
INNOVATION IN EMPLOYEE BENEFITS

by [Steve Brown](#)

The CEO cleared his voice in the front of the conference room and began to detail 2Q performance. The employees gave the CEO a thunderous applause, but nothing close to what was about to come. At the end of the 30-minute meeting about performance, the CEO told his employees that they were all about to be "Chiefs." The CHIEF plan was the acronym for the "Customer Holdings Investment Equity Fund" and was the latest innovation regarding employee benefits. Since this bank was privately held, by almost a single shareholder, management needed some way to further motivate and retain employees. After reading about a similar plan from a marketing firm in Ohio, the CEO put together an investment fund composed of the publicly traded equity of some of the bank's best clients. Management purchased 1 to 5 shares of a select group of clients for a total of approximately \$1,800 for each of their 300 employees. Vesting was set at a short 1 year. The bank then gave each employee a salary increase for the initial year to offset potential income tax impact. The end result was a semi-diversified portfolio (some regional geographical exposure) that is much more liquid than holding bank stock. Better yet, employees are further motivated to get to know their clients, chart their performance, better understand their lines of business and see what potential impact a banking relationship has on actual success. Now, when a lending officer suggests a floating rate loan, they are better able to evaluate if the structure is the best for that client given that client's revenue structure. The CHIEF plan sends an unprecedented message to customers that the bank supports them and is willing to tie their future to their performance. That positioning goes far beyond the mere purchasing of client goods, as some banks have done in the past. To employees, the CHIEF plan says a tremendous amount about a bank's values, its ability to innovate and commitment to their customers. While the plan is not without its complications, such as tax, accounting, the possibility of insider information and potential for conflict of interest, several firms in the market have shown that this can be overcome. To date, the plan has exceeded the S&P by more than 8%, has boosted morale and has created a buzz in the community. Just as many banks only think price when it comes to deposits, too many banks just think salary when it comes to hiring. The CHIEF plan is a glaring example of what can be gained by banks that are not afraid to innovate. Many banks say that their employees and their customers are their most important assets, here is an instance that makes good on that promise.

BANK NEWS

Merger

Mutual Federal Savings Bank (\$141mm, MA) and Security Federal Savings Bank (\$142mm, MA) have announced plans to merge.

Real-Estate Provision

The Senate Appropriations Committee approved legislation that contained a provision banning national banks from offering real estate brokerage and property management services. The provision has been supported by NAR, although felt to be anti-competitive and anti-consumer by opposition.

Real Estate Fraud

The IRS figures show that there were 235 real estate fraud cases against individuals in 2005. This is more than double the amount of frauds in 2001 and estimated to remain constant throughout the year.

More Basel II

Four of the largest banks have requested more flexibility in Basel II. Chief risk officers at Citigroup, JPMorgan, Wachovia, and Washington Mutual have sent a joint letter asking that they have more flexibility in choosing which structure they use.

SALES FINANCE LOAN PORTFOLIO SALE

The rate on the Sales Finance participations has been moved up to 7.0%. This geographically diverse group of home improvement loans is partially insured from an "A" rated insurer and has an average FICO score of over 700. The duration is just over 2 and the lead bank has a proven track record of managing the credits. This product is one that we recommend for any bank that is struggling with construction or CRE concentration, as the portfolio allows for immediate diversification. Servicing and portfolio management is done for the participants and complete credit files can be obtained. The offering memorandum details the risks and performance of this product and has proven accurate with multiple sales over the past 3 years. To see how this product can help boost loan totals or add to diversification, contact us today.

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