

GETTING PROACTIVE WITH PRICING

by [Steve Brown](#)

When quizzed on pricing strategy, many bankers would admit that their institution really doesn't have one. Many bankers lament that having a pricing strategy is good, but if your customers aren't willing to adhere to it, what do you do? The answer is, if you have the right strategy, keep selling and marketing to find the right customers. A well executed strategy focuses on a specific target audience. Finding the right one takes some work, but if it was easy, everyone would be doing it. This is why many banks with profitable pricing strategies align themselves (through marketing alliances) with other businesses that target similar customers. Joint marketing with the local theater company, private schools, accounting firms or jewelry stores are all examples of targeted marketing consistent with a pricing strategy. The question to ask is whether your bank has the right strategy. Many banks write to tell us that they price loans to return a certain ROE to their shareholders. This mistake is a common one that is more about return management than pricing management. Many different pricing methods will yield a bank a 17% ROE. The question is which pricing method is right for a bank's management skills, resources, balance sheet, customer set and demographics? In addition, is the ROE risk adjusted (to incorporate an expectation some loans will default, the shape of the forward curve, etc.). Over the long-term, pricing to achieve a certain net interest margin is a recipe for trouble, as it takes the "strategy" out of "pricing strategy." A bank's cost of funds, overhead expense and interest rate risk position are simply not relevant to the customer. Basing pricing off a cost structure is one reason why we no longer have a U.S. consumer electronics industry anymore. Back in the 1970's, consumer electronics firms charged higher and higher pricing in an effort to cover margins, only to find that overseas competition was refining their infrastructure to meet pricing demands. Bankers can manage their cost structure, but controlling competition and customers is much more difficult. Smart management will start with the question of what pricing is required on a risk-adjusted return basis and then work their cost structure to solve for a required margin. If they can't (as many credit card and auto lenders have learned), things can become more challenging. As an ongoing strategic exercise, banks should figure out what pricing and service level their target loan and deposit customers support and then design a cost structure to complement it. In this manner, pricing, customer and strategic objectives of the bank are better aligned.

BANK NEWS

M&A

The parent company of Lake Sunapee Bank, FSB (\$669mm, NH) will acquire First Brandon National Bank (\$100mm, VT) for about \$21.2mm, or 2.0x book.

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Merrimack Bancorp MHC (\$415mm, NH) will acquire Bow Mills Bank & Trust (\$124mm, NH) for about \$22.5mm, or 2.2x book.

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First Place Bank (\$3.0B, OH) will acquire 7 branches in MI from Republic Bank (\$6.2B, MI) for a 5% premium. The branches include approximately \$210mm in deposits.

M&A

Hanmi Financial Corp. (\$3.7B, CA) will acquire 2 Korean-American insurance agencies in CA for an undisclosed sum. The agencies offer a complete line of insurance products including life, commercial, auto, health, property and casualty.

M&A Trends

As of last week 433 bank and thrift acquisitions had been announced, compared to 415 at the same time last year (a 4% increase). A flat yield curve, increased competition, aging boards, shifting credit quality, weakening profits and heavy pressure from investment bankers are the primary factors driving more banks to seek partners.

Unfriendly M&A

A new study finds unsolicited acquisition bids have jumped from 2% to 11% over the past 5Y.

M&A Study

A new study finds 60% of acquisitions announced this year have been paid for in cash, compared to only 29% about 5Y ago.

Housing

A study finds the 12 month change in monthly sales volume continues to soften in many states. Some of the biggest drops have occurred in AZ (46%), ID (35%), FL (34%), CA (29%), NV (25%), PA (19%), OR (17%), IL (15%). For the country as a whole, the drop has been about 11%.

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