WHITE PAPER

PROVEN PRACTICES FOR BACK OFFICE EFFICIENCY

How community banks are utilizing technology to drive operational efficiency, streamline processes, and maximize profitability.

Shrinking net interest margins and rising operational costs are putting increasing pressure on community banks. With manual processes still widespread across back-office operations, many banks struggle to maintain efficiency and profitability in a highly competitive environment.

In today's banking landscape, community banks are under increasing pressure from shrinking net interest margins (NIM) and rising operational costs. As competition intensifies, optimizing processes and improving efficiency have become critical.

Community banks experienced healthy growth in loan yields and interest income, which contributed to stronger margins throughout 2022 and early 2023.

However, as 2023 progressed, liquidity pressures and rising funding costs began to squeeze margins. Banks have seen margins narrow even further in 2024, with many community banks facing increased costs of deposits and a greater reliance on wholesale funding (S&P Global)(Federal Reserve Bank of St. Louis). This situation makes it crucial for community banks to focus on operational efficiency to mitigate the impact of shrinking margins and maintain profitability.

12%

Community bank earnings are expected to fall 12% year over year as margin pressure and higher credit costs will take a bite out of earnings.

(US Community Bank Market Report 2024)

One of the most effective ways to increase back-office efficiencies is through the adoption of technology, which can:

- **Streamline Processes:** Automate manual tasks such as document management, loan processing, and data entry to reduce time spent on repetitive operations.
- **Reduce Operational Costs:** Implement robotic process automation (RPA) to minimize the need for additional FTEs while scaling operations.
- **Improve Compliance and Risk Management:** Enhance the ability to manage regulatory changes and compliance obligations through automated tracking and reporting systems, reducing the risk of human error.
- **Increase Data Accuracy and Security:** Use secure digital portals and automated workflows to ensure that customer data is processed accurately and securely.
- **Support Growth Without Proportional Staffing Increases:** Leverage technology to handle higher transaction volumes or expanded operations without the need for proportional increases in staff.

The 2024 CSBS Annual Survey of Community Banks highlights that net interest margins, along with rising deposit costs, remains a top external challenge for community bankers, with many institutions struggling to balance these challenges while maintaining profitability.

Technology in Today's Banking Environment

The role of fintech in community banking has expanded significantly in recent years, providing banks with the tools they need to stay competitive. As community banks look to combat shrinking margins, technology solutions have become essential in improving efficiency and reducing overhead.

"Community banks used to get by with basic services—checking, savings, loans, and great customer service—but that's not enough anymore," says Greg Ohlendorf, President and CEO of First Community Bank and Trust. "Today's customers, especially younger ones, are digitally native and increasingly drawn to fintech apps that operate like banks but lack FDIC insurance or regulatory oversight. If we stick to the old way of doing business, the value of our institutions is at risk."

Bill Loving of Pendleton Community Bank and Greg Ohlendorf of First Community Bank and Trust lead community banks that utilize fintech technology to enhance efficiency and drive profitability.

Bill Loving
President and CEO

PCB
Pendleton Community Bank

Greg Ohlendorf
President and CEO

FIRST COMMUNITY BANK AND TRUST
SINCE 1916

About Pendleton Community Bank

Headquartered in Franklin, WV, PCB is approaching its 100-year anniversary. With $750 million in assets and 13 branches, the bank has experienced significant growth, particularly since 2019, when they began their journey with technology-driven efficiency improvements.

About First Community Bank and Trust

Located 37 miles south of Chicago in Beecher, IL, FCBT is a $200 million community bank with a deep commitment to technology and innovation. The bank has become a leader in leveraging fintech to enhance operational efficiency.

When margins are compressed, efficiency comes into play

"As community bankers, we're constantly asking ourselves how we can increase profits and improve the bottom line. To do that, we're embracing the efficiency that technology provides for our team. It's become a core part of our organization," says Loving.

"You don't implement technology just for the sake of it. Every project should solve a strategic problem—whether it's leveraging a strength, fixing a weakness, seizing an opportunity, or defending against a threat," says Ohlendorf.

He explains, while some banks view tech spends as a cost, it's short-sighted to ignore the efficiencies it brings. "A $12,000 investment in back-office efficiency might save $45,000 in overhead. Improving workflows, reducing manual processes, and driving digitization, especially post-covid, can significantly lower efficiency ratios.

Even if you can't increase top-line revenue due to margin compression, reducing overhead is just as important. We're all facing a very tight margin environment, and I don't see that changing anytime soon. Higher rates are likely here for the foreseeable future. In response, we're focused on maximizing profits and increasing efficiency, and technology is a key tool to help us do that."

4.6%

66%

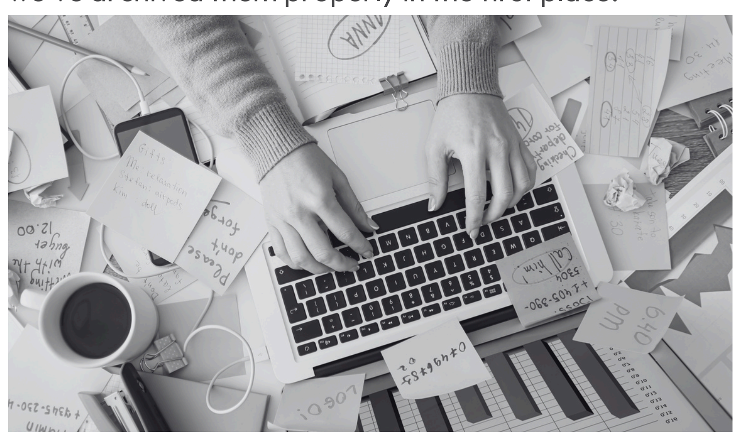
71%

The average efficiency ratio increased 4.6% from 2022 to 2023. The current average for all public US banks is 66%, but for community institutions, the current average is 71% (1) (2)

Streamline Processes Through Automation

The goal of efficiency is to complete the same tasks with less effort, using automation to ensure nothing falls through the cracks. FCBT utilizes Teslar to streamline loan processing and reduce manual tasks. "Things like tracking where a loan is in the process, identifying exceptions that hold up transactions, and reporting on the pipeline were all manual processes before," explains Ohlendorf. "Unraveling that 'paper tiger' and simplifying the entire process has really improved our loan department's efficiency. In today's hiring environment, these efficiencies are invaluable."

Teslar has transformed that dynamic, he explains, "Lending is one of the last areas still bogged down by paper. Customers still bring in tax returns and financial statements, or worse, email them unsecured. Now we've created smarter processes. The system knows exactly what documents we need, and if we're only missing one year's tax return, we don't ask for three. And they're not buried in a drawer somewhere because we've archived them properly in the first place."



Reduce Operational Costs Through RPA

Many banks don't realize that everyday processes are prime candidates for RPA, and you don't need to be a $20 billion bank or have a full IT staff to implement it—this misconception is common. RPA is accessible for banks of all sizes and budgets.

Reduce Operational Costs Through RPA (cont.)

Simple processes, like routing tax returns for review based on criteria, are easily managed by RPA. “It’s a game changer,” says Loving. “A tax return is submitted into a portal, goes through credit administration, gets documented, reviewed, and filed into cold storage—all without being touched. What used to take multiple steps and multiple hands now happens seamlessly, like magic, and nothing gets lost along the way.”

Ohlendorf shares a similar experience, “With RPA, all we have to do is scan a piece of paper. It builds the loan from boarding through completion, checking if it’s an existing customer or a new one, creating a portfolio if needed, and handling everything from processing to boarding accounts. All we have to do is a quick file maintenance check. Three years ago, I couldn’t imagine this was possible; now it’s just a click of a button."

By automating data entry, employees are freed up to focus on more high-impact tasks, like working directly with customers. “It’s game-changing once you realize what’s possible,” he adds.

According to the latest CSBS Annual Survey, 82% of community bankers believe that their regulatory burden will increase in the future.

Improve Compliance and Risk Management

PCB first partnered with Finosec after unexpectedly losing their CIO. Finosec stepped in to provide the necessary governance, resources, and mentoring to support the new CIO, who transitioned from a different role in the bank. This partnership established a process to ensure the bank remains protected in the event of future transitions.

“We’ve seen that having a solid process gives us confidence. If someone leaves, we know exactly what to do next,” explains Loving. “Losing a key employee is inevitable, and it often happens at the most inconvenient time. But technology and fintechs can bridge that gap and keep us protected.”

Finosec’s governance process enabled the new CIO to ramp up quickly, significantly reducing training time. “Third-party risk management is critical. You can outsource technology, but you can’t outsource responsibility. This partnership wasn’t just a cost—it was an investment in the future.”

Recently, PCB completed their state exam without stress. “Our IT steering committee reviewed the exam readiness report, and everything on the dashboard was green. We felt prepared and confident going in. In the past, it would have required multiple people scrambling to pull everything together,” Loving adds.

The added transparency and visibility into governance is crucial for ensuring business continuity. “We all have thousands of policies, IT tasks, and other responsibilities we’re managing. My concern is about having transparency of these items. When our CIO retired after 48 years, much of her work was stored in her Outlook and in her head,” Ohlendorf notes. “Now, by tracking tasks and adding governance, we can see what’s due, what’s past due, and where files are located. This way, if someone gets sick, leaves or retires, anyone can step in and keep us on track."

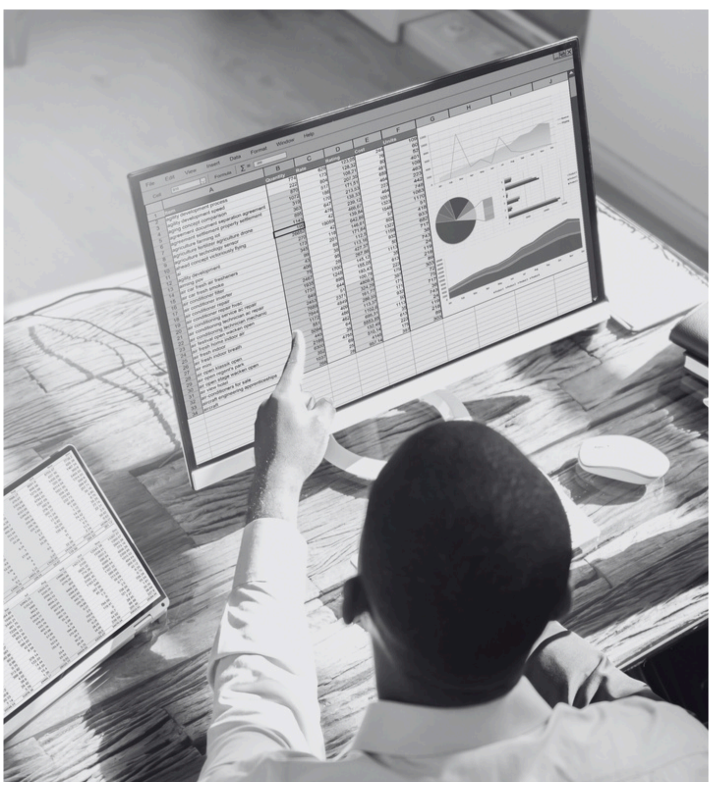
While this investment doesn’t directly generate revenue, it significantly reduces risk. “Unmitigated risk can be expensive, and if something goes wrong, the cost could be huge. This way, we’re taking risk off the table."

Increase Data Accuracy: The Risk of Relying on Spreadsheets

"It's extremely risky to make decisions off of spreadsheet data," Ohlendorf explains. "We all know how easily an Excel spreadsheet can be modified with just a click. Anyone can mess up a perfectly good spreadsheet. Is it coded correctly or actually doing what it's supposed to? Did someone put a plus where a minus should be? And the more hands that touch an Excel file, the more dangerous it becomes.

That's why we've worked hard to move away from as many of those manually orchestrated spreadsheets as possible and move that data into a system of record—a single source of truth—where I know that if I look something up, it is accurate.

Teslar is that source for us. I can look something up, know that it is accurate, there's file maintenance associated with it, I can track who's working on it, and easily see anyone's changes and updates."



60% The US Community Bank Market Report 2024 notes the use of technology can reduce the time spent on manual tasks by up to 60%, allowing community banks to accomplish more without proportional increases in staffing, enabling banks to manage growth without a linear increase in FTEs.

Support Growth with Less Staffing

Despite significant growth, both banks are scaling operations with fewer FTEs. "We've more than doubled the bank's size, and while we've increased FTEs, we haven't had to increase them proportionally, thanks to the efficiency gained from technology," says Loving.

Ohlendorf adds, "When a long-time employee, like someone who's run loan ops for 25 years, leaves, it's tough to get a replacement up to speed quickly. But with systems where data is accessible and processes are clear, you can plug new employees into roles faster and avoid the 'Patty did it this way, Dorothy did it that way' training inconsistencies. It speeds up onboarding and improves efficiency."

This efficiency boost helps manage capacity as well. "One team member can do far more with automation," Ohlendorf notes. "If you unexpectedly need to increase fixed costs—say $65k plus benefits for a new hire—that's a big deal. If technology can delay the need for more hires, the math is easy."

PCB experienced this firsthand. "We initially used Teslar to manipulate and analyze data faster than our core system allowed. Now, Teslar is the backbone of our lending operations—handling exceptions, underwriting, and pipeline management. I no longer have to worry about someone being out or leaving because the system handles everything for me," Loving adds.

Key Lessons and Tips for Success

Identifying the Right Technology

“There are plenty of shiny products out there, and everyone wants the newest and greatest,” says Loving. “But start by identifying your organization’s most pressing need and look for a solution that addresses it. Once you feel comfortable, move on to the next pain point. You’re not going to accomplish it all at once. It’s a step-by-step journey.”

At FCBT, technology decisions are always tied to strategic planning. “We don’t adopt tech just for the sake of it,” says Ohlendorf. “Every project must solve an identified issue—whether it’s enhancing a strength or addressing a gap in operations.”

Start Small and Scale

Both banks recommend starting small when adopting new technology. At PCB, the journey began with simple workflow automations to reduce manual data entry, and as they saw success, they moved to more complex initiatives. FCBT followed a similar approach. “Our first projects weren't 'change-the-world' solutions—they solved one narrow problem that needed to be addressed,” says Ohlendorf.

Taking on big projects like core systems or digital banking can feel overwhelming due to high costs and lengthy implementation times. But focusing on baby steps—finding something small you can implement today—can make a big difference in driving efficiency and cutting expenses without feeling overwhelmed by the bigger picture.

Don’t Be Afraid to Partner with Fintechs

“Fintech isn’t something to fear; it’s a tool to get you to a better outcome," says Loving. "The hesitation to partner with fintechs reminds me of when the internet first came out. The first website I went to was the Weather Channel because it seemed the most trustworthy, I didn’t know what was behind the screen. Fintech is the same—it’s not mystical, just a process to improve your operations."

Ohlendorf agrees, “Bankers tell me they can’t work with fintechs because they’re startups. But we’ve all lent capital to startups—two guys in a garage with a great idea—which is a far bigger risk. Partnering with a fintech means you have a contract with a set amount. It’s actually less risky than a startup loan. If we can do that, we can de-risk a fintech partnership and invest in something that will help your bank become more relevant and positioned for the future.”

Fintechs often grow quickly and expand their offerings based on bank feedback, making them more nimble and willing to collaborate than larger firms. “Most fintechs don’t have experience running banks, and most bankers don’t code. But when we combine our knowledge with what they can build, it’s a powerful partnership,” Ohlendorf adds.

Key Lessons and Tips for Success (cont.)

Leadership and Culture that Embraces Change

Successful technology adoption hinges on strong leadership and a culture that embraces change. Leaders must set the tone, actively promote the benefits of technology, and encourage staff to see it as an enabler rather than a threat. “Culture will eat strategy for lunch,” says Loving. “If you don’t have the right culture in place, no amount of strategy will help.”

At PCB, one challenge was shifting the mindset of ‘this is how we’ve always done it.’ To address this, they took a top-down approach, with leadership demonstrating that technology is a tool to enhance performance, not replace jobs. "It's crucial to build a culture that supports your strategy. It starts from the top down. Management must communicate the benefits, take it one step at a time, and celebrate the small wins along the way."

FCBT also gives credit to a tech-forward culture, having long embraced technology, even participating in early beta tests for ITI (now Fiserv). “We’ve always been a tech-forward institution,” says Ohlendorf. “With our proximity to Chicago, our customers saw those banks advertise the latest tech and as such expect us to stay ahead, so we’ve made technology a core part of our strategy for decades.”

A study by Boston Consulting Group found that financial institutions with strong digital strategies and leadership backing performed significantly better, growing market value by 6.7% annually compared to 4.6% for less supported efforts.

Collaborate with Associations like ICBA

Both banks have benefited significantly from partnering with fintechs, particularly those they’ve met through ICBA’s ThinkTECH Accelerator. FCBT currently works with 21 fintechs, while PCB relies on partnerships like Teslar and Finosec—both vetted through ICBA—to drive operational improvements. “ICBA has been instrumental in helping us navigate vendor selection and third-party risk management,” says Loving.

The ICBA thoroughly vets participating companies, ensuring they are well-suited for community banks. Fintechs who participate in the accelerator also benefit from banker feedback, which helps refine their offerings and makes it easier for other community banks to adopt and leverage these tools as they continue to grow.

Meeting New Challenges

Community banks will continue to face complex market conditions and new challenges as time goes on. Leveraging technology to drive efficiency and profitability will remain a critical business strategy. Adopting the right technology—combined with strong leadership and cultural support— can bring transformative improvements to back-office operations and overall bank performance.

RESOURCES

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For more information about Teslar's automated tools and workflows:

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TESLAR SOFTWARE

Teslar Software, founded in 2008, is a configurable lending process automation platform for community financial institutions. Teslar transforms banking operations by providing easy access to centralized, relevant information to balance portfolios, optimize profits and help community bankers effectively serve their customers.

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About Finosec

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Finosec simplifies information security and cybersecurity management helping banks automate labor-intensive tasks for governance oversight, user access reporting and vendor governance. As an ICBA ThinkTech alumn, Finosec helps regional and community banks take control of their compliance.

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About ICBA ThinkTECH Accelerator

https://www.icba.org/innovation/innovation/icba-thinktech-accelerator

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