THE 20-SOMETHING BUNDLE

by Steve Brown

It is still in vogue for independent banks to target high net worth individuals and higher quality corporate customers. The fact that everybody wants to grab the attention of the rich and successful is exactly the problem. UBS, Merrill, Citi, Wells and some 1,032 other banks, brokerages and financial firms are beating themselves up to get the attention of these customers. Accordingly, it is now more difficult than ever to turn a profit with this segment. Banks looking to build a customer base, should instead focus on their core customer, since this group provides the greatest value to the financial institution. Core customers are the ones that value service above all else. Take the 20-something demographic. While some young movers and shakers don't have enough balances to be profitable, our research shows that this changes 3 to 5 years into the banking relationship. A full 90% of the independent banks we work with that have retail operations fail to market to this important segment. Yet, if banks can capture younger clients and provide service to keep their loyalty (which is admittedly hard to do), their collective profitability increases rapidly. Unlike the high net worth customer, a little service goes a long way for the 20-something group. To get specifics, we convened a focus group of 20 to 28 year olds and asked them what they wanted out of their bank and what it would take to switch to an independent bank. While we will present the details at our High Performance Bank Workshop coming up at the end of the month, here are the top 10 items it takes to attract the 20-something demographic and hold their loyalty (in order of importance): 1) Online account access. 2) Interest bearing checking/money market sweep. Most focus group participants said they would switch banks for a 3.75% rate and would be willing to maintain a $1,000 minimum balance requirement. 3) Mini-line of credit that could be used to generate electronically produced guarantees to replace cashiers checks (for things like apartment down payments and car purchases) and the need for a branch visit. 4) Educational help for personal investing. 5) Competitively priced savings account. 6) The capability to get a live person on the phone instead of an automated system. 7) Overdraft protection. 8) Educational help on building credit in order to purchase a home. 9) Accessible ATM network. 10) Free checks. However, very few participants wrote more than 5 checks per month. Interestingly, only 10% had an existing relationship with an independent bank. More interestingly, all were open to doing so if the bank could provide most of the above wants. The 20-something demographic is, in our opinion, an under appreciated segment that can be attractive to independent banks. To capture this segment, banks must show these leaders of tomorrow a reason to switch financial institutions. As our intern Anthony (pictured above) said, "While cold beer in the lobby and iPod giveaways always help, what I really need is a bank that wants my business."

COMMERCIAL LOAN PERFORMANCE

As we review June's credit and performance data, one item that stands out is that slower appreciation growth is causing prepayments on some commercial properties to slow. On another note, while we are still analyzing the data, commercial credit quality appears to be drifting lower.

BANK NEWS

Guidelines

The SEC said that its new guidelines for complying with SOX Section 404 will likely include advice on how to deal with problems in company procedures (when preparing financial statements).

Risk Assessments

The FDIC Board has proposed changes to the current risk-based assessment system, which would call for all banks to pay for deposit insurance. There would be 4 basic assessment categories, reduced from the current 9. The FDIC said the proposal would allow the agency to better correlate risk with insurance cost.

Charge It

A FRB report showed that consumer borrowing during May rose for the 17th consecutive month. Credit card and other revolving debt saw the largest increase in nearly 2 years. Consumer credit or non-mortgage loans increased $4.4B, while revolving debt jumped $6.7B. However, non-revolving debt such as car and mobile home loans, were down $2.2B marking the first decline since November.

What's Your Sign

The FDIC Board proposed a new design of the official sign and logo which financial institutions have at teller stations and use in deposit related ads. The new label now includes the FDIC website and drops the seal for easier reproduction.

Customer Service Improvements

Wachovia has announced that it is upgrading its online bank system in an effort to improve customer service, giving retail customers features that have previously on been available to corporate customers. The improvements will allow customers to initiate messages, send files, and reply to online questions.