LOOK BEFORE YOU LEAP

by Steve Brown

Go to any conference or meeting of 2 or more bankers and someone will surely bring up remote deposit capture ("RDC"). Given the hype and value of attracting deposits and new clients at a very low cost, while potentially expanding the geographic market area, is it really any wonder? After all, instead of going to a branch each day, with RDC, customers can scan checks at their own office, digitally transmit and receive credit into their account. Aside from gaining potential revenue and float from offering RDC, bankers that are fans of the product say they also expect it will help them build a stronger relationship with their customers (small businesses in particular), reduce courier expense and lower check processing / branch costs. Finally, there are even some studies that show small business deposit accounts produce higher profits for bankers than the loans originated to such customers. In short, as with online banking and ATMs, RDC is poised to change the very nature of the way independent banks service their customers. Before leaping into an RDC program, however, there are many things bankers should consider and address within their strategic plan. For example - What processes and controls will be required to manage the risk of fraud (i.e. limiting deposit size, etc.), processing errors, image quality and other potential problems at hundreds of sites where the bank has only limited control? Can the bank insure against its risk? How does the customer calling effort change (should the bank send more loan or other calling officers into these areas or less)? Will the bank need to support additional in-person services to retain customers? How will the bank make potential customers aware of the benefits of RDC? How will the bank provide training and customer support (who will handle the technical aspects and ensure the customer experience is consistent)? Which customers will be targeted and which excluded for RDC? What agreements will customers have to sign? Who will be responsible for educating the customer on check retention, storage and destruction? To protect against a potential loss associated with RDC, what warranties and indemnities will customers need to sign and be held liable for? Who in the bank will be responsible for customer contact if they no longer come into the branch? If the technology fails, what are the bank's contingency plans to support clients? If RDC system updates knock out the customer's computer, who is liable? Who will pay for any losses based on poor image quality? Other takeaways independent bankers should know: estimates indicate that while only 5% of businesses are now using RDC, in 5Y experts predict more than 38% of businesses will use RDC; all of the top 20 banks in the country now either have RDC or are in the final testing phase; the RDC adoption curve is expected to be similar to online banking; 700 banks are expected to offer RDC by the end of the year. To be sure, RDC is poised to become an expected part of a full-service, business-banking offering, so independent banks will have to adapt. While we are fans of the technology, we just wanted to point out it may be wise for bankers to look before leaping.

BANK NEWS

M&A

Associated Banc ($21B, WI) will acquire First Nat'l Bank of Hudson ($391mm, MN) for an undisclosed sum.

M&A

Chittenden Corp ($6.6B, VT) will acquire Merrill Merchants ($449mm, ME) for $111.4mm or about 2.86x book.

Wamu

While the thrift posted a 3.7% increase in net income for the year, this includes a $415mm 1x gain on sale of their asset management business. It is also interesting to note that net interest income declined 1.2%, despite a 6% increase on earning assets. Wamu now operates on about a 2.6% NIM and a 13.5% ROAE (excluding the 1x gain, we calculate the ROAE would have been roughly 11.9%).

Charmed

The Fed and OTS released the revised Consumer Handbook on Adjustable-Rate Mortgages ("CHARM") that highlights the risk of variable rate, IO and payment option mortgages. The pamphlet is required to be given to consumers with every ARM application under Reg. Z by 10/1/07.

New Trend

Analysis from S&P finds 13% more companies in 2006 paid "extra" or "one-time" dividends than the prior year, while only 1% raised their regular dividend. Many companies used excess cash to buy back stock, while others have begun to shift away from committing to pay shareholders the same amount each year.

Customers

According to a Wells Fargo/Gallup survey, small business owner optimism reached a new high in the 4Q. Most owners see an increase in business activity for 2007.

Payment Study

The Fed will conduct another study in order to ascertain the current breakdown of retail payments. The Fed conducted a similar study in 2001 and again in 2004. This Fed series is largely credited for highlighting the death knell for paper checks.