

## PRUDCOT DISEGN

by [Steve Brown](#)

It doesn't matter in what order the letters in a word are, the only important thing is that the first and last letter are in the right place - which is our point. In banking, as it is in word structure, you have to make sure you have products that attract the starting and ending of your target demographic market in order to capture a majority of the business. Adding products may help, but it may also detract. When we conduct product audits at our client banks, too many are either missing a product (to attract the lower and upper bounds of their customer base) or have over-complicated their offerings and allowed too many choices. Take depository accounts for instance. Banks do a good job designing an entry-level account and an intermediate one, but often overlook a premium or elite status account (as they don't think they can attract the clientele). Many banks don't attract the premium customer because they don't offer a product specifically for them. By instituting a premium package, banks can have quick success acquiring new clients. Banks that offer too few products risk losing customers to competition. Banks need to offer a wide enough range of products to capture the targeted demographic as the first step in a product audit. Adding too many products is risky however. We have been in customer focus groups that confirm this assertion. If 7 different checking accounts are presented, the customer may give the bank high marks for product offerings, but studies show they are almost 4x less likely to make a decision at the point of contact than a bank with only 3 product offerings. In an extreme example, banks even use similar names such as "Maximizer," "Maximizer Plus," "Maximizer Advantage," "Maximizer Plus Advantage" and "Maximizer Premium Advantage" for their deposit accounts. This confuses the sale more than helps. Customers presented with too many choices often decide to put their selection off in order to conduct further research. The problem is that with the passage of time, customers (in more than 60% of the cases) will either stay where they are or choose a competitor's product. Make sure you have 3 product offerings in each category and leave it at that -unless you have evidence that your particular customer base requires more choices. Offering a low cost/low service entry; a high cost/high service product; and a middle of the road selection is usually sufficient. When analyzing deposit accounts, product design gets trickier because of balances. By tiering, banks can offer a higher rate to the client or reduce fees. Too many banks make the mistake that instead of properly using balance tiers, they create a whole new product category, ballooning their offerings. Having 3 elite checking accounts (where 1 would have been sufficient) not only confuses the customer, but wastes marketing dollars and drives up processing costs. Just like the human mind does not read every letter in a word, banking customers do not need a product to fit their every need. Paring down offerings to their essential elements may feel awkward, but should serve to save costs, boost sales and make shareholders very happy.

## BANK NEWS

### M&A

Bank of New York (\$92.3B, NY) will acquire Mellon Financial (\$42.6B, PA) for about \$16.5B. The move creates the largest custodian for asset management and asset servicing. The new company will generate 38% of revenue from security issuance, trade clearing and treasury services; 29% from asset management and private wealth management and 28% from asset servicing.

### M&A

Marshall & Ilsley (\$52.5B, WI) will acquire United Heritage Bank (\$735mm, FL) for about \$217mm, or 3.5x book.

**M&A**

KeyCorp (\$91.8B, OH) will sell its Champion Mortgage finance company in 2 separate transactions and take about \$200mm in charges. HSBC Holdings will buy \$2.5B in mortgages and Key will sell its loan origination business to an affiliate of hedge fund Fortress Investment Group. Champion does mostly sub-prime business in 26 states.

**M&A**

Columbian Financial (\$464mm, KS) will acquire Bank of Weatherford (\$69mm, TX) for about \$15.5mm, or 3x book.

**M&A**

Int'l Bancshares (\$10.7B, TX) will acquire Southwest First Community (\$127mm, TX) for an undisclosed sum.

**M&A**

The holding company for Gateway B&T (\$1.1B, NC) will acquire regional insurance company CD West & Co. for an undisclosed amount. CD West offers business insurance including property, general liability and workers compensation.

**Subprime Mortgages**

The 1st year delinquency rate hit 3.3% for Nov., the highest ever for this class of mortgages. These loans are now trading at the highest spreads of the year.

**Small CRA**

The FDIC will issue draft CRA guidance that would give credit for offering reasonably priced, small dollar loans to consumers. The move is the latest in a series of steps to help certain demographic segments, such as military families, with liquidity and lower interest rates than are presently available.

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