Community Banks Earn $500m in '07 Production

by michael white

Investment programs at community banks (those under $4 billion in assets) earned nearly $500 million in revenue in 2007, according to the *Michael White-LPL Financial Institution Services Report: Community Bank Investment Programs*, which tallied data from 7,534 community banks. The data are more complete than ever before, thanks to new FDIC reporting requirements. Since this is the first time this data has been released, there is no comparison to past years. Around one-fourth (23%) of community banks engaged in investment program activities in 2007.

A TOUGH FOURTH QUARTER

Quarter by quarter performance was uneven, and the fourth quarter was especially weak due to the subprime mortgage crisis. Small banks' investment-program income declined 9.2% from the third quarter, to $117.8 million. Most of that loss was due to a drop in annuity commissions, which fell 25.3%. Fees from annuities represented nearly 30% of community bank program income in the third quarter.

Big banks, which are less reliant on annuity commissions, experienced an increase of 9.7% in their fourth-quarter investment program income. These banks' brokerage income grew 11.1% in the last quarter, while annuity commissions only declined by 1.3%. However, compared with community banks, only 11% of investment-program income at big banks comes from annuity sales.

However, not all community banks suffered a downturn at the end of the year. Medium-sized community banks (assets of $500 million to $1 billion) had a very good fourth quarter. Their total investment program income rose 22.6% to $31.7 million on the strength of big increases in securities brokerage and annuity commissions (19.1% and 24%, respectively). And, one smaller group of community banks ($100 million and $300 million in assets) registered a double-digit increase (11.1%) in securities brokerage income.

The largest community banks ($1 billion to $4 billion in assets) dragged down the numbers, suffering the biggest decrease among all community banks in the fourth-quarter compared with third-quarter, program revenues

COMMUNITY CHEST

Larger community banks were more likely to rack up investment assets.

BANKS BY ASSET SIZE	REPORTING INVESTMENT PROGRAM INCOME Number	REPORTING INVESTMENT PROGRAM INCOME Percent	INVESTMENT PROGRAM INCOME	AVERAGE INVESTMENT PROGRAM INCOME
$1B-$4B	216	56.0%	$219.5 mil	$895,651
$500M-$1B	298	50.4%	$114.9 mil	$344,256
$300M-$500M	332	42.4%	$75.2 mil	$217,220
$100M-$300M	644	24.7%	$77.4 mil	$111,117
Under $100M	239	7.5%	$8.8 mil	$36,678

SOURCE: Michael White-LPL Financial Institution Services Report: Community Bank Investment Programs

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Near $500m in AUM."

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sliding $12.5 million, or 20.1%, to $49.8 million in the fourth quarter.

PROGRAM PRODUCTIVITY

Bank employees play an important role in referring customers to investment programs at many banks, especially community banks. The new, more complete FDIC data make is possible to measure investment program income per bank employee in order to benchmark program productivity.

Among community banks, those with assets between $300 million and $500 million had the highest level of employee productivity. They earned a mean $2,020 in investment program income per bank employee in 2007. That was 7.3% higher than the largest community banks, which ranked second in this measure. Their top quartile for program productivity was $2,715 per bank employee, nearly 10% greater than that of the largest community banks. As one often finds, size does not necessarily result in all the best performance measures.

PROGRAM DENSITY

Knowing how much income a bank is making per branch also helps a bank right-size its program to better utilize this critical physical asset. If income per branch is low at a particular bank compared to others, the bank may need to evaluate whether it has a sufficient number of investment representatives to cover all its branches. Or, it may wish to evaluate what offices the investment counselors are—or are not—covering as they offer investment services. Improvement in density may mean reallocating the broker-resource to better trafficked branches, larger branches, or a higher-income community. Brokers operating on a hub-and-spoke system of office coverage may need to relocate their hub offices.

The largest community banks tended, on average, to produce more revenue per branch than smaller community banks, although one group of smaller community banks (assets between $300 million and $500 million) had the second highest mean and median density ratio and had the highest starting point ($40,889 per office) for top-quartile density.

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