

BOOSTING DEPOSIT ACTIVITY

by [Steve Brown](#)

As banks struggle to attract deposits, one popular strategy is to waive fees of out-of-network ATMs. While the strategy is not new, it is being given another look by many independent banks, as cost of funds has now made this strategy more attractive. In the past, some banks have tried limiting free access to the first 10 transactions per month, or reimbursing a portion of the fee, but many banks have found this too confusing to the customer and slowed adoption. Over the past 10 months, more banks have gone to completely free ATM services in an effort to capture the market's imagination. A completely free ATM network costs just slightly more than a 10 transaction limit, but gains the bank a huge marketing advantage by offering both "total freedom" and ease of understanding. For the bank, the cost is an average of \$1.29 per transaction (while the average customer surcharge is double that at \$2.50). The average customer that signs up for a surcharge free network tends to use out-of-area ATMs (this varies widely) an average of 6x per month. Customers that would normally be the domain of large national banks (because of the geographic coverage), can now be attracted by a surcharge-free ATM network. The additional cost to administer the program is not insignificant, but it allows the bank to market on a service-oriented characteristic that attracts a less interest rate sensitive customer. In other words, while the cost might be considered high, the type of service-interested customer tends to be more profitable for the bank. To compensate for this additional cost, independent banks have found that they must package this no-fee ATM network with a primary checking account, a minimum balance of \$2,500, online banking and debit card. Banks have found that this "convenience" or "freedom" package produces profitability from a relationship standpoint. The package has a high retention rate (some 230x more than a checking account alone) and encourages larger deposit balances. In addition to appealing to existing customers, many banks have successfully used this package offensively when entering new markets. Because the dislike of ATM fees always ranks high in market research studies, incorporating a no-charge ATM network may be just what your bank needs to gain more deposit traction.

AVAILABLE LOANS

In addition to yesterday's published loans we also have a couple more that are available before month-end we wanted to highlight: Â· Structured Lending: \$28mm financing for a cash secured (thus no legal lending limit) demand note to provide capital to an OK tax credit fund. The rate is 1.50% over the wholesale 1Y CD rate (currently 5.45%) for the 15 month term. The purpose of this financing is to increase the capital base of companies in the state in order to qualify for a larger amount of redevelopment credits. The risk is one of operation and legal. Â· WA Construction: We have a \$5mm participation available of an \$18mm facility financing a condo conversion outside of Seattle. This loan has an 18 month maturity, 78% LTV (including hard equity), recourse to a borrower with \$22mm in net worth and produces an estimated 33% risk-adjusted ROE. Pricing is Prime + 75bp with 50bp upfront. We are generally sour on condo conversion projects, but because of the developer experience, the location and the economics, this project is worth considering for some banks. For more information on any of the above, contact us or check our website.

BANK NEWS

FINCEN

The Treasury is considering revising a plan that would not require every bank along the chain of wire transfer recipients to file a Suspicious Activity Report. Under the revised, less burdensome plan, only the initial bank will have the requirement and not the intermediate correspondent banks.

Home Spending

Spending on home improvement increased 1.6% to \$160B for 3Q, or the slowest since early 2002.

Deposit Source

A report from the Social Security indicates 40% of people aged 65 to 69 and 25% of those in their 70's still generate earnings from work.

Long Term Rates

The IMF is reporting that China is expected to account for 10% of world trade, up from only 4% in 2000. Experts say the data indicates long-term U.S. Treasury yields will remain low for years to come as the country converts U.S. dollars (and buys Treasuries).

Online Banking

A spokesperson for Key Bank indicates more than 40% of its clients now use online services.

SFR Forecasts

The MBA predicts a 12% decline in mortgage volume in 2007 and an only 3.5% increase in appreciation (down sharply from previous forecasts of 6%).

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