

HIGH POWERED PRODUCT CONSULTANTS

by [Steve Brown](#)

Most banks pride themselves on hiring a phalanx of PhDs., MBAs, CPAs and CFAs as consultants. The reality is that what most banks really need to do is to hire a 5th grader. This is true in many areas of banking, but none more so than when it comes to product design. When we conduct a product audit, we chart each type of account based on dollar volume on a single page. Shapes are then color-coded as to the type of account (green for checking, yellow for MMDAs, etc.). Next, we position each shape on the page depending on interest rate sensitivity (along the Y axis) and product usage (along the X). If a product is used for customer acquisition and is highly interest rate sensitive, it goes in the bottom right corner. A non-interest bearing checking account with reward points is a low interest sensitive account used for customer retention and goes in the top left. At this point we find some 5th graders, get them to stop focusing on the opposite sex or blowing things up and ask them if they can understand the product line-up. A bank with 2 to 3 products in each category usually breezes through. However, a good 35% of the banks never get past these pre-pubescent tweens, because having 9 different checking accounts (with a mixture of overlapping shapes, colors and sizes) starts to boggle the mind. It is not even possible to explain the difference between Premium Checking, Diamond Checking, Platinum Checking, Double Platinum Checking and Palladium Plus Checking to a 5th grader without sounding like a dork. If a 5th grader doesn't understand what you are trying to say, chances are the differences will be lost on your customer as well. In many banks, the sales staff can't even articulate the value proposition of each. The reality is that we find line staff usually gravitates towards a select few accounts within the product line-up and that is what they become good at selling. Give a customer 3 choices and they can make a fast decision, give them 13 and chances are you may lose them forever. Take a look at your product line up and ask yourself what would a 5th grader do? Better yet, go out and hire some. Ask them what they think of your product line up, branch marketing, account opening documents and statements. In addition to getting an honest opinion, the nice part about 5th graders is that there are no messy engagement letters to sign and you can always keep them out of your hair by turning on the branch TV.

BANK NEWS

M&A

Cooperative Bankshares (\$860mm, NC) has acquired Bank of Jefferson (\$15mm, SC) for an undisclosed sum.

C&D

Fremont General Corp (CA) has been ordered by the FDIC to halt making subprime loans and to tighten up certain deficiencies in its commercial real estate lending.

Goldman Sachs

Their revised economic forecasts calls for 3 rate cuts by the end of the year.

Regulation

FOMC Chairman Ben Bernanke said he would like Congress to take steps forcing FNMA and FHLMC to reduce their overall asset holdings, while also strengthening regulations.

Less Trust

The U.S. Mint said an unknown number of flawed George Washington \$1 coins (believed to be 50,000 in number) slipped through inspectors and went into circulation. The coins are missing edge inscriptions, including "In God We Trust," "E Pluribus Unum," the year and the mint mark.

Housing Sector

The CEO of D.R. Horton said the housing sector in 2007 "is going to suck," as companies deal with more write-offs, lower land values and more unsold homes. Analysts say they expect companies tied to the industry to increase layoffs from 50k per month in last 2006 to 75k per month for the rest of this year. Finally, the crash in the subprime market further exacerbates the issue, taking roughly 33% of homebuyers off the market that would have qualified last year.

End to FASB

A recent SEC panel suggested that the Agency should fast track a proposal to eliminate the Financial Accounting Standards Board. Since there are little discernable differences between GAAP and the international financial reporting standards (IFRS), it is recommended that U.S. companies adopt a single global accounting standard to aid in liquidity and understanding.

Competition

Amid mounting Congressional pressure, JPMorgan and Citigroup said they will make modifications to their credit card programs including stopping charging customers who exceed their limit a penalty after 90 days and stopping raising rates on cardholders who miss payments to other lenders.

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