

FEE INCOME TIPS FROM THE GREAT WHITE NORTH

by [Steve Brown](#)

We picked up a recent story of a Canadian man arrested for repeatedly going into his bank in his underwear. Before we pass judgment on this wingnut, we should note 2 things. One, the man was making a deposit, so we know a few US banks that would welcome this customer with open arms (metaphorically speaking). Second, it was Canada and when last we checked, a foreign country. For all we know, it is standard procedure to bank in your underwear in that country. Until we walk a kilometer in their mukluks, we will withhold judgment on Canadian deposit practices. That said, one area of Canadian banking that we will pass judgment on (because it holds the future for US banks) is debit card usage. The citizens of Canada hold the record for the most electronically banked population in the world. No country has greater e-commerce penetration than our neighbor to the north. One main reason for this is a limited number of banks that have spent a material amount of money back to build infrastructure. Since 2004, Canadian banks have been aggressively marketing their programs with great success. Everywhere you go in Canada, from department stores to restaurants, the ubiquitous "INTERAC" logo and familiar electronic keypad are present. Even pizza delivery drivers bring a wireless keypad to your door. Type in your pin, hit "OK," a receipt prints and the money is automatically withdrawn from your account and issued to the retailer-who pays an acquirer fee for each debit card transaction. With 89% of the population using point of sale, even the most technology-challenged swipe with the best of them. A whole generation of kids are growing up without ever knowing what it is like to have to keep dollar bills straight in their Velcro wallet. First introduced in 1994, debit card payment for purchases has surpassed the use of cash as Canadian's preferred method of payment. The takeaway here is that given enough time and coordination from banks, the US population will follow. Independent banks need to continue to expand marketing and products to support point-of-purchase debit card usage. Wells Fargo and US Bank are reporting steady 10% growth in this product line. Where cash purchases used to cost banks in teller and ATM time, debit cards create a healthy stream of fees (for the moment). At our upcoming High Performance Bank Workshop in Las Vegas (September 26th), we will be discussing what banks are doing to speed adoption and increase fee revenue streams. In addition, we will discuss how banks can more effectively package debit cards either as a monthly service fee, a small per transaction fee, or a minimum balance. We will be discussing signature, pin and non-pin based programs, along with loyalty rewards, cash usage incentives, service support and "householding" (in order to drive fee income up in debit card transactions). Given shrinking interest margins, banks need to do whatever possible to boost fee income. Enhancing debit card offerings is just one of the many ways Canadian banks have successfully competed. Further, by intelligently packaging products, banks can also accomplish greater deposit growth, so they don't have to accept customers in their underwear.

BANK NEWS

Acquisition

Bancshares of Florida (\$756mm, FL) will acquire Old Florida Bankshares (\$325mm, FL) for \$82.6mm in cash and stock, or about 3.3x book.

Loan Growth

A recent report from the FDIC found that CRE loans showed "significant growth" during 2Q, up by \$21.3B. Over the past year, C&I loans under \$1mm have increased by \$12.7B, while larger ones grew by \$80.5B.

Slowdown

Bankruptcy filings have dropped to the lowest level in 5Y, following the new law that took effect on Oct. 17, 2005. An estimated 1.48mm personal and business filings were reported at the end of June, a decline of nearly 9.3% compared to the prior year.

Office Outlook

The National Association of Realtors ("NAR") Commercial Index was up 2.5% in July, indicating continued optimism in this sector for the 4Q. The NAR predicts a net increase in national office space of 5% (\$14B increase) and absorption at an 80mm s.f. pace. While developers are optimistic, the math indicates that supply is increasingly putting downward pressure on lease rates.

Merry-Go-Round

The CFO turnover rate has risen significantly according to a recent report. As of July, companies reported 1,444 changes in CFOs, compared to 963 the prior year. The study also found that more CFOs were hired from the outside rather than promoted internally.

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