

JET BLACK & BLUE & GOLD

by [Steve Brown](#)

Jet Blue has been beaten up recently as a result of forcing customers to sit on a tarmac for 10 hours during an ice storm on the East Coast. A couple days later, the Company compounded its public relations problem by having too many planes in the wrong place during another storm over a busy President's Day weekend. The press, being the press, jumped all over the Company with the story line that this was just another American corporation breaking their promise to the customer. In fairness, Jet Blue's motto "Bringing humanity back to air travel" wasn't exactly being fulfilled. Bad things do happen to good companies. For those that want to dig deeper into the facts, the episode reinforces Jet Blue's focus on customer service and highlights for banks how to effectively handle a crisis. On any given month, we hear of 1 or 2 banks that have had a data security breach, a fraudulent loan or a negative customer issue in the press. When this occurs, senior management teams would do well to emulate Jet Blue's CEO, David Neeleman. We have both written and spoken about Neeleman before. He is a CEO that not only has courage enough to take certain risks with business innovation, but is also passionate enough to spend several days a month working as a flight attendant in order to keep in touch with the customer. In this particular case, Neeleman's business acumen has served him well. First, he took full responsibility and apologized to the public within a day after the incident. He could have made excuses about the weather, or the control tower, but in this case, he took the blame and said he felt "humiliated." While this act of attrition seems simple to many, it is an area that trips up most. America is littered with CEOs that, instead of coming forward and accepting responsibility, look to place blame or outright lie. For those that get caught, the cover-up is always worse than the actual incident. Neeleman owned up and even went on the David Letterman show to take his lumps and try to diffuse the situation with humor. To underscore his point in a personal fashion, Neeleman sent a letter to his best customers, further apologizing for violating their trust. The 2nd smart tactical move he made was to quickly come out with a response that said the Company had fixed the problem. In Jet Blue's case, the Company produced a "Passenger's Bill of Rights." The Company now offers \$1,000 for involuntary bumping/canceling passengers and gives travel vouchers pegged to the amount of time delay of the flight. All told, this would cost the Company an estimated \$30mm if they don't improve from last year's performance. In one fell swoop, Neeleman not only solved the problem, but he put his money where his mouth was and enabled management to better track problems by guaranteeing payment. Finally, Neeleman wrapped up the crisis by saying talk is cheap – telling the public to "watch us." This is confident talk to say the least. Jet Blue knows that the only way to put the crisis behind it is to take care of the customer and execute. Neeleman's words and actions are an excellent reminder on how to handle a public relations problem. We have not doubt that Jet Blue will see their customer satisfaction climb back to pre-crisis levels.

BANK INVESTMENT PERFORMANCE

For the month of February, due to the drop in yields, banks put in their best total return performance in since August of 2004. The average bank portfolio increased their monthly return by 43%. Duration shortened by 0.1, book yield fell slightly y 2bp and credit remained stable. Offsetting some of the unrealized gain at many banks were wider credit spreads by 9bp (including agency mortgages) and higher volatility making callable agencies less valuable.

BANK NEWS

M&A

Buckhead Community Bancorp (\$530mm, GA) will acquire the HC for First National Bank of Forsyth County (\$190mm, GA) for \$53.5mm, or about 3.52x book.

M&A

CapitalSouth Bancorp (\$481mm, AL) will buy the HC of Monticello Bank (\$228mm, FL) for \$42mm, or about 1.8x book.

M&A

Northwest Corporate FCU (\$900mm, OR) will merge with Southwest Corporate FCU (\$11B, TX) as consolidation in the industry continues.

Competition

Wachovia announced it is expanding its retirement products in an effort to capture more consumers and businesses. The bank has launched an online magazine (that provides information about living and preparing for retirement) along with a branch advisory program (offers retirement consultations through its branches).

Subprime

The biggest subprime servicer in the country, Countrywide, said payments were late on nearly 20% of subprime loans. Delinquencies soared 33% over the past year.

Home Prices

According to the most recent study, the states with the fastest-growing home prices in the 4Q were UT (+18.0%), WY (+14.3%), ID (14.0%), WA (+13.7%), and OR (+13.5%). The national average was slightly less than 9%.

Popular Promotion

Coamerica, last month the bank sent out business planning software valued at \$100 to its small business checking users in a promotion that stressed "joint strategic thinking."

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