



The Mindful Growth of VisionBank

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Executive Summary

VisionBank is a locally owned community bank based in central Iowa. The bank has grown significantly over the past five years, with average assets nearly doubling over that period. The diverse economy of the four-county area in which the bank operates has provided a landscape with abundant opportunity for organic growth during and immediately following the COVID-19 pandemic. Additionally, the family-owned structure of VisionBank enabled the bank to move quickly to secure a nearby acquisition after the economy emerged from the pandemic shutdown. The acquired bank, Legacy Bank, was also family-owned. The complementary nature of the ownership structure, balance sheet, geographic location, and customer base helped fuel VisionBank's growth.

Located in the growing Ames and Des Moines markets, VisionBank is focusing its efforts almost entirely in this central Iowa region to gather deposits and generate loans. The bank specializes in making real estate loans, specifically commercial real estate loans, which are generally large. Management understands that local and reliable core deposits are the most obvious source of funding necessary to support sustained growth. They also recognize that acquiring and retaining this critical source of funding takes effort in a competitive market. The bank has added a deposit-growth mindset to its traditional loan-growth focus. This combined focus is expected to strengthen profitability, thereby fueling further growth.

Data for this report was gathered from VisionBank's Market President Tim Tryon and other staff members, Iowa State professors, and online banking reports.

Introduction

VisionBank's story dates back over 140 years to the small community of Ogden, Iowa. Until the 1990s, ownership operated just one bank office in that rural town. An ensuing combination of new offices and charters over the next 20 years resulted in both geographic and balance-sheet growth in nine communities across a four-county area. The 2022 purchase of Legacy Bank in Bondurant was a good fit that further contributed to growth. Legacy Bank, like VisionBank, was also a family-owned bank that added four locations in nearby communities. VisionBank was pursuing growth through lending, while Legacy Bank was more a deposit-gathering bank seeking investment opportunities.

Although the bank originated in a small town, it currently operates 13 branches, reflecting its longstanding commitment to growth. Lending staff is now housed at all 13 combined bank locations. VisionBank provides services to, and utilizes the deposits of, thousands of central Iowa households and businesses to make loans, specializing in those secured by real estate. Using these local resources, the bank has continued its growth trajectory. Ownership has also established that it has the capital necessary to support the risks associated with its lending activities and to move quickly should expansion opportunities present themselves.

Five years ago, VisionBank had the target of growing to a \$1 billion institution in its sights. While the bank was prioritizing growth, it was cautious due to the regulatory requirements the \$1 billion threshold would necessitate. This pause allowed the bank to get comfortable with its new structure and plan for mindful growth. In 2025, regulators expanded the \$1 billion threshold to \$5 billion. Rather than pursuing growth solely to achieve returns to scale,

the bank continues to demonstrate a focus on sustainable, intentional growth. This approach positions it to remain competitive while maintaining its community-centered values.

Section I: Financial Analysis

Earnings Performance

VisionBank’s loan-to-deposit ratio has averaged 98% over the past five years, placing it in the 90th percentile of its FDIC-assigned peer group. This metric clearly reflects the bank’s strong lending focus. Loans are generally the highest-yielding asset on a bank’s balance sheet due to the elevated risk of default and relative lack of liquidity (Mishkin & Eakins). Given this strategic asset mix at VisionBank, we were surprised to see the bank’s net interest margin, while improving, has lagged compared to its peer group, as illustrated in Table 1.

Regional President Tim Tryon attributes this lackluster margin to operating in a competitive market and to booking mostly low-risk (lower-yielding) loans. He notes, “We are heavily concentrated in commercial real estate lending, which traditionally doesn’t yield as much as higher-risk loan types.” The high loan-to-deposit ratio requires the bank to utilize a degree of expensive non-deposit funding, which also puts pressure on margins. Less emphasis was placed on margins and returns when the bank was more focused on growth; it is now placing a higher priority on profitability to build capital that can support continued growth.

Table 1 - Earnings	2021	2022	2023	2024	2025
Loan-to-deposits	97.3%	95.0%	98.4%	100.8%	100.5%
Loan-to-deposit to peer (percentile)	94.0%	85.0%	87.0%	91.0%	92.0%
Net interest margin	2.8%	2.5%	3.3%	3.1%	3.4%
Net interest margin to peer (percentile)	21.0%	5.0%	48.0%	42.0%	36.0%
Servicing & interchange/non-margin income	86.9%	64.7%	62.2%	68.4%	72.1%
Return on equity	9.4%	7.4%	10.7%	11.0%	13.4%

Source: Compilation from Uniform Bank Performance Report

VisionBank continues to work to grow deposits, particularly the less expensive and more reliable core deposits. One of the strategies being deployed is a greater focus on requiring deposit accounts for all borrowers, something that hadn't been a high priority in the past. Core deposits are typically locally gathered, relationship-based deposits that are less sensitive to interest rates than are larger deposit balances and wholesale funding. Tryon observes that growing core deposits is "harder than it sounds" because all banks are working to grow this source, and there is significant competition between banks and non-banks.

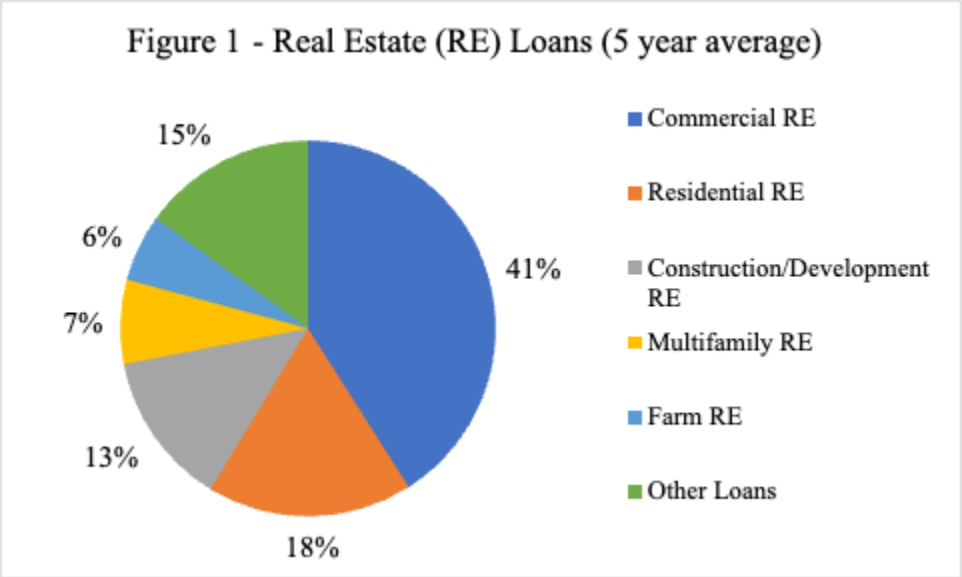
To supplement margin income, the bank creates a healthy volume of secondary-market home mortgage loans and earns interchange fees on its debit cards. The interchange fees have nearly doubled over the last five years due to the addition of a new account that pays a premium interest rate for swiping the associated debit card at least 20 times per month. These two fee generators have accounted for over 70% of non-margin income and provide a healthy supplement to the bottom line. VisionBank's return on equity (ROE) took a hit in 2022 when the bank completed the acquisition of Legacy Bank, but it has rebounded nicely since. Its ROE has been in the 56th, 66th, and 69th percentile of all Iowa banks over the past three years.

Loan Portfolio Composition

Real estate loans have comprised an average of 85% of VisionBank's loan portfolio over the past five years, as illustrated in Figure 1. Most loans originate within the bank's market area, which consists of four counties in central Iowa. The northern two counties are part of the Metropolitan Statistical Area (MSA) of Ames, and the southern two counties are part of the MSA of metro Des Moines.

While Iowa is recognized as rich in agriculture, less than 10% of VisionBank's loans are related to agriculture. The vast majority of these loans originate in the bank's northern region,

where half of that region’s lenders specialize in such credits. Tryon puts this into perspective by saying that agricultural lending is very relationship-based and more labor-intensive than commercial real estate, so the amount of time dedicated to these credits isn’t directly correlated to the size of the balances represented in the portfolio (Tryon, interview).



Source: Compilation from Uniform Bank Performance Report

Tryon estimates that the source of 20% of the bank’s loan balances comes from participations with Freedom Financial Bank in the Des Moines metro market. The ownership of these two banks overlaps. Freedom has a much smaller legal lending limit per borrower. It can only keep a portion of the larger loans it extends on its balance sheet and is comfortable selling, or ‘participating’ the excess portion with VisionBank. This arrangement gives Freedom the opportunity to compete for larger loan customers, thanks to VisionBank’s higher legal lending limit. While VisionBank appreciates the loan growth opportunities this relationship affords, the partner bank is not expected to part with its borrowers' associated deposits. VisionBank must

find a source of funds on the other side of the balance sheet to finance these loans.

Outside of residential mortgage and Home Equity Lines of Credit (HELOCs), the bank makes very few consumer loans. Bank management acknowledges that consumer lending will never be a large focus but is currently developing a more streamlined consumer lending platform to better position itself to improve pricing and efficiency and grow its consumer base. “Because consumer deposits are very important to us, we need to have a more efficient process in consumer lending,” says Tryon.

Asset Growth

VisionBank has grown its assets by 56% in the last five years as illustrated by the growth metrics in Table 2. Over half of that growth is attributed to the 2022 purchase of nearby family-owned Legacy Bank, which added \$176 million in assets. The securities that were purchased in the acquisition have largely been left to roll off the balance sheet at maturity. Loans have increased by 62% and core deposits by 70%. The bank experienced some deposit runoff after the acquisition, primarily due to challenges with merging core systems (Tryon, interview). However, because Legacy's loan-to-deposit ratio was only 59% at the time of sale, there were surplus deposits to help fund VisionBank’s loan growth (FFIEC, UBPR). The levels of brokered deposits and Federal Home Loan Bank (FHLB) advances have declined over the last five years, leaving room to take up those positions as needed to fund additional loan growth.

Table 2 - Growth	2020	2021	2022	2023	2024	2025	5-Year
Assets (in thousands)	\$574,837	\$600,366	\$755,877	\$811,807	\$901,638	\$898,513	56%
Assets (less Legacy)			\$579,877	\$635,807	\$725,638	\$722,513	26%
Loans	\$467,424	\$473,754	\$596,247	\$663,560	\$757,151	\$758,900	62%
Core deposits	\$417,545	\$457,735	\$582,076	\$623,231	\$672,047	\$711,163	70%
FHLB and brokered	\$91,557	\$74,744	\$81,263	\$90,870	\$101,430	\$74,446	-19%

Source: Compilation from Uniform Bank Performance Report

VisionBank’s business development strategy continues to evolve as management balances the competing objectives of growth and margin. The bank needs deposits to fuel its growth. Organic core deposit growth has been attributed to new products, cross-selling efforts, and a focus on a relationship mindset rather than transactional lending (Tryon, interview). The bank launched its “Purpose Bank” division in 2021 to serve underserved populations, particularly women and minority-owned businesses and individuals. It has since evolved into more of a marketing concept rather than dedicated employees and office space. This initiative demonstrated efforts to expand deposit and loan opportunities with existing and new customers. Tryon reports that a supplementary bonus program rewarded commercial lenders for both loan and deposit growth, as well as for sound portfolio management and bank profitability.

Capital Levels

Tier 1 capital and total capital ratios are important indicators for the bank. On the surface, it appears that VisionBank is thinly capitalized relative to peers based on these metrics, as illustrated in Table 3. Offsetting low capital levels is the consistent profitability that supplements retained earnings. While preferring to use retained earnings built by profit, VisionBank management has stated that ownership has access to additional capital, if necessary, similar to the capital that supported the acquisition (Tryon, interview).

Table 3 - Capital	2021	2022	2023	2024	2025
Tier 1 capital ratio	11.6%	9.6%	9.3%	9.6%	10.2%
Tier 1 capital ratio (peer)	14.9%	14.4%	14.4%	14.6%	14.9%
Total capital ratio	12.7%	10.4%	10.3%	10.6%	11.3%
Total capital ratio (peer)	16.1%	15.5%	15.6%	15.7%	16.0%

Source: Compilation from Uniform Bank Performance Report

Management reports that it monitors risk-weighted assets. As a heavily loan-oriented bank, the bank places a premium on robust underwriting and loan management systems. CRE lending tends to be straightforward in its analysis of cash flow required to service debt. Additionally, real estate has a stronger market for resale than many other forms of collateral.

Liquidity

The securities held by VisionBank are almost entirely U.S. Treasury and government agency bonds and therefore, very marketable. However, with a loan-to-deposit ratio presently exceeding 100%, this liquidity source would not go far. We observed that VisionBank relies predominantly on the FHLB for liquidity funding, as every loan booked is reviewed to determine whether it is eligible to be pledged to the FHLB as collateral against advances. The level of loans pledged to secure liquidity is illustrated in Table 4, and management reports that the present FHLB line available is \$110 million. In other words, the bank has mortgage loans pledged against future advances that would provide \$110 million of support should the bank experience a deposit runoff or other liquidity squeeze. There appears to be ample loans to pledge if the current collateral position (34%) is insufficient.

Table 4 - Liquidity	2021	2022	2023	2024	2025
Pledged loans / Total loans	31%	32%	34%	32%	34%
Core Deposits / Deposits	76%	77%	77%	75%	79%
Percent of deposits uninsured*	46%	41%	38%	39%	36%

*2025 uninsured is from 6/30/25. Federal Reserve Board of Governors Supervision and Regulation Report
 Source: Compilation from Uniform Bank Performance Report

While the bank has used brokered deposit funding, it prefers to build core deposits, as they are less expensive and offer opportunities to enhance profitable relationships. Building core deposits takes time and keeping them is a challenge in today’s competitive landscape of banks,

near-banks, and non-banks. Table 4 illustrates that VisionBank has increased the level of this important funding source. Furthermore, the level of uninsured deposits has averaged 40% over the last five years and is trending down. A notable number of these deposits have been with the bank for many years, and some are shareholders (Tryon, interview).

Section II: Interest Rate Environment and Inflation

Asset Liability Committee (ALCO)

Asset and liability management is largely the alignment of bank assets and liabilities to manage interest rate risk, liquidity, and capital. The bank has a dedicated ALCO committee that meets regularly and is comprised of senior officers from various areas within the bank. The efforts of this group are critical for a nearly \$1 billion bank with a high loan-to-deposit ratio because missteps in pricing and funding could quickly erode capital and impair liquidity options. The predominant strategy for the investment portfolio of VisionBank, largely comprised of U.S. Treasury and agency securities, is to provide a source of liquidity.

In recent years strategic decisions at VisionBank have been shaped by regulatory thresholds tied to asset size. The proximity of that \$1 billion asset threshold has influenced management's recent strategy. Approaching \$1 billion triggers additional regulatory requirements (FDICIA). In 2024, ownership made a conscious decision to slow growth and shift its focus toward margins and yields, ensuring the processes and controls required of larger institutions would be fully in place before crossing that threshold. The result was a shift toward 'smart growth': continuing to book new business, but with profitability and margin improvement at the forefront rather than volume alone. In late 2025, the \$1 billion audit threshold was increased by the Federal Deposit Insurance Corporation (FDIC) to \$5 billion. The removal of

expensive and burdensome requirements allowed the bank to return to placing a higher emphasis on growth.

Interest Rate Risk and the FOMC

The Federal Open Market Committee (FOMC) is the policy-making body of the Federal Reserve responsible for influencing short-term rates by establishing a target range for the federal funds rate. This target influences how much it costs banks to borrow from each other and, therefore, indirectly, the rates banks pay for deposit funding. The ALCO group at VisionBank closely follows the FOMC decisions and comments. Tryon notes that the FOMC decisions directly affect the Prime Lending Rate, which impacts yields earned on the bank's variable rate lines of credit. Fixed-rate commercial loans invariably follow suit.

While the FOMC does not set longer-term 15-year and 30-year residential mortgage rates, its decisions impact the markets where these rates are determined. Interest rates are the largest factor in residential mortgage loan demand (Federal Reserve Monetary Policy Report). VisionBank originates a large number of these mortgage loans and is attuned to market reaction to FOMC decisions. An active secondary market sets the rates for these loans, which is important because most of these loans are sold in that market. Interest rate risk prevents VisionBank from keeping all but those that don't meet the underwriting standards of purchasers (such as Iowa Bankers' Mortgage Corporation and Freddie Mac). The bank does make a significant number of commercial mortgages that are kept on the balance sheet. The rates for these loans are locked in for a shorter duration.

The rates and maturities of existing loans and deposits are monitored and then modelled regularly by ALCO for a change in market rates. Regulators expect such stress test modelling to be done regularly by ALCO. VisionBank's balance sheet is stressed by a 300 basis-point change

in rates, as well as stressed to a breakeven point. The lack of material bond assets has helped shield the bank from a volatile interest environment. Management fights the temptation to lengthen asset duration in search of yield by holding most commercial maturities to five years or less. Competition for local time certificate deposits has generally been for shorter terms. “Our current Time CD special has a six-month maturity, and I don’t recall offering one longer than 15-months in recent years,” says Tryon.

Management and ALCO keep an eye on the deposit rates of area depository institutions as well as the general market. Tryon is aware that consumers have options other than banks to store funds. While money market mutual funds put pressure on insured depositories, he feels most customers will continue to keep traditional deposits. The goal for securing funding is to stay competitive for deposits, not simply matching outlier deposit pricing that often pops up. The ALCO committee gives more weight to its own balance sheet mix when setting deposit pricing, “We are in it for the long haul and work hard to provide fair and consistent pricing. This applies equally to the lending side” (Tryon, interview). The competitive environment and rate strategies result in the balance sheet of VisionBank being liability sensitive to a change in rates, as indicated in Table 5.

Table 5 - Gap (RSA-RSL)	2021	2022	2023	2024	2025	5-year
% Repricing Loans/Securities < 1 yr	28.6	27.7	31.8	41.2	45.0	34.9
% Repricing Liabilities < 1 yr	88.4	90.6	92.9	96.2	97.3	93.1
Short-Term GAP position	-59.8	-62.9	-61.1	-55.1	-52.2	-58.2

Source: Compilation from Uniform Bank Performance Report

A bank is liability sensitive when its interest rate-sensitive liabilities reprice or mature faster than its interest rate-sensitive assets within a given time period. The bank’s net margin income in a ‘negatively gapped’ position would be vulnerable to rising rates. The degree of the

gap impacts the degree of vulnerability. The degree to which its liabilities and assets reprice also impact a bank's capital if the fair market value of its assets decreases faster than its liabilities in a rates-up environment.

Most community banks have been short-term liability sensitive since 2023 (OCC) and would fare well in interest-down environments. VisionBank however, benefited from rising interest rates in recent years, even though deposits were forced to reprice more quickly than loans. In the early 2020's, rates were compressed, making it difficult for banks to maintain spreads (FDIC). As rates increased, VisionBank's management made a conscious effort to re-price deposit rates as slowly as they could while still maintaining balances. The bank continued making new loans as interest rates increased in order to gradually build a higher-yielding loan portfolio. They are now being assisted by the re-pricing of maturing loans at current rates (Tryon, interview).

The owner and CEO of VisionBank, Heather Miller was appointed to the board of directors of the Federal Reserve Bank of Chicago in late 2025, where she is expected to contribute insights on community banking and regional economic conditions in Chicago's Seventh District ("VisionBank CEO Heather Miller Appointed"). It is anticipated that Miller will make key contacts and learn more about monetary policy and the flow of money. She will gain valuable perspective into the philosophies of other community banks and how they operate.

Inflation, Deposit Strategy, and Community Impact

Inflation, as measured by the Consumer Price Index, topped out at 9.1% in June 2022. In the decade prior to 2022, the rate averaged 1.89% (U.S. Inflation Calculator). In the post COVID-19 recovery period, Tryon described how consumers, business owners, and investors saw expenses rise faster than income. For example, real estate investors experienced large increases in property taxes and insurance and were unable to increase rents at the same pace to

offset them. Increased rates translated to higher interest-carrying costs for those with real estate in their portfolios as the associated mortgage loans repriced. The more leveraged a borrower is, the more susceptible they are to outside influences, such as inflation and higher rates, negatively affecting their cash flow, and ultimately their profitability and viability. Tryon suggests that leverage is the number one factor that contributes to adverse credit issues. He goes on to say the silver lining to a weak economy is that it will many times provide opportunities for the less leveraged borrowers (Tryon, interview).

While non-performing loan levels have risen a bit, VisionBank delinquencies are minimal (Tryon, interview). Highly leveraged borrowers are hurt the most in a rates-up environment since they don't have the room to adjust. Tryon has observed that industries such as agriculture and retail have slowed in recent years. He credits high credit standards for the bank's minimal credit issues and adds, "We haven't changed credit guidelines much in recent years, but standards are much more robust than 15-20 years ago. We require regular financials from borrowers, as well as supporting information such as rent rolls, to proactively identify issues as much as possible." Higher inflation in recent years has prompted VisionBank to look at ways to improve efficiencies in its internal processes. The bank continues to look for new ways to streamline processes, add technology where it can provide benefits, and look for economies of scale.

It is apparent that the ALCO team views its role as a core strategic function rather than merely a narrow compliance exercise. This team constantly frames its decisions through the lens of earnings and capital generation. Tryon feels these two metrics are the best indicators of how ALCO strategies are working. That discipline - managing the balance sheet with both rigor and community purpose - is what defines VisionBank's approach to asset and liability management.

Section III: Loan Strategy and Decisioning

Introduction

VisionBank is focused on long-term relationships in the communities that it serves. Their primary focus is Commercial Real Estate (CRE) lending, which has accounted for 80-90% of the bank's portfolio over the past five years. While the legal limit of the bank is \$12 million, most of their CRE loans are in the \$1-5 million range (Tryon, interview). Because the larger scale of CRE lending introduces concentration risk, the bank follows stricter underwriting standards, particularly in segments such as hospitality, where the local market is already saturated. The bank's family ownership structure provides flexibility in decision-making, continuity of leadership, and consistent underwriting. The recent acquisition of Legacy Bank introduced integration risk. Possessing a complementary culture was the second leading attribute desired of acquiring banks in a recent survey of banks (Bank Director). Components of culture can include staff, technology, operational process, and lending philosophy. Successfully merging loan portfolios and aligning lending standards requires careful, disciplined management. VisionBank's continued growth suggests careful management of the acquisition.

Portfolio Management and Risk Monitoring

VisionBank reviews financials submitted by commercial borrowers at least annually, with more frequent reviews depending on collateral type and borrower strength. Lenders review the borrower's global financial position using tax returns and financial statements. The cash flows associated with the collateral pledged by the borrower are monitored, as is the value of the underlying asset. Tryon says each loan is risk-rated based on objective ratios and data using a 1-8 scale, with 1 being excellent and 8 being poor. Most loans originate with a 4 (satisfactory) rating. Loans rated 5-8 are added to a 'Watch List,' promoting closer monitoring and the allocation of

loan loss reserves. Ratings of 1-3 are reserved for very strong borrowers or cash-secured loans. While these ratings are the standard, 2020 marked a temporary shift for loans in industries mandated to close due to COVID-19. These loans were temporarily rated a 5 to increase monitoring, regardless of performance.

Past-due or non-paying loans are downgraded to 6-8, depending on repayment history, cooperation, and collateral strength. For a lender, the work doesn't end after the loan is made. Regular site visits after loan origination help identify potential concerns before escalation. Tryon recalled one instance when a new home build was not progressing as quickly as expected based on the amount advanced against the collateral. In this instance, it was discovered early enough to be rectified and acted as a good reminder of what can happen if a bank cuts corners on monitoring activities. Most of the loans originated in the bank's market area, making it easier to monitor borrowers and market conditions.

Credit Approval and Loan Committee Structure

VisionBank takes a conservative approach to lending. Individual lenders have lending limits based on experience, and as borrowing exposure increases, approval moves higher within the bank. While the bank encourages lenders to maintain close relationships with borrowers, this approval structure ensures consistency in underwriting standards. Loan exposure is based on the size and purpose of the loan request, as well as overall exposure to the borrower and related entities.

Recently, VisionBank tightened credit standards by reducing lending authorities by half for new or struggling (classified) credits across all approval levels, reflecting a proactive risk posture. Loan requests may be declined due to inadequate cash flow or insufficient equity, but the bank works with borrowers to outline steps to make borrowing relationships possible. In this

manner, VisionBank acts as much as a partner as a gatekeeper. Supporting borrowers' long-term success strengthens future credit quality and contributes to overall portfolio stability. Denials are treated as opportunities for responsible growth rather than just transactional losses.

Pricing, Testing, and Analysis

Bank leadership monitors economic conditions and factors, including tariffs and their potential impact on borrowers. Tryon reports that the bank's commercial customer base, other than agriculture, has largely been unaffected by tariffs. The federal government has historically assisted industries affected by factors beyond their control, such as the Paycheck Protection Program (PPP) loans that helped business owners stabilize operations during COVID-19. Farmers are expected to receive federal support in 2026 to offset lower income from tariffs (Cunningham and Rinaldi).

Loan pricing is largely based on deposit relationships, projected-cash flow, collateral, repayment history, and guarantor support. The bank places heavy emphasis on the borrower's ability to generate revenue to consistently support repayment. The assigned 1-8 risk rating strongly influences the rate proposed to the borrower. While risk-based pricing provides the starting point, negotiation still occurs based on the overall banking relationship and competitive market conditions (Tryon, interview).

Interestingly, Tryon noted that in recent years the bank has experienced more negotiation on the deposit side of the balance sheet, as competition for core deposits has increased across the industry. VisionBank prioritizes profitability over revenue growth, as revenue without profit can introduce long-term risk. They have recently placed greater emphasis on growing core deposits, both consumer and commercial, as a key component of its growth strategy (Tryon, interview). Strong deposit growth provides the funding needed to support future loan expansion.

Portfolio stress testing occurs at least quarterly, with frequency influenced by economic conditions. Just as ALCO stress tests the balance sheet on a holistic level, VisionBank conducts testing at the individual loan, borrower, loan type, and industry levels. Tests focus on interest rates, occupancy, collateral values, and global support. Tryon gave an example of a fully occupied 16-plex financed for 5 years at 6%. The bank stress-tests the property by lowering occupancy to 95% or 90% and increasing rates to 8% or 10% to determine the debt-service coverage ratio break-even point if conditions worsen at loan maturity. In today's higher-interest-rate environment, stress testing is critical because many loans originated when rates were lower.

Technology, AI, and Recordkeeping

The deposit and loan balances and activity are maintained by Fiserv, one of the “big three” core providers of banks and credit unions (Alcazar and Terry). Over time, VisionBank has implemented technology to automate routine processes. Files are now digitized and accessible across locations, eliminating the need for manual calculations. Digital storage reduces the risk of lost or damaged files. The bank also uses a product from a different vendor (Precision Lender) to assess customer profitability to supplement risk-based pricing. Borrowers with significant deposit balances may receive more favorable rates (Tryon, interview).

VisionBank is exploring AI implementation to improve efficiency and reduce time-consuming administrative tasks. Several the employees are using Microsoft's Co-Pilot to assist with tasks in Word and Excel. Employees are leading research into AI opportunities across departments, and the bank is likely to rely on third-party vendors rather than developing internal systems.

Concepts Learned

One of the most important concepts we learned from the VisionBank team is the importance of cash flow in today's lending decisions. While collateral still plays a role, the bank does not operate solely as an asset-based lender. Tryon proposes, "cash flow is king," meaning the borrower's ability to produce consistent revenue is the most important factor. This approach also requires lenders to consider backup plans if cash flows are compromised in the future. Stress testing, guarantor support, and additional collateral help provide protection if operating income declines. Insufficient or inconsistent cash flow is the most common reason loans are denied at VisionBank, highlighting this concept's centrality to the bank's lending strategy (Tryon, interview).

Another key concept our team learned is the importance of partner banks when managing lending limits. Due to the large size of the projects represented by CRE assets, community banks often combine forces with these partners to share in the exposure. This is needed due to smaller bank lending limits but also desired to ensure diversity in both loan content and geography (The Whitlock Co.). VisionBank lenders maintain relationships not only with the bank they share ownership with but also a half-dozen other institutions. Most banks expect reciprocity in loan exchanges (Tryon, interview). We found it interesting that these relationships are often built by the lenders from the network of providers they are familiar with and comfortable.

Section IV: Bank Capital

Bank capital helps ensure financial stability and protects depositors, as it represents the difference between a bank's assets (primarily loans) and its liabilities (largely deposits). Its function is to act as a 'cushion' that can absorb unexpected losses. Capital is closely monitored by regulators as a barometer of a bank's safety and soundness. Regulators evaluate capital levels

when banks seek to expand operations, open new branches, or pursue acquisitions. At VisionBank, decisions regarding capital levels are made primarily by the Board of Directors with input from ALCO. These decisions occur as part of the annual budgeting process and are reviewed throughout the year. In addition to internal analysis, VisionBank compares its capital position with peer institutions using industry benchmarks such as tier 1 leverage, risk-based capital, and the Texas ratio. While minimum capital requirements for the industry are set by regulators, individual institutions may choose to maintain higher levels depending on strategic objectives and risk tolerance (Tryon, interview).

Capital Management

Assets on a bank's balance sheet are not treated equally from a regulatory perspective, as assets are assigned different risk weighting depending on the perceived risk of loss. The weighted values are referred to as 'risk-weighted' assets, and regulators require banks to maintain capital relative to the risk indicated. By weighting assets based on risk, regulators ensure that banks holding riskier portfolios maintain higher capital buffers ("Risk-Weighted Assets").

One common method to supplement capital is to retain a larger portion of profits instead of distributing them as dividends to shareholders. Rather than relying on retained earnings, bank ownership could inject capital or issue shares. Ownership has demonstrated it is able to supply capital to VisionBank as needed to support organic or acquisition-related growth. While this injection is available for growth or as a buffer for risk, ownership would prefer capital be built through retention first, and capital injections be the secondary source (Tryon, interview).

Operational risk is another factor that influences capital planning. Operational risk refers to the possibility of losses from failures internally, such as employee misconduct, system

breakdowns, or external disruptions, such as cyberattacks. Banks manage this risk through internal controls, oversight processes, and partnerships with external risk management providers. Because operational failures can produce significant losses, regulators expect banks to maintain sufficient capital buffers to withstand such events. The acquisition of a bank could elevate operational risk exposure. Tryon reports that operational, compliance, and audit systems and processes have all been enhanced by the growth over the last five years, whether by organic means or by acquisition.

Capital itself is divided into different tiers based on quality and reliability. Tier 1 Capital is considered the strongest form and consists primarily of common equity and retained earnings, as these sources represent permanent and highly reliable financial resources available to absorb losses. Tier 2 capital provides supplementary support and is comprised almost entirely of loan loss reserves. Although still important, tier 2 capital is viewed as less dependable than tier 1 capital during periods of financial stress. VisionBank's plan for possible bank failure is triage: shareholders absorb losses first, while depositors benefit from both the bank's capital cushion and deposit insurance provided by the FDIC, which covers deposits up to \$250,000 per account (Tryon, interview).

Security Classification and Capital Reporting

When a bank purchases a security, it makes the decision to classify it as either Held-To-Maturity (HTM) or Available-For-Sale (AFS). If classified as HTM, banks have the intent to hold the security in their portfolio until maturity. Banks with large HTM positions in their portfolio are likely in a strong liquidity position that would not require the proceeds from the sale of the security before it matures. Because of the large (illiquid) nature of the loans on VisionBank's books, management has classified virtually all of its securities (presently 6% of

assets) as AFS. There are fewer negative consequences to the balance sheet of selling an AFS security should the need arise (Tryon, interview).

The market price of a bond, and the associated unrealized gain or loss, is almost entirely based on changes in the market rate of interest. If market rates move up, the value of the bond will decrease. For example, the unrealized loss position of many banks in the spring of 2023 was due to an upward movement in market rates. There were a couple of sizable specialty banks that experienced deposit outflows of nervous, uninsured depositors at that time. The unrealized losses in the portfolios of these banks became realized losses when they were forced to sell their positions to meet deposit withdrawals. The losses eroded the capital cushion of these banks to the extent they essentially became insolvent. While industry-wide panic was contained, it brought attention to market-driven, underwater positions of the banking industry as a whole (Tapia and Hamandi). VisionBank was minimally impacted by these events because of the limited degree of bonds on its balance sheet. According to filings during this period, the \$3.4 million unrealized losses on the balance sheet were inconsequential against capital of \$75 million (Call Report).

Accumulated Other Comprehensive Income (AOCI) records unrealized gains or losses from certain investments and appears in the equity section of a bank's balance sheet. The minimal nature of the security portfolio of VisionBank results in an immaterial impact on its regulatory capital position.

VisionBank does not use the Community Bank Leverage Ratio, which is a simplified capital framework made available to some community banks by regulators. Our impression is that the bank does not use the Community Bank Leverage Ratio because they are not required to. We assume it provides no substantive value. Similarly, the bank does not engage in hedging at this time.

Tangible equity measures a bank's capital, excluding intangible assets such as goodwill, which does not add material value to the balance sheet. VisionBank booked around \$7 million of goodwill as a result of its acquisition of Legacy Bank (FFIEC, UBPR). Tangible equity, a metric that excludes this intangible item (goodwill), provides a better measure of the institution's ability to absorb losses during economic downturns.

Growth

Ownership plays a significant role in the growth of VisionBank. The bank is closely held, with the CEO serving as the primary owner. Because ownership and executive leadership are closely aligned, the strategic direction is influenced by a single leadership vision. According to Tryon, the CEO maintains a competitive growth-oriented approach and emphasizes building a high-performing bank that remains a trusted community partner.

VisionBank was able to strengthen its long-term growth strategy through its acquisition of Legacy Bank. Prior to the acquisition, VisionBank had locations in Boone, Story, Polk, and Dallas counties. Legacy Bank's footprint was stronger on the east side of the Des Moines metro. The combined geographic footprints complemented each other as the cohesive four-county area formed an attractive market in the middle of central Iowa.

Iowa is a largely rural state and most of the growth within its borders has been limited to metropolitan areas. The four-county contiguous area that VisionBank operates is a mix of rural and metro and is comprised of diverse and growing communities. Central Iowa's economic base, comprised of both a white-collar and blue-collar workforce with various influences such as education and agriculture, has been an advantage to the bank as it helps mitigate economic highs and lows, supporting long term stability for the institution (Tryon, interview).

Story and Polk Counties, home to the Des Moines and Ames metros respectively, are two of the growing metropolitan areas in Iowa. The U.S. Census Bureau reports the Des Moines metro as the fastest-growing major metro in the Midwest. The Des Moines Register recently reported that "No place in Iowa is seeing a rate of growth similar to the Des Moines metro's in the last five years... in fact, 64 of Iowa's 99 counties have had declining growth rates." As a county immediately to the west of Des Moines' home Polk County, Dallas County's explosive growth supports the U.S. Census Bureau's report. Since 2020, Dallas County has been Iowa's fastest growing county and among the fastest growing in the U.S. The Ames metro (in Story County), which houses Iowa State University, came in as the third highest metro growth rate in Iowa (Morelli). These population increases are occurring in VisionBank's defined market, making this area ripe for growth.

Conclusion

VisionBank's strategy of disciplined, purposeful growth demonstrates that it possesses a capital source and can move quickly. The 2022 Legacy Bank acquisition not only complements the organic growth already underway at VisionBank, it also pairs a bank with deposits in search of loans together with a bank with loans in search of deposits. The bank's evolution highlights a broader theme of growth that extends beyond physical expansion. VisionBank's development reflects growth in strategy, risk management, and its ability to navigate changing economic conditions.

Management leverages its capital and experience to make the most of the target-rich, but competitive, culture dish in which it operates. The bank's target market is located in a growing, diverse marketplace long on opportunity. VisionBank is poised to expand outside the borders of its current market area if opportunity again presents itself. In the meantime, it is working to

cultivate an existing customer base rooted in relationships rather than transactions. These customer-based relationships fund the CRE lending that continues to drive growth.

Through research, learning, and communication with bank professionals, the case study concludes that VisionBank is a bank that knows what it is doing and does it well. It has proven it possesses a successful strategy for mindful growth.

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