



# Lunch & Learn IV: Managing Capital and Profitability Through a Recession

**Bank**Director.  
#A0BA23

**Mac Thompson**  
*White Clay*

**Jon Littlewood**  
*First Keystone  
Community Bank*



**WHITE CLAY**

## **Managing Capital and Profitability Through a Recession**

Bank Director's Acquire or Be Acquired  
January 29, 2023



# First Keystone Community Bank



**Jon Littlewood**, Senior Vice President, Chief Lending Officer

**Stock Ticker:** **FKYS**

**Headquarters:** Berwick, Pennsylvania

**Asset Size:** \$1.3 Billion

**Locations:** 19

**Employees:** 193

[JLittlewood@fk.com](mailto:JLittlewood@fk.com)

570-752-3671 Ext.  
1191



# White Clay



[mac@whiteclay.co](mailto:mac@whiteclay.co)

[m](#)

502-558-5937

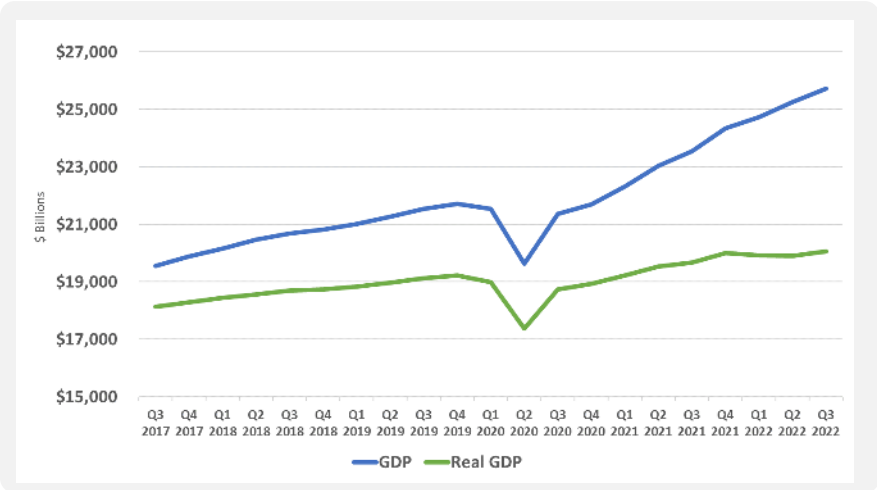
**Mac Thompson** , Founder & President, has 30 years of banking experience including leadership roles with Bank of America and Chase. Founded White Clay to create client and shareholder value by combining disparate bank data, adding advanced intelligence, and delivering it directly to bankers.

Mac teaches courses on Bank Pricing, Profitability, and Data Analytics at the ABA's Stonier Graduate School of Banking School at Wharton. He also teaches *Using AI to Grow Revenue* at the Consumer Bankers Association Executive Banking School.

# How Likely is a Recession?

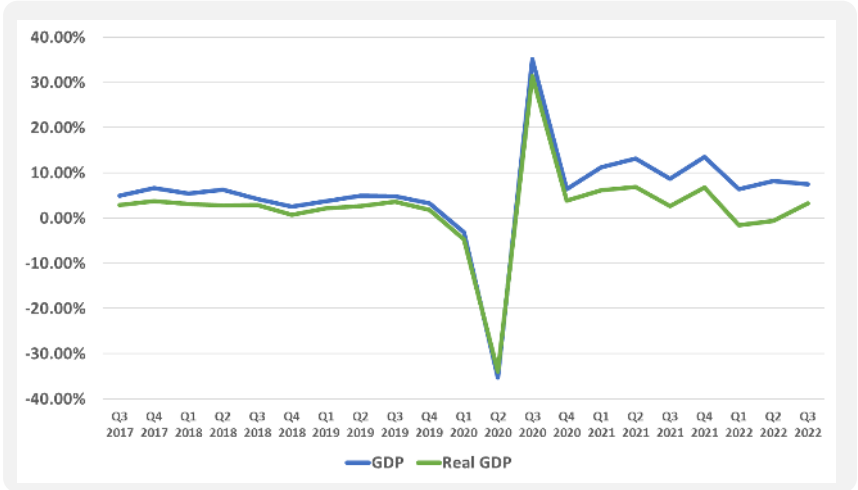
Real Gross Domestic Product(GDP) is currently going sideways

Gross Domestic Product (GDP) - Dollars



St Louis Federal Reserve, - FRED January 2023 Real GDP in chained 2012 Dollars

Gross Domestic Product (GDP) - Annual Growth %



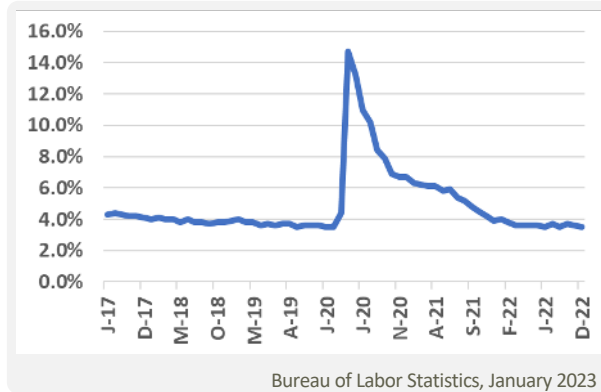
St Louis Federal Reserve, - FRED January 2023, Real GDP in chained 2012 Dollars



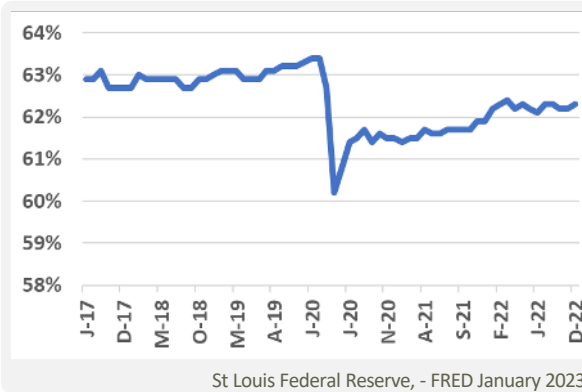
# US Civilian Labor Force

- The unemployment rate is near historic lows
- The Labor Participation Rate has not fully recovered
- We are short 3 Million jobs since the Pandemic started

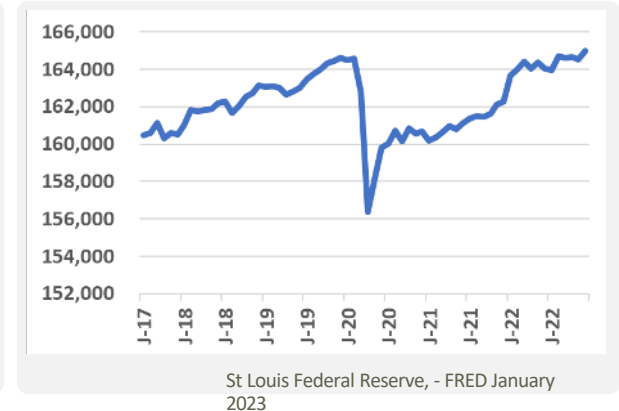
Unemployment Rate



Labor Participation Rate

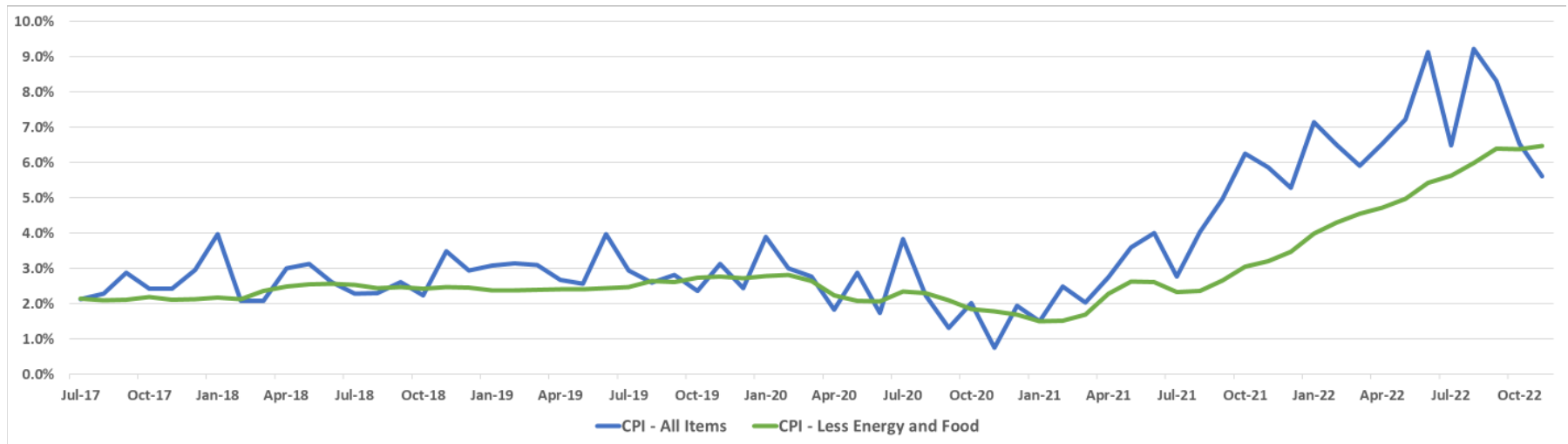


Labor Participation



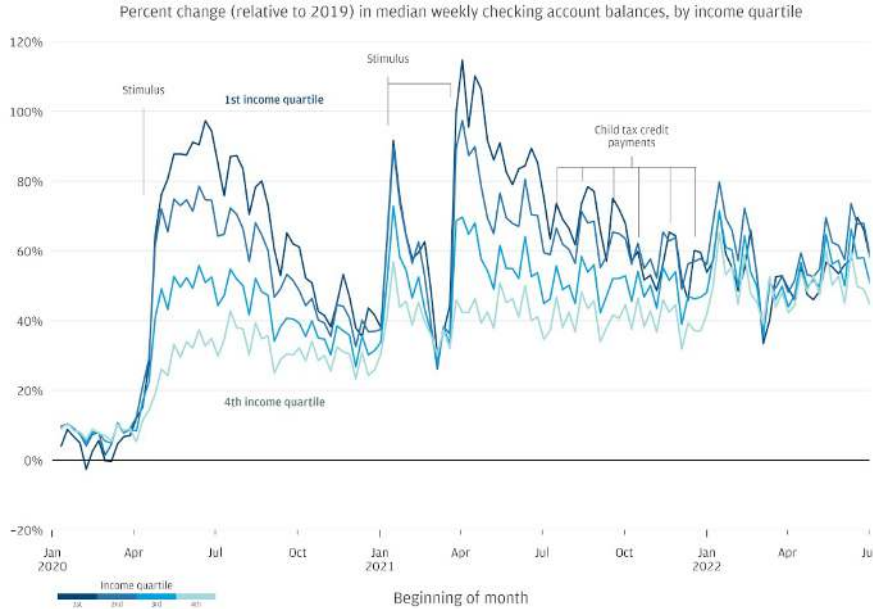
# Inflation – Consumer Price Index (CPI)

- Inflation has grown significantly in the last 12 months
- The target CPI less Energy and Food is 2%



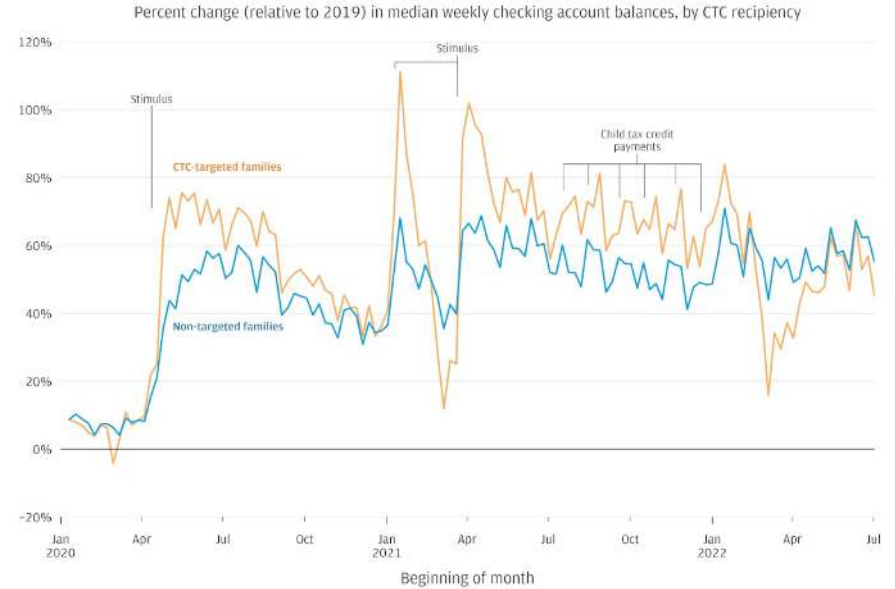
Bureau of Labor Statistics, August 2022, St Louis Federal Reserve, - FRED January 2023

# Stimulus Impact to Consumers is Diminishing



Note: We assign households into income quartiles based on the relative rank of their annual incomes in 2019, 2020, and 2021.

Source: JP Morgan Chase Institute

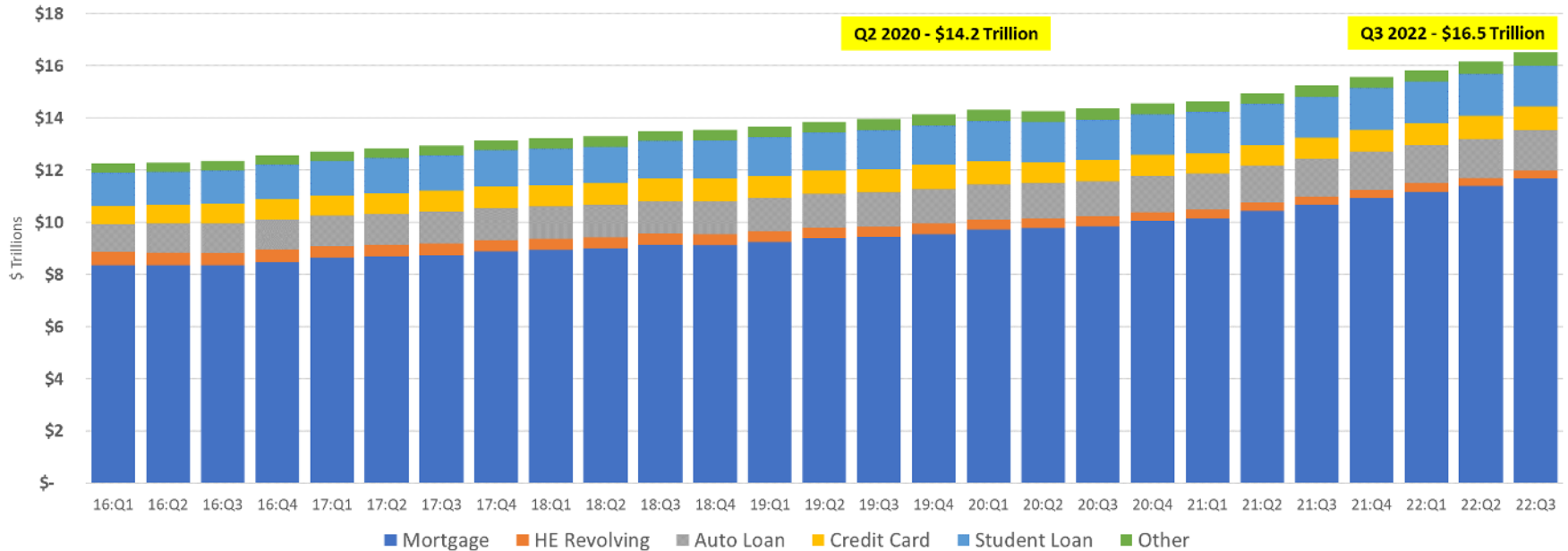


Note: We classify families as CTC-targeted or non-targeted based on receiving a payment during each of the six disbursements of advanced Child Tax Credit payments between July 15 and December 15, 2021.

Source: JP Morgan Chase Institute

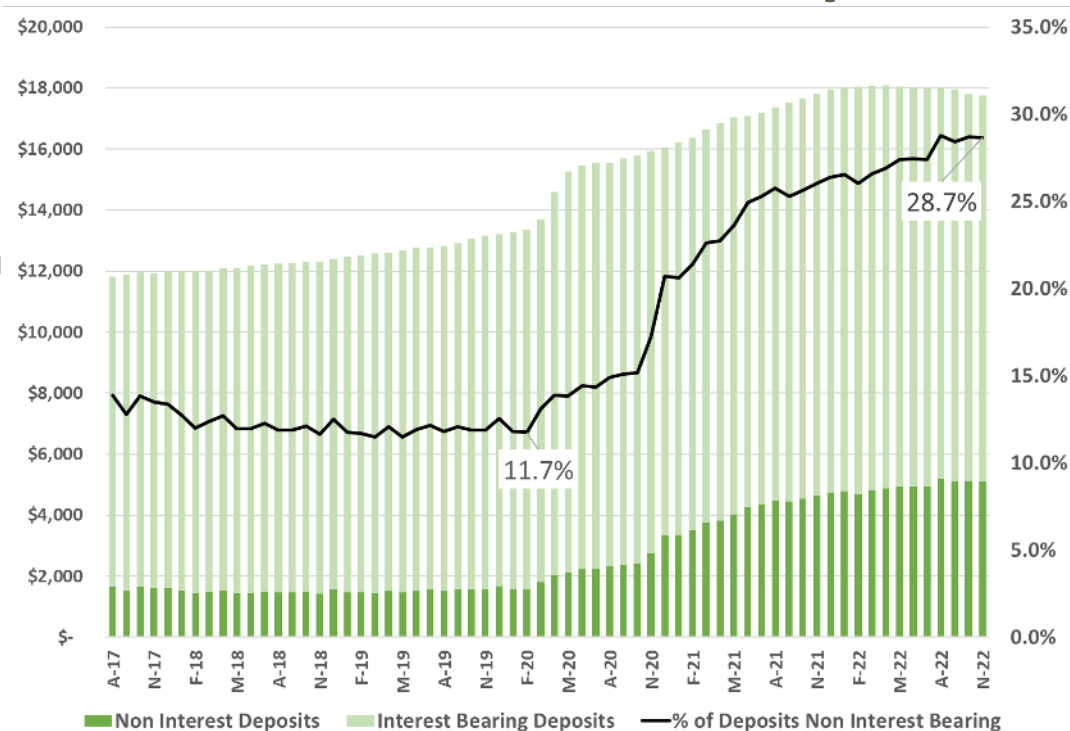


# Consumer Debt has Grown \$2.3 Trillion since Q2 2020



# Government Pandemic Stimulus has Grown Deposits

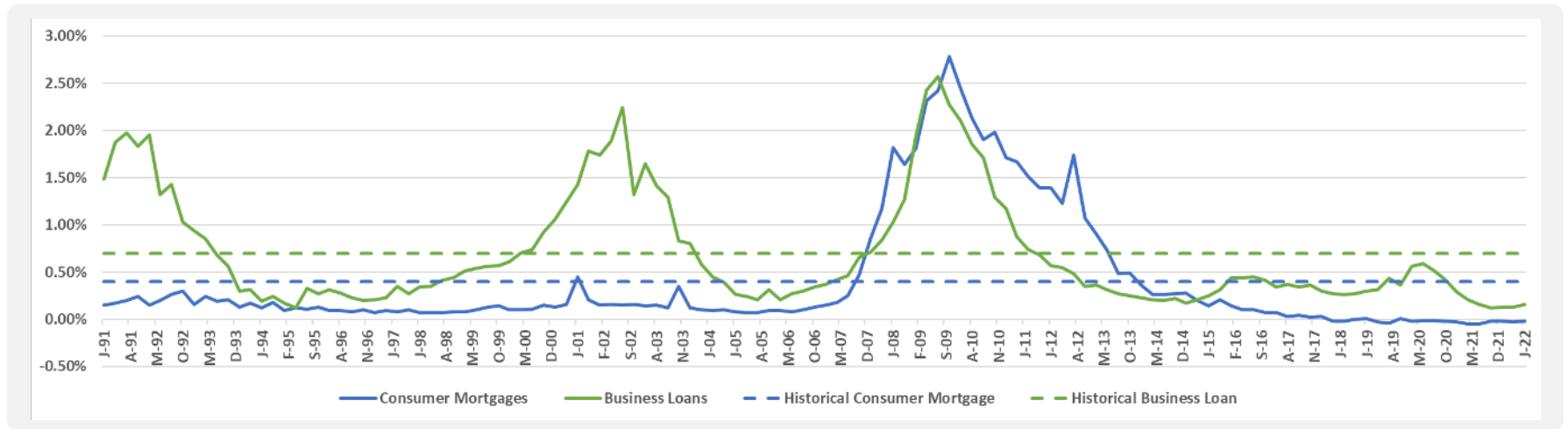
- Deposits at Commercial Banks has grown \$4.1 Trillion since March 2022 (23%)
- 81% of deposit growth has been in non-interest deposits
- \$17.7 Trillion in deposits
- Down \$333 Billion from April
- A significant portion of core deposits are excess balances with the ability to move easily



St Louis Federal Reserve, - FRED January 2023 – November 2022 Last Data Point

# Net Charge-Off Rates Remain Below Historic Levels

- Loans to Business are averaging 13bps vs historic 70bps
- Consumer Credit Card delinquency is growing



St Louis Federal Reserve, - FRED January 2023 – As of Q3 2022

# The Federal Reserve is Raising Interest Rates

The current forecast is for 5.50% by early Q1 2023

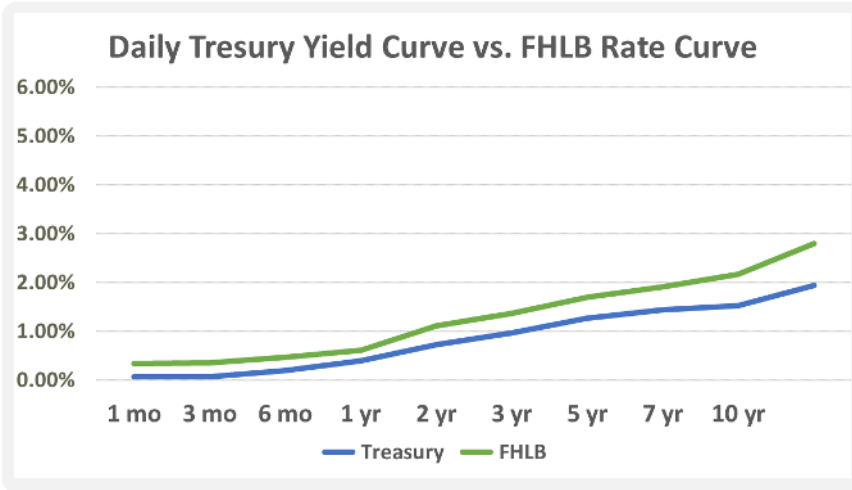


St Louis Federal Reserve, - FRED August 2022 , Federal Reserve January 2023

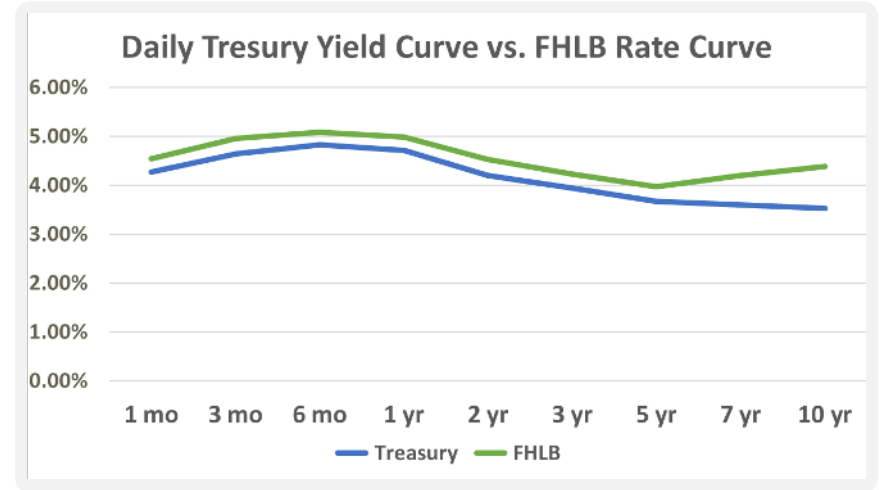
# The Yield Curve is Rising with an Inverted Curve

- One Month FHLB Loans have risen from 34bps to 4.54%
- It will continue to rise with the one-month Federal Reserve Rate

As of December 31, 2021



As of January 9, 2023



# Area of Focus for Banks in a Recession

- 1 Liquidity
- 2 Capital
- 3 Profitability

**The Key is Relationship Banking.**



# Optimize Your Organization's Recession Strategy

- Understand How Your Client Relationships Impact Liquidity, Utilize Capital, and Provide Revenue to Drive Profitability.
- Optimize Your Strategy for Liquidity, Capital, and Profitability.
- Acquire Operating accounts and Retain Excess Deposits.
- Price New Loans and Renewals for Shareholder Return.
- Execute a Management Process with Information to Actively Measure, Inspect, and Coach Your Bank's Strategy Execution.

# Managing Capital and Profitability Through a Recession

**Jon Littlewood**  
Chief Lending Officer  
First Keystone Community Bank  
570-752-3671 Ext. 1191  
[JLittlewood@fkc.bank](mailto:JLittlewood@fkc.bank)

**Mac Thompson**  
Founder & President  
White Clay  
502-558-5937 [m]  
[mac@whiteclay.com](mailto:mac@whiteclay.com)



# Define Client Relationship

Accurate definition of your Client's Total Banking Relationship is required to optimize for a recession.

Client Relationships

Total Banking Relationship

Households

Joe & Jane Smith

Client (Legal Entity)

Joe Smith

Jane Smith

ACME

ACME RE

Home Equity

Checking

Checking

Checking

Credit Card

Savings

Credit Card

OOCRE Loan

Checking

Mortgage

Line

Accounts

# 5 Questions To Optimize Relationships

- 1 Do we have the client's primary transacting accounts?
- 2 Do we have the client's excess deposit, wealth, and investment balances?
- 3 Do business clients have the optimal cash management services?
- 4 Are the client's loans & lines priced and sized appropriately for the relationship and their risk profile?
- 5 Do we have Business Client's personal accounts?