

PRESS RELEASE

New Study Challenges Bankers to Break Out of ‘Static Game’

SCOTTSDALE, Ariz. /March 18, 2008/– The just released [Cornerstone Report 2007: Benchmarks and Best Practices for Mid-Size Banks](#) urges bankers to recognize how misaligned the industry has become and implores individual banks to break out of a “current closed loop that will go nowhere.”

Although banks have become more efficient, they have done little to open up substantial sources of future revenue and growth, *The Cornerstone Report* states. As a result, banks have been putting in overtime to compensate for a melting net interest margin with greater efficiency. The real question, according to report authors, is how long the meltdown of both margins and expense levels can continue.

“These new realities are not what we learned in Banking 101,” according to *The Cornerstone Report*, the sixth in an annual benchmarking series published by Cornerstone Advisors, Inc., the Scottsdale-based firm that also publishes *GonzoBanker* (www.gonzobanker.com). “While bankers worked diligently to optimize the current game, the game has been changing. ... For the credit gurus, bean counters and auditors who run our industry, this is downright disorienting.”

Key findings of *The Cornerstone Report*, which is based on an extensive survey of nearly 70 banks with assets of \$1 billion to \$40 billion, demonstrate the need for bankers to revise their existing game plans.

- Mid-size banks are moving too slowly when it comes to modernizing and innovating their delivery channels. Call center productivity dropped from 62 calls per FTE per day in 2005 to 54 in 2007.
- Mid-size banks are still struggling at delivering on the “relationship banking” mantra. The average retail services per household remains an unimpressive 1.75 while overall products per household hovers at 2.55, little changed from Cornerstone’s 2005 report.
- Banks did not respond quickly enough to falling mortgage loan volumes during 2007 by rightsizing their mortgage staff. The median number of mortgage loans closed per mortgage FTE per month dropped from 3.25 in Cornerstone’s 2005 study to 2.39 in 2007.
- Mid-size banks are generating extremely low volumes of consumer loans through their expensive branch systems. The median mid-size bank generated only six consumer loans per branch per month in 2007, down 50% from an already unremarkable figure of nine loans per month in 2005.
- Retail fee income grew from a median \$200 per account in 2005 to \$219 this year, an increase due entirely to growth in courtesy pay revenue and debit card income.

- The cost of check processing is declining with Check 21 taking root. From 2005 to 2007, the average cost per bank proof-of-deposit (POD) item dropped from \$.07 to \$.06, and the average cost to render a customer statement dropped from \$.14 to \$.11.

According to Scott Sommer, president and CEO of Cornerstone Advisors, "Whereas banks must maintain their strengths in risk management, compliance and financial management, the industry's future will depend much more on softer skills such as innovation, marketing, process design, human capital development and leveraging technology."

"One bright area emerged in the trust and wealth management businesses," said Sommer. "The average revenue per personal trust FTE increased over 15% since our 2005 study; however, a robust stock market during that period helped put some wind at the backs of this business." Banks also saw a major jump in the median monthly revenue per dedicated investment representative from \$13,167 per month in 2005 to \$17,127 in 2007.

Faced with ever-closer scrutiny from regulators, banks are investing significantly more resources in regulatory compliance and risk management activities, Sommer observed. "The investment in BSA staff literally tripled from one per 165,000 deposit accounts in 2005 to one per 64,000 deposit accounts in 2007."

In addition to extensive industry analysis, *The Cornerstone Report* contains more than 200 best practice recommendations over 11 key bank areas. Also included is *The Cornerstone Scorecard*[®], a measurement tool that banks can use to compare their performance against peers across 250+ benchmarks. *The Cornerstone Report 2007: Benchmarks and Best Practices for Mid-Size Banks* is available for purchase on Cornerstone's Web site: <http://www.crnstone.com>.

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