

CUSTOMER ACQUISITION AND RETENTION

by [Steve Brown](#)

Banks seeking new clients may want to consider a tactic of marketing on FICO score and leveraging existing customer lists. Studies show 40% of small business owners feel it makes good sense to apply for loans with multiple lenders in order to get the best deal. These customers ignored the fact that the more times they do this, the more it raises red flags on their credit report. Since FICO scores only look at information in the credit report, this can be a poor decision. Banks seeking to retain existing customers and attract new ones (through positive referral programs) may want to consider providing education, producing marketing brochures on how the FICO score is calculated and offering to meet with clients to give them some tips to improve. Readers will recall that in this section a couple of days ago, we reported that 76% of Americans do not know their credit score within 200 points. Beyond increasing awareness and ramping up education for these customers, a marketing program focused on helping customers improve and learn about their FICO score can also serve the bank's own interests. After all, it is probably difficult to find a customer that wants to see their credit rating drop at a time when they are trying to raise more money. By encouraging customers to talk to the bank about their score and incorporating some tips to improve, the bank not only creates an early warning system identifying customers seeking new loans, but also serves to influence positive credit migration. Banks that work with customers to improve their credit rating may want to consider incorporating a rewards system of giving more favorable loan terms when the credit ratings rise. Customers that improve their credit score by 10 points for example, could receive a 10bp cut in their loan rate for positive credit migration and another 10bp reduction for every new customer they refer to the bank that takes out a new loan. This not only keeps customers happy, but drives in new ones, while better educating employees about which customers are improving and which are getting worse. This ensures customers with improving credit are proactively retained, while those with declining credit are either helped (before things get too bad) or managed out of the organization. Another thing bankers can do to increase customer retention probably relates to listening more than anything else. Studies of business owners find that about 33% say getting money to grow their business is difficult. Whether it is because bankers require customers to fill out 35 page account opening documents and sign in 12 different places, they do not have Saturday hours, or online services are weak, these customers want their banks to do more. In fact, 66% bank online, 50% say they will switch banks if they can find one that provides better services and 67% have accounts at 3 banks or more. We don't have to tell independent bankers that this customer set is 400% more profitable than the consumer sector. By refocusing sales efforts, offering to help these customers make more money or grow and proactively calling on them; independent banks stand a good chance of helping themselves while helping customers. As we have suggested above, banks should consider focusing internally first. The data is easy to get, customers know the bank and acquisition costs are reduced.

BANK NEWS

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New York Community Bancorp (\$29.4B, NY) will acquire 11 branches from Doral Financial Corp (\$9.8B, PR) for 4% more than the difference between the assets and liabilities as of the closing date.

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Lincoln Park Bancorp (\$93.1mm, NJ) will acquire the Montville, NJ branch of GSL Savings for \$830,000.

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Hub International will acquire BNCCORP's insurance subsidiary for \$37mm.

Small Business

Discover Financial has introduced a rewards program that refunds a month's of interest to a credit card holder if payment is made on time for 6 consecutive months.

Competition

Wal-Mart has changed some of its leases with in-store tenant banks to include language allowing the company to provide in-house banking possibilities (such as consumer mortgage, loans and home equity lines of credit). Bankers and many in Congress see the move as a more aggressive position by the company. Wal-Mart currently offers credit cards, check cashing, and other financial services.

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