitment. Could you tell me what that's rooted in and what the organization gains from that?

Kevin:

It's a family owned bank, and in the early 2000s, we were still very small at that point, primarily based out of Treynor, Iowa. The ownership had a very long-term approach and thought we either need to substantially grow this organization or get out of the organization. There was no question they were committed to staying. In order to grow they started to expand into a new market. We were small enough where that expansion drew earnings negative for about 26 months. It was intentional and it was planned, but that was part of it. Towards the end of that expansion in 2007, the family that owns the bank, they sat down at a local café and looked to when they would start making a profit again and how they would like to give back to the community once they do. They each got a napkin and wrote a number on the napkin, and every one of the three wrote ten percent. It was a unanimous blind vote and I would say that it wasn't coincidence. For them, it's grounded in principles of faith and it's been great to see that play out in our organization. What that's looked like in our community is that there's been a commitment to financial literacy. We've been involved state-wide in Iowa, partnering with various school districts, to get financial literacy curriculum integrated into our K-12 schools. There's other community reinvestment that we do that's similar to other banks, and I would say beyond the financial metric we have a really high volunteerism rate throughout our employee base. Whether it's our frontline employees or one of the top executives – we're all plugging in in one way, shape or form.

Jackie:

I bet it also factors into the liquidity challenge; you've got the support of the community going on and they're supporting you in return.

Kevin:

Absolutely. It's great because we love our communities and they love to have someone who's active in the communities. It's been a great endeavor so far.

This transcript has been lightly edited for clarity.