



The 29th Ranked Bank in America.

American Bankers Association's *Banking Journal*, in its June 2008 issue, has listed Bank of Cleveland number 29 in the nation.

TOP COMMUNITY BANKS

Banks and thrifts with assets under \$3 billion

If a rising tide raises all boats, then the opposite must be true. Yet though the past year was difficult for the financial services industry as a whole, banks and thrifts with total assets of less than \$3 billion fared better than their larger counterparts. This has temporarily reversed the gains in profitability that larger banks had made over the past few years. According to the FDIC, 50% of community banks posted earnings gains in 2007, compared with 34% of larger institutions. By comparison, in 2006 the percentage of institutions with earnings gains was roughly the same in both asset tiers. At 3.12%, the average return on average assets (ROAA) for all top performing banks under \$3 billion was just over twice the average among top performing large banks, or 1.54%.

This certainly does not imply that community banks were immune to the problems that larger banks were facing. Banks and thrifts of all sizes saw margins compress, deposit growth slow, and credit quality decline. Very few heavy mortgage lenders could be found among either the top-ranked large or community banks in the 15th annual ABA Banking Journal performance rankings.

Strategies in common

Though community banks naturally have significant operational differences, certain characteristics and strategies used to weather last year's storms were common to all four groups.

In all groups, the top performers were more efficient than their counterparts, posting average efficiency ratios of between 47% and 52%. This efficiency was not achieved through expense control, however—the average ratio of noninterest expense to average assets among top performers of all sizes was not significantly different from the average among all institutions analyzed. Rather,

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Banking's Top Performers



higher revenue was the key. Noninterest income represented a significantly greater percentage of average assets at top performing community banks—a trend also seen among the top performing large banks. For community banks, however, the main source of this income was not fee revenue, but one-time gains associated with sales, typically signaling a company's withdrawal from a particular market or business.

The decision to make a withdrawal was one of key strategies applied by the top community banks. Other strategies used included a focus on commercial (rather than residential real estate) lending and a focus on a particular industry sector.

Gains from strategic restructuring

In 2007, three of the four top-ranked institutions benefited from significant one-time gains that, on average, contributed 84% of noninterest income reported by these banks. In all three cases, the transaction allowed the seller to exit either a market or a line of business and to realign its strategy. Some of these transactions were small: for example, the top performing S-corp with total assets under \$100 million, Lone Star State Bank of Lone Star, Tex., sold one branch in Pittsburg, Tex., to another bank headquartered in that state. At banks and thrifts with total assets of under \$100 million, smaller restructuring initiatives such as this had as significant an impact on net income as the sale of an entire loan portfolio or line of business, two strategies also used by top performers to generate one-time gains in 2007.

In fact, these two types of transactions drove the performance of many among the pool of institutions with total assets of between \$100 million to \$3 billion. Seattle Savings Bank—appearing for the second year in a row as our top performing non-S corp with assets between \$100 million and \$3 billion—closed the sale of its reverse mortgage business to Bank of America in June 2007. Seattle Savings Bank netted a \$91.2 million gain on the sale and a \$52.9 million gain on the sale of loans (a portion of which were the loans in the bank's reverse mortgage portfolio), doubling net income compared to 2006 levels. At 97.18%, Seattle Savings had the highest ROAE among non-S institutions. The average ROAE among the top 25 non-S institutions over \$100 million was 27.51%, pulled up by Seattle Savings, compared to an average of 7.02% among all non-S institutions of this size.

As improbable as it may seem, the top performing Subchapter S corporation with total assets between \$100 million and \$3 billion managed to post an ROAE for full-year 2007 that was even higher than that of

Seattle Savings Bank. Marshall Bankfirst Corp., Minneapolis, reported an ROAE of 123.53%, moving up from 40th place in 2006. Marshall Bankfirst benefited from the sale of its prepaid card business to Bancorp Inc., Wilmington, Del., in July 2007. As a result, total noninterest income increased from \$31.3 million in 2006 to \$82.5 million in 2007.

Limited residential RE lending

Banks with less than \$3 billion in assets increased their focus on commercial and construction lending over the past few years as larger institutions captured greater shares of the residential mortgage and consumer loan markets. In some cases, smaller institutions responded by shifting to a pure commercial focus. For example, at Excel National Bank, Beverly Hills, Calif. (#10 among non-S corps with less than \$100 million), commercial real estate and commercial and industrial loans comprised 78% of the loan portfolio. A similar strategy was also used by the top-ranked non-S bank

under \$100 million—Farmers Bank, Hamburg, Ark. CRE and C&I loans together made up approximately 51% of its loan portfolio. The bank also benefited from a \$4.4 million payment from the U.S. Department of Agriculture relating to a disputed loan guarantee.

Top performing institutions were also more likely to hold a large percentage of construction and land development loans on their books. With the exception of Scorps under \$100 million, CLD loans made up twice as much of the loan portfolio of top performers relative to the rest of the institutions analyzed. This gap was greatest among non-S corps between \$100 million and \$3 billion. Among the top 25 institutions in this group, CLD loans accounted for 38% of total loans, compared to 17% among all non-S corps in this asset tier. The institutions that were able to successfully implement this strategy appear to have been those who handled a mix of residential and commercial construction loans and who were experienced with construction lending. America

West Bank, Layton, Utah (#5 among S-corps between \$100 million and \$3 billion) was founded in 2000 by a group of local businessmen that were familiar with the needs of construction businesses and their owners. CLD loans accounted for 89% of the bank's loans in 2007, compared to 70% in 2006.

Looking ahead

Community banks will continue to realign their strategies to adapt to ever-changing market conditions. Banks will increase their focus on industries like agriculture that are performing better than the market as a whole. Lending will also continue to shift away from the residential sector, which for some banks and thrifts will involve a move away from CLD lending as losses on these loans begin to mount.

Finally, we expect that banks will continue to restructure and to move out of businesses and/or markets that are not aligned with core strategic goals in order to better focus their resources in these more challenging times.

Non-S banks and thrifts greater than \$100 million in assets

2008 Rank	2007 Rank	Company	City	State	Company Type	Total Assets (\$000)	ROAE	ROAA	Asset Growth Rate	Loans/Deposits	Non-Interest Inc/Total Rev	Efficiency Ratio (FTE)	NPLs/Tot Loans	Leverage Ratio
1	1	Seattle Savings Bank	Seattle	WA	Savings Bank	613,640	97.18	18.05	0.65	149.14	87.08	31.29	2.10	16.38
2	2440	Oak Bank	Chicago	IL	Commercial Bank	170,726	51.02	7.85	1.69	97.35	79.78	18.03	0.00	16.92
3	2	Security First National Bank of Hugo	Hugo	OK	Commercial Bank	101,387	32.95	2.53	-0.01	82.77	12.63	39.69	0.00	7.10
4	2253	Mackinac Financial Corporation	Manistique	MI	Bank Holding Company	408,880	31.08	2.59	6.82	110.78	13.28	76.63	1.71	8.05
5	11	Commercial State Bank	Andrews	TX	Commercial Bank	299,392	30.32	2.21	20.88	89.30	10.11	45.03	0.31	7.80
6	283	First Bank of Delaware	Wilmington	DE	Commercial Bank	119,361	27.92	6.13	-3.58	98.37	68.08	44.05	1.92	27.49
7	966	Old Fort Banking Company	Old Fort	OH	Commercial Bank	378,811	25.01	2.08	6.68	91.65	38.16	51.80	0.13	8.20
8	38	Alpine Banks of Colorado	Glenwood Springs	CO	Bank Holding Company	2,394,384	23.99	1.72	18.83	92.12	20.88	52.83	0.11	9.33
9	3	First National Bank and Trust Co.	Weatherford	TX	Commercial Bank	189,474	23.55	1.90	14.88	82.64	20.98	48.50	0.52	8.26
10	16	First National Bank of Baird	Baird	TX	Commercial Bank	183,680	23.23	1.97	7.38	88.76	16.64	50.60	0.74	8.92
11	1456	Grand Bank	Tulsa	OK	Commercial Bank	221,195	22.92	1.92	4.04	113.62	32.20	53.98	0.84	8.83
12	32	Sierra Bancorp	Porterville	CA	Bank Holding Company	1,233,735	22.29	1.74	1.56	108.40	19.86	49.54	0.98	10.22
13	204	First National Bank of Grayson	Grayson	KY	Commercial Bank	182,494	21.53	1.62	2.05	68.49	23.20	54.26	0.20	6.98
14	36	Suffolk Bancorp	Riverhead	NY	Bank Holding Company	1,469,419	21.47	1.57	5.51	83.72	14.20	52.16	0.17	7.56
15	63	Pioneer Trust Bank, National Assoc.	Salem	OR	Commercial Bank	249,597	21.30	2.70	4.91	87.25	34.23	34.55	1.00	11.73
16	5	Orion Bancorp, Inc.	Naples	FL	Bank Holding Company	2,682,330	20.90	1.01	4.95	123.33	8.55	47.18	3.94	6.54
17	18	Mississippi River Bank	Belle Chasse	LA	Commercial Bank	142,917	20.86	2.14	-7.36	52.34	7.99	44.83	0.04	11.00
18	N/A	Pedcor Capital, LLC	Carmel	IN	Bank Holding Company	361,264	20.64	1.91	-12.39	146.29	78.23	55.63	5.07	19.81
19	19	EvaBank	Eva	AL	Commercial Bank	385,414	20.49	1.77	25.24	111.54	16.35	35.14	1.50	8.77
20	7	First Regional Bancorp	Century City	CA	Bank Holding Company	2,172,724	20.45	1.60	4.73	118.09	6.26	50.08	0.10	10.86
21	13	Village Bank	Saint George	UT	Commercial Bank	262,330	20.44	1.73	22.36	84.14	10.40	50.32	0.25	8.93
22	33	Summit Bank	Oakland	CA	Commercial Bank	181,289	20.30	1.93	-7.24	73.77	5.01	47.84	0.08	8.98
23	28	First South Bancorp, Inc.	Washington	NC	Bank Holding Company	918,277	20.24	1.88	0.21	101.50	17.53	45.23	0.98	10.08
24	6	FCB Florida Bancorporation, Inc.	Orlando	FL	Bank Holding Company	717,683	20.21	1.40	7.22	105.35	7.85	42.38	0.38	8.13
25	84	City Bank	Lynnwood	WA	Commercial Bank	1,239,032	20.03	3.64	14.97	134.39	3.14	21.50	1.38	17.44
26	23	Mission Bank	Bakersfield	CA	Commercial Bank	165,743	20.03	2.08	16.56	76.10	14.47	44.09	0.00	10.84
27	49	Fidelity Bank of Florida, National Assoc.	Merritt Island	FL	Commercial Bank	426,720	19.96	2.50	16.10	116.86	0.66	14.89	2.20	11.94
28	102	Cass Information Systems, Inc.	Bridgeton	MO	Bank Holding Company	903,040	19.91	2.00	5.19	182.19	53.43	67.66	0.40	10.14
29	42	Bank of Cleveland	Cleveland	TN	Commercial Bank	251,845	19.59	1.95	5.86	112.30	11.66	43.47	0.05	10.66
30	34	Smithtown Bancorp, Inc.	Hauppauge	NY	Bank Holding Company	1,121,149	19.40	1.32	6.96	99.31	18.26	52.46	0.03	8.45
31	151	Grand Valley National Bank	Grand Junction	CO	Commercial Bank	261,291	19.37	1.38	15.31	55.64	10.09	59.49	1.04	7.36
32	75	Bridge Capital Holdings	San Jose	CA	Bank Holding Company	774,986	19.35	1.45	7.32	96.95	12.55	62.29	0.75	10.65
33	45	Concord Bank	Saint Louis	MO	Commercial Bank	158,030	19.31	2.02	-0.45	102.88	5.38	29.22	0.87	10.82
34	96	Meade County Bank	Brandenburg	KY	Commercial Bank	120,743	19.29	1.63	-4.55	77.89	13.18	44.70	0.00	8.87
35	40	Metro Bank	Pell City	AL	Commercial Bank	509,780	19.25	1.83	7.98	90.84	14.22	42.10	0.27	9.98
36	905	Eastman National Bank of Newkirk	Newkirk	OK	Commercial Bank	136,178	19.21	1.37	12.84	98.90	16.73	57.47	0.58	7.47
37	67	National Bank of California	Los Angeles	CA	Commercial Bank	332,894	19.19	2.17	8.29	100.03	9.87	48.55	0.63	11.87
38	N/A	Peoples Bank & Trust Co. of Pointe Coupee Parish	New Roads	LA	Commercial Bank	110,591	19.00	1.93	25.70	116.51	13.04	48.79	0.60	9.90
39	64	One American Corporation	Vacherie	LA	Bank Holding Company	705,802	18.93	1.61	6.23	74.39	26.95	53.33	1.32	9.09
40	203	Amalgamated Investments Company	Chicago	IL	Bank Holding Company	788,498	18.92	1.10	3.46	57.01	52.89	70.39	2.24	7.32

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