GROW REVENUE NOW

Four steps to increase revenue in the post-Wall Street reform world

BY KEVIN TWEDDLE

With regulatory restrictions coming from the Wall Street Reform Act, community banks will be facing new challenges for the foreseeable future in terms of growing revenue. Fighting asset quality problems, banks have the need to improve their capital ratios. Many institutions are responding by shrinking the size of their balance sheets given the weakness in the capital markets. Expense control is important, and many institutions have done a nice job of cutting costs over the last 18 to 24 months. However, these adjustments cannot continue at a sustainable pace.

With weak loan volume pressuring margins, little change in asset quality keeping provisions at high levels and little efficiency gain left in expense improvement, revenue generation is a crucial area that banks need to address to improve their bottom lines. So it's time for community banks to get creative and apply new (or revamp old) strategies for growing revenue.

Here are some of the things that community banks should assess to capitalize on fee-income opportunities within their local markets.

Review fees – often.

Traditionally it was enough for banks to review their fees annually, but not today – what may be competitive pricing on your community bank's fee structure today can change overnight. For at least the next 12 to 18 months, reviewing fees should become at least a monthly routine. Some banks are reviewing their fees every two weeks.

While requiring additional time and effort, this exercise will be crucial to your bank. The key is to closely monitor every fee your bank is charging, behavioral and fee income trends and how your fees compare with local competitors'. If you have a good handle on what the market will bear, you will be in a much better strategic position to ensure that your bank stands out from the competition.

To put greater structure in place around the over all process, consider implementing a best practice of high-performing banks – forming a special committee to monitor fees. This committee should be independent of the normal asset/liability committee. Often led by the chief financial officer or the chief operations officer, this committee should be diverse in its makeup, including retail branch managers, head tellers and members of both the lending and risk and compliance teams.

Capture immediate opportunities.

The following are just a few specific areas where your community bank may be able to adjust fees right now to generate additional revenue.

- *Loan fees:* A lot of fee adjustment seems to be occurring in the loan area, such as increasing late charges, processing fees and origination fees. Small incremental increases can actually fuel revenue without degrading customer relationships. And some banks have begun charging a fee at loan renewal.
- *Foreign ATM charges:* Many community banks don't charge ATM fees as part of standard business practice. However, if your bank does or would like to start, assess your local market to ensure that your fees are in line with what the competition is charging. The larger money-center banks charge as much as $3.50 per transaction. With the exorbitant rates being charged by the large institutions, there is room for introducing reasonable fee increases and still being one of the lower fees in the market.

Bundle products.

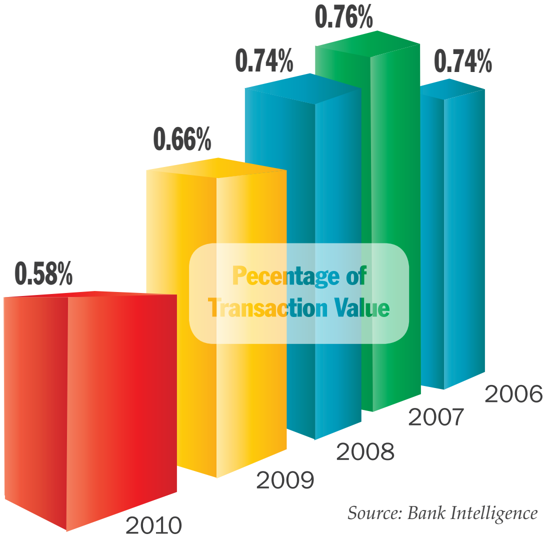
One approach high performers are taking is to bundle products so as not to nickel and dime their customers. For example, if your community bank has small-business checking account customers, offer them a preferential rate if they move their personal accounts to your bank. Offer them discounted rates to move their mortgage, wealth management or other products and services. The more products and services they use with your bank, the greater their incentive should be.

Consider new products.

It's a great time to consider new services that will be of value to customers in your unique footprint. Here are just two products banks are talking about.

- *Personal financial management (PFM) tools:* Aggregating customer accounts (checking, savings, mortgage, and investment accounts, etc.) in a single

Change in Bank Service Charge Fees



Source: Bank Intelligence Solutions from Fiserv

view is growing in popularity, particularly with Generations X and Y. If you have a sizeable population of younger, more affluent customers in your bank's footprint, these tools may provide a service growing in demand as well as a revenue opportunity.

Underbanked products: Banks have been trying to figure out this market for years, and most have not been successful at generating revenue and bringing on new, previously unbanked prospects. A few banks have done well by simply offering special check-cashing services, which can be lucrative if the demographic makeup of your market supports demand. While there is evidence that demand is growing, it's crucial that you do your homework on how you would manage the risk of offering this service as well as staffing your branches to handle the increased walk-in traffic that would result.

Today so many things are out of a bank's control, but fee income is one area in which the strategies your bank deploys can drive its revenue growth. Reducing expenses may be necessary in the short term. However, now is the time to focus on those decisions you can control to create noticeable improvement in revenue growth and your bank's bottom line.

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