WHEN BIG BANKS FALTER

by Steve Brown

We expected to be scared. After all, when we sat down with Wells Fargo last month and learned about their efforts in remote capture, it sounded a warning bell for independent banks. We thought we were going to find the same thing when we interviewed the private banking group from Citigroup Smith Barney ("CSB"). We knew that Citigroup was focused on the high net worth customer and was bringing their formidable resources to bear. How can independent banks compete with the world's largest financial institution in this area Â– particularly with a customer set that values brand and size? It turns, out very easily. Citigroup, as a whole, is dealing with the same issues as independent banks Â– how to effectively deliver premium services, grow, maintain a quality workforce and manage the profitability of this customer set. Because so many institutions have targeted the wealth management customer, competition has never been fiercer. As a result, studies show this customer set has divided their assets across an average of 6 financial institutions. They use separate institutions to handle short-term cash, invest in real estate, utilize discounted brokerage services, conduct full service brokerage, purchase insurance products and take advantage of retirement planning. Despite having higher investible assets, the average institution now receives about 20% less funds form these customers compared to 1990. What CSB has found is that it needs a customer with $5mm of disposable net worth to be profitable. This minimum net worth target is in stark contrast to the 90's where target net worth levels dropped down to $500k. Now, CSB has been focused on moving clients and brokers out if they don't reach the $5mm level. As we found out, the average broker is not very happy and customer dissatisfaction is reported to be running high. Customers that once loved the institution are finding that they are being charged more fees and are treated to fewer amenities than they once were. Both brokers and customers are ripe for recruiting for the savvy independent bank. A stunning example of this dysfunction comes from the fact that rates on money market accounts are higher at Citibank than they are at CSB. We spoke with several clients that actually pulled their money out of the brokerage, only to invest it in the bank. Being bigger is clearly not always better. At our upcoming High Performance Bank Workshop, we will be talking in-depth about aligning products and services and with a superior customer experience. At the Workshop, we will be exploring relationship profitability and how banks can manage both products and customers to enhance bottom line earnings. By having a good understanding of your bank's capabilities, goals, relationship profitability and customer service, bottom line earnings are less likely to falter.

CAPITAL

September is an active capital raising month for banks and one that is seeing spread widening due to demand. Banks still have time to lock in spreads and close their issuance before quarter-end, but time is running out. Beyond trust preferred issuance, BIG can assist banks with an array of capital options including short-term holding company loans, perpetual preferred or common equity. Banks that are looking to support growth, are concerned about mounting CRE loan concentrations, considering an acquisition or trying to raise their legal lending limit are encouraged to explore the various capital options. If you would like more information regarding the use of capital in general and BIG's various offerings, contact us for more information.

BANK NEWS

MBA Index

Mortgage applications dropped 0.9% and are now 23% below year ago levels. Purchases fell by 1.6% to the lowest level in 3Y. Refinancing applications were up slightly.

More Competition

First Horizon National ($36.5B, TN), parent of First Tennessee, said that it anticipates lower earnings due to the slow down in mortgages. To counter the slowdown, the company has aggressively expanded its small business lending efforts across the country.

Banking Fees

A recent survey by the ABA found 57% of consumers spend $3 or less in monthly fees for banking services. Respondents estimated their monthly banking fees as follows: 43% said they pay no fees; 14% said $3 or less; 12% said $3 to $6; 6% said $6 to $8; 8% said $8 to $10; 15% said more than $10; and 2% did not know.

Outsourcing

First Hawaiian Bank ($11.8B, HI) announced plans to add outside consultants to further develop its wealth-management business.

Credit Union Growth

NCUA reported that credit union assets increased 2.7% during the 1H 06. Loans rose 4% while membership rose 1%.