BOOSTING FEE INCOME

by Steve Brown

Missiles fired by fighter jets are amazing to watch. A parallel can also be found in the banking industry, where institutions have built up their own arsenal of weapons designed to boost fee income. Given the trend of lower interest rate margins, generating increased fee income is becoming an ever important way to maintain a suitable ROE. The large banks have done this successfully. FDIC data finds that over 53% of revenue for banks with assets over $10B is derived from noninterest income, compared to only about 16% for banks with assets below $1B. This edge is one reason larger banks can in effect, "subsidize" lower coupon payments on loans while maintaining profitability, thereby significantly increasing competition on the very best credits. It is also perhaps another reason why studies find about 75% of independent banks believe increasing noninterest income is essential to maintaining or expanding bank profitability. While admittedly, some sources of national bank noninterest income (such as investment banking, securitization, venture capital revenue and underwriting) are not feasible for independent banks, many others can be readily loaded up and fired. Independent banks often generate noninterest income from deposit services. While charges are usually lower than those of national banks (a 2002 FRB study found that small banks charged 38% less for stop payment fees than large banks), independents have begun to throttle up on such charges. Specifically, most independent banks now charge fees for overdrafts, stop-payment orders, insufficient-funds and low balance deposit accounts and many are focused on closing the gap between levels they charge to those of the nationals. As of June 2006, FDIC data shows service charges on deposit accounts were the single most popular source for noninterest income generation, with about 97% of banks collecting them. Another important trend here is banks have become more disciplined in waiving fees. 5Ys ago we saw about 60% of the fees being waived, not it is less than 40%. Other popular ways independent banks are generating more noninterest income include loan origination fees, the sale of SBA guaranteed loans, trading securities, real estate 1031 exchange fees, brokerage services provided by third party vendors, mutual fund sweeps, loan servicing, insurance commissions, trust, mortgage and title company. In addition, other opportunities bankers may wish to explore that are perhaps less well-known include lease income on offices rented to others, gain on sale of other real estate owned, data processing for other banks, financial planning services, check cashing for non-customers, tax/accounting services, safe deposit box rental, printing and sale of checks, or even fees for live teller usage. We will be covering more of these items in our upcoming High Performance Bank Workshop in NV on September 26th and hearing specifically from other bankers what they have successfully and unsuccessfully implemented. In the meantime, we'll keep our eyes on the radar screen as we scan the horizon in an effort to help our independent bank customers gather a greater arsenal of fee income missiles.

BANK NEWS

Trust Sale

Eastern Bank ($6.7B, MA) will acquire the trust department of First National Bank of Ispwich ($394mm, MA) for an undisclosed sum.

Acquisition

Hemisphere National Bank ($335mm, FL) will acquire Pinebank ($418mm, FL). In January, Pinebank agreed to an OCC C&D which required improvement with BSA compliance. Terms of the transaction were not disclosed.

New Deal

According to sources familiar with the situation, Bank of America CEO Ken Lewis may be considering a deal that would "transform" the company.

Co-branding

Home Depot Inc. has introduced its own co-branded credit cards with Citibank.

Real Estate Competition

U.S. Bank ($117B, MN) has opened a new office in Houston that will focus on commercial real estate deals in the area. The bank is the 4th largest commercial real estate lender in the U.S.

Buybacks

S&P reported that large companies bought back $116B in shares during 2Q, up 43% from the prior year. Nearly 40% of the companies in the S&P 500 reduced their shares outstanding with buybacks during the Qtr, breaking the previous $104B record set in 4Q 05.

SPECIAL NOTICE - EXECUTIVE WORKSHOP UPDATE

As a reminder, we will be holding our next High Performance Workshop in Las Vegas on September 26th, 2006. Topics will include strategies and tactics on: 1) Deposit gathering, 2) Loan pricing, 3) Fee income generation, 4) Customer service and a variety of other subjects which currently pose challenges to independent bank senior management. We still have a few spaces available, however only 1 bank is allowed per territory (and 1 person per bank). Interested executives are urged to call BIG at 877-777-0412 or reply to this email to get a registration form and learn more about the program.