A DIFFERENT TIME FOR SMALL BUSINESS FEE INCOME

by Steve Brown

When we were growing up, our parents sent us out to trick or treat without a care in the world. Dad's only advice was to go easy on how much shaving cream we sprayed on Mrs. O'Reilly's car and to be back before Veteran's Day. These days, kids go out with a parental chaperon in tow, an iPhone equipped with MobileMe GPS tracking and a reflective vest more suitable for the Dept of Water & Power. For the most part, we live in safer times. The exception is when it comes to fee income.

Three years ago, fee income as a percent of earning assets used to be 2.35%, now the level is below 2.00% for most banks and falling. Curtailment in overdraft protection, fewer processed items, lower loan production and a host of other industry changes have all contributed to this decline. For banks to survive in the long run, bankers need to get smart about how to construct a business model to provide valued services that generate stable fee income largely devoid of credit risk. While many banks scratch their heads on how to do this, opportunities abound. A couple of months ago, we talked about fee income and technology around lending. Today we focus on 5 popular fee generating services in cash management for small businesses, not including mobile banking (which we have ignored because it is mainstream now). Many of these are 3rd party add-ins that can be purchased, while some are simple products you can develop.

Starting off our list in the #5 spot is providing small businesses with an array of online support services. For a fee of an additional $150 to $500 per year, banks can create a set of customized support services, such as online meeting capabilities, electronic invitation, project management applications, internet-based survey and others that small businesses occasionally need (but don't want to pay for full time). The bank is a perfect place to bring together a customized bundle of services that will support your customer's business. 4) Person-to-person payments (P2P) - with more banks incorporating Paypal and similar services, P2P payments are expected to catch on not only with retail accounts, but with small businesses. Banks currently charge $0.50 to $10.00 per transaction, depending on the amount. We see the end to paper checks in the next 20Ys and P2P payments will replace a material slice of that pie. Transferring digital money is safer, easier and cheaper, so it is just a matter of time. 3) Account aggregation - Bank of America has close to 3mm users with its Yodlee application that brings all other bank, credit and investment accounts together under a single log-in. Banks are charging between $50 to $200 per year to be the main focal point of account management. 2) Financial management - this one is almost mainstream and while demand has softened, we still believe more businesses will turn to a single application that will allow them to manage their day-to-day finances. Banks are charging $300+ per year for this service. 1) Invoicing, accounts receivable/payable for business clients - we love this concept of allowing an easy portal for your business customers to handle their electronic invoicing needs (both sending and receiving) as well as paybles through an electronic application integrated with their core DDA account. Banks charge $600 to $3k per year depending on volume.

As technology evolves, these applications are becoming more treat than trick. We have a whole list of other fee generating activities that include healthcare expense management, electronic storage, alerts, ID/fraud protection, prepaid/credit cards, bill pay enhancements, virtual lock box, presentment, optimized liquidity management, insurance needs analysis, financial statement prep and analysis (virtual CFO), asset monitoring, tax consolidation, remote cash capture and VIP customer service. We will be discussing them all at our next Tactical Workshop in Richmond, VA on Nov. 17th. To sign up go to: http://www.pcbb.com/conference_tbw.html. Attending this workshop just might be the safest thing you can do.

BANK NEWS

M&A

1st United Bank ($1.3B, FL) agreed to buy Anderen Financial ($207mm, FL) for $37mm in stock and cash.

3Q Earnings

Zions reported a 3Q profit of $109.1mm vs. a year-earlier loss of $47.3mm. The bank's loan loss provision fell to $14.6mm, down sharply from $184.7mm a year earlier. Regions moved to a 3Q profit of $155mm vs. a year-earlier loss of $155mm. Regions reduced loan loss provisions to $355mm from $760mm a year earlier.

C&I Lending

Fed data finds C&I loans grew by 4% in Sept and 35% in the 3Q compared to the same period last year.

Housing

In what essentially amounts to a revamp of HARP, the Obama administration announced a plan for current borrowers with underwater homes (who want to get a lower monthly payment through a lower mortgage rate), that eases rules and reduces fees. Changes include lifting a ceiling that barred participation by borrowers who owed more than 125% of the value of their homes and using a modeling method to replace appraisals. It is estimated that the plan could help 1 to 2mm homeowners. In bad news for community banks, the announcement had the unintended consequence of slamming mortgage backed securities prices to 6 month lows, as fears of faster than expected refinancing crushed prices.

Muni Risk

The bust in housing and the deep recession that has followed, have pushed state tax revenues to new lows and blown holes in municipal budgets. All states except VT must end their fiscal years with balanced budgets, so states are grappling with pensions, healthcare and other issues by cutting spending, increasing taxes and borrowing more. A new survey finds combined state debt and future liabilities now total $4.2T.

Small Biz Jobs

The NABE survey found 59% of small business owners do not expect to see a change in their employment levels, while 29% planned to increase payrolls(down from 43% in July).