WaFd Bank Case Study

Asset Size: $18.7 billion (as of September 2020)
Headquarters: Seattle, WA

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About

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Asset size: $18.7 billion (as of September 2020)

Footprint: 8 states; 234 branches

Employees: 2,080

The Challenge

Falling interest rates and rising compliance costs spurred WaFd Bank to replace its ultra-low-cost operating model with a digital-first approach that would:

- Facilitate the bank's transformation from a monoline consumer mortgage originator into a full-fledged commercial bank;
- Enable the bank to scale its commercial lending capabilities;
- Provide real-time insights into the commercial loan origination process; and
- Improve the quality of the customer experience, measured by the net promoter score.

The Solution

By implementing nCino's commercial loan origination platform in March 2020, WaFd further consolidated its transformation into a full-fledged commercial bank and enabled it to better manage the onslaught of commercial loans triggered by the Paycheck Protection Program (PPP).

The Results

nCino's platform has furthered WaFd's strategic objectives in multiple ways.

- Using the platform, WaFd originated over 6,500 PPP loans in the span of four weeks, more than half of which came from new customers.
- WaFd's total loan production went from $4.1 billion in new loans in 2019 to $6.2 billion in new loans in 2020 — a 51% increase — with three quarters of those consisting of commercial loans.
- Despite the dramatic increase in loan volume, the bank's net promoter score improved to 51 in 2020, up from 47 in 2019.

+6,500	$6.2B	51 ↑
PPP Loans in the Span of 4 Weeks	Total Loan Production in 2020	Bank's New Net Promoter Score

Overview

If you look across the banking industry, you'll find an elite group of organizations that have performed exceptionally well through multiple credit cycles. WaFd Bank is one of them.

WaFd's history traces to the founding of Ballard Savings and Loan in a northern suburb of Seattle, Washington, in 1917. It has since changed its name and charter, merged with competitors, acquired other banks, expanded into a total of eight Western states, and, following the 2008 failure of its crosstown rival, Washington Mutual, emerged as the biggest bank based in the state of Washington.

Two factors underlie the now $18.7 billion bank's success. The first is its long tradition of deliberate leadership succession. The bank's current CEO, Brent Beardall, is just the sixth person to occupy the corner office in the 104-year history of the bank — an average CEO tenure of 17 years. That's more than three times longer than the average five-year tenure among CEOs at the 2,500 largest publicly traded companies in the United States, according to PwC.

The second factor is WaFd's financial performance. Since converting from a mutually held savings association to a federal stock association in 1982, WaFd's total shareholder return — dividends plus share price appreciation — adds up to more than 13,333%. That ranks it eighth among all publicly traded banks today based on all-time total shareholder return.

To prolong this run of success, Beardall and his team have spent the past decade modernizing WaFd's approach to banking, starting with its embrace of technology.

The Challenge

When Beardall joined what was then Washington Federal as its comptroller in 2001, it would have felt like traveling back in time. Entries in the holding company's ledger were still made by hand in oversized paper tablets. Typewriters sat on most desks. And to check their email, executives had to leave their offices, walk to a central terminal in the middle of the executive suite and log in to an email account shared by everyone else on the floor.

It was an antiquated approach — particularly given that WaFd is based in the same city as Microsoft and Amazon — but it also fueled the bank's immense success. "We were unbelievably lean, and we did very, very few things but did them really well," Beardall explains. "We took in deposits in the form of CDs and we lent the money out in home and apartment loans. We did that over and over and over again. We had no ATMs. We barely had checking accounts. We believed that all these complexities add all kinds of costs."

The proof is in the pudding. From 1992 to 2006, WaFd's average efficiency ratio was just 19.4%. That compares to 64.1% for the typical bank over the same period, or more than three times higher. This is why, even as late as 2002, WaFd earned 2.1% on its assets, roughly twice the standard industry benchmark that ordinary banks strive to earn in an ordinary year.

BUT THEN CAME A PARADIGM CHANGE.

In the years leading up to 2007, when WaFd crossed the $10 billion threshold, the bank's ultra-low-cost approach to driving efficiency became increasingly untenable. After the Dot.com bubble burst seven years earlier, followed shortly thereafter by the terrorist attacks on September 11, 2001, the Federal Reserve dropped interest rates to the lowest level since the recession in the early 1960s. All banks suffered, but WaFd was hit especially hard. As a monoline mortgage lender that retained the loans it originated, virtually all of its revenue — 97% — came from net interest income, compared to 60% for the average bank.

On top of this, as the digital banking revolution gained steam in the wake of the 2008 financial crisis, the competitive gap began to widen between the banks with the biggest budgets and everyone else. "Small and mid-size banks are getting hammered right now," Beardall explains. "Look at deposits — they're flowing to the big banks. And now you look at the lending side, and the same thing is happening between fintech and the big banks."

THERE WAS ONLY ONE PATH FORWARD, BEARDALL CONCLUDED: **"IF WE WANTED A LONG-TERM FRANCHISE, WE NEEDED TO INVEST."**

The Solution

The solution, engineered by Beardall and his colleagues, was to transform WaFd into a full-fledged commercial bank with diversified revenue streams powered by modern technology. Typewriters would no longer cut it; they must advance to the vanguard of digital banking.

This shift led WaFd to rethink its approach to efficiency. "There are two ways to drive efficiency — through cost containment or revenue growth," Beardall explains. "What we've come to realize is that if it's only cost containment, you can run a 25% efficiency ratio for the next three years, but have no business left over after doing that. It's like squeezing a turnip as hard as you can until there's nothing left."

Their approach would be rooted instead in technology investments that improve the customer experience. "Historically our recipe for success — I put this in my shareholder letter a few years ago — was based on relationships and the strength of our balance sheet," Beardall says.

> "Both have served us well, and we're not going away from either of them. But if we can add technology that makes you go, 'Wow. That was easy,' then we win. We absolutely can take market share because the big banks can't have the same quality of relationships with customers."

WaFd would continue to prioritize efficiency, in other words, but it would do so by driving revenue, the denominator in the efficiency ratio. This thought process prompted the bank to enlist nCino's services.

The Results

WaFd's implementation of nCino's cloud-based commercial loan origination platform couldn't have come at a better time. It went live in March 2020, just as the Paycheck Protection Program got underway. "It was like, 'Okay, we're live with nCino for commercial lending, now we're going to do PPP on it,'" Beardall recalls.

USING THE NCINO PLATFORM, WaFd ORIGINATED OVER **6,500 PPP LOANS IN THE SPAN OF FOUR WEEKS.**

It's an impressive figure. But it's even more impressive when you consider, as Beardall points out in his latest shareholder letter, that the bank had never previously made an SBA loan before and that just under 50% of its PPP loans were made to new clients. "What we are currently experiencing is a generational opportunity," Beardall wrote in his letter. "The pandemic provided an opportunity for your bank to 'walk the talk' and be nimble in working to meet the needs of clients when other banks were indecisive."

The capabilities provided by nCino only fueled this. "The beauty of nCino is that it's built on the Salesforce CRM," Beardall says. "One of the really cool things about that is the real-time reporting. Everyone knew what loans they needed to pick up to work through. And if someone fixed something, it went away."

"nCino really opened our eyes to what a modern architecture could do, and how you could be nimble from an IT perspective."

– Brent Beardall, CEO, WaFd Bank

The nCino platform is facilitating WaFd's objective to drive efficiency through revenue as well. "We're not going to gain more efficiencies by taking people out," Beardall explains. "We're going to gain efficiencies by driving increased volume."

TO THIS END, WaFd'S LOAN PRODUCTION WENT FROM $4.1 BILLION IN NEW LOANS IN 2019 TO **$6.2 BILLION IN NEW LOANS LAST YEAR** – A 51% INCREASE. AND THREE QUARTERS OF THOSE WERE COMMERCIAL LOANS.

WaFd achieved all of this without impairing its reputation among customers.

The bank's net promoter score improved to 51 last year, up from 17 just four years earlier.

That's dramatically higher than all but one of the banks in its peer group. "The goal is to have raving fans, right?" Beardall says. "How can you have raving fans with Chase spending $11 billion dollars a year on technology? It's really hard for us to outperform that. But if we can stay in the same zip code as Chase in terms of technology, then bring our relationships to bear, we can take market share."

Finally, nCino's commercial loan origination platform has proven to be another step toward consolidating WaFd's transformation into a commercial bank. "When I joined Washington Federal, we were a mono-line thrift; that's all we did," Beardall says. "Now we're a full-fledged commercial bank. We have retail. We have commercial. We have ATMs. We have online banking. We have commercial treasury management." The changing composition of WaFd's loan portfolio speaks to this. In 2010, 79% of its loans consisted of consumer mortgages. Today, that's down to 42%, with the rest made up of commercial loans.

WaFd isn't the only bank that's working urgently to compete in the digital age of banking, but it is unique in the intensity of its commitment.

It codified this commitment two years ago in its vision for what it hopes to become by 2025: "A highly-profitable digital-first bank that leverages data to anticipate financial needs and empower our clients by creating frictionless experiences across all interactions and devices."