BANK INSURANCE
MARKET RESEARCH GROUP

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Community Banks Make Brokerage Gains in 2004

Mamaroneck, NY—May 12, 2005: By most accounts, 2004 was a challenging year for bank brokerage programs. Plagued by compliance and regulatory concerns, production was flat or down at many large institutions. Industry-wide, income from mutual funds and annuities was $6.11 billion, virtually unchanged from $6.07 billion in 2003, according to the Bank Insurance Market Research Group (BIMRG).

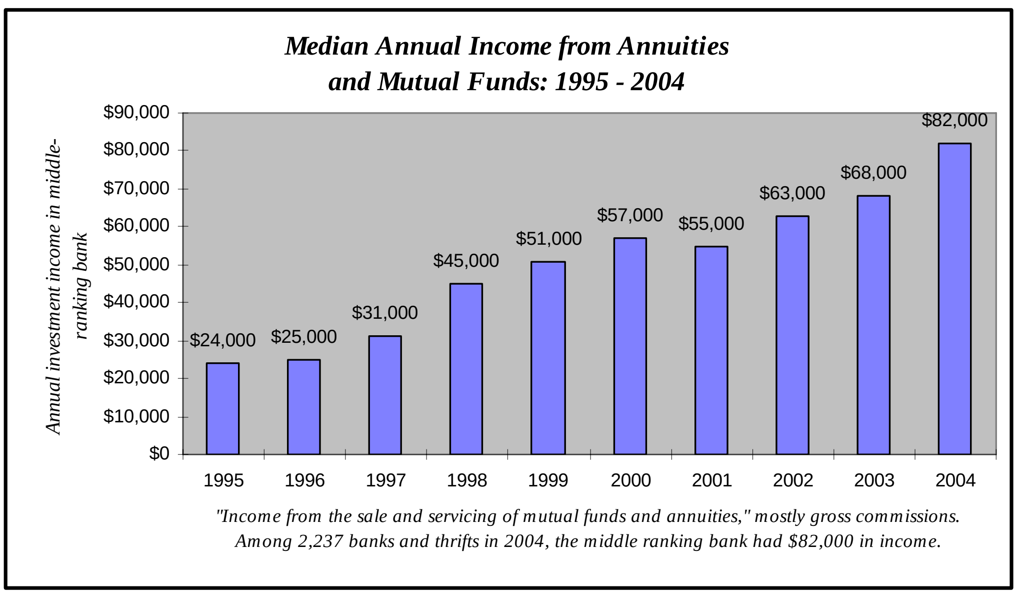
But if one scratches below the surface, a different picture emerges. True, many of the larger programs suffered. Washington Mutual, for instance, was down 33 percent compared with the previous year. But among many smaller banks, there was continued progress with regard to investment product sales.

Indeed, focusing in on the 'typical' bank among the 2,237 that reported any investment income ('income from the sale and servicing of mutual funds and annuities') in 2004, one finds considerable improvement. The median figure was $82,000, up strongly from $68,000 in 2003. The middle-ranking (1,119th) institution, in other words, had $82,000 in investment income in 2004.

This is consistent with the overall positive trend over the past decade, according to a 10-year analysis of FDIC and OTS data by BIMRG. As the chart below illustrates, annual median 'investment income' increased every year except one (2001) between 1995 and 2004.

Yes, larger banks did suffer some in 2004. Among the 81 largest banks and thrifts, each with more than $10 billion in assets, the median income figure was $9.8 million, down from $13.0 million in 2003.

But if one looks at some of the smaller size categories, the gains are clear. Among 295 institutions with assets between $500 million and $1 billion, the median was $187,000, up strongly from $146,000 in 2003. (The number of institutions in this size group was virtually unchanged.) Among the 511 banks and thrifts with assets between $250 million and $500 million, the median was $111,000, an increase from $95,000. And among the smallest institutions–the 1,044 banks and thrifts with less than $250 million in assets that reported some income from annuity and mutual fund activity in 2004--the median was $30,000, up from $21,000.



Source: Singer's Annuity & Funds Report (www.singerpubs.com)

What to make of this? While the high-powered Series 7 reps at the largest commercial banks were dodging questions about the appropriateness of their variable annuity transactions, or wading through the backwash of the mutual fund scandals, their brethren at community banks were quietly selling a few more annuities and/or mutual funds than in past years as *their* customers gradually become used to the idea of community banks as a source for investment products. That, at least, is one way of interpreting the data.

Community banks tend to influence overall bank industry ‘median’ figures more than large banks—given their disproportionate numbers. For them, at least, the overall (10-year) investment trend is positive, and continued to be so in 2004.

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The Bank Insurance Market Research Group (www.singerpubs.com) provides market research and investment sales data to the bank and insurance industries. Data is based on in-depth surveys of depository and insurance entities augmented by analysis of government data. A more complete examination of year-end 2004 bank brokerage performance can be found in the June issue of *Singer’s Annuity & Funds Report.*

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