TAX MAN COMETH, ARE YOU READY?

by Steve Brown

At the next High Performance Workshop coming up on June 7th, we will be talking about product and marketing strategies to help banks gather more deposits. For example, if you attended one of our several sessions last year and implemented what you learned, you would have been well positioned to gather a greater share of tax refunds this year (it is still not too late). Because of a recent change, the IRS now allows taxpayers to direct deposit their refund into 3 financial institutions. Smart banks will find ways to make it easy for customers to have all 3 going to their financial institution. By doing so, taxpayers will choose not to send monies to other non-bank financial institutions (such as brokerage accounts or mutual funds) and banks will be able to keep a larger share of deposits. A successful marketing campaign would include education and access to Form 8888 (which allows for the transfer of funds to multiple accounts). In addition, banks might provide an incentive to their customers to deposit funds in a combination of IRA, savings, checking, money market or bank investment accounts. Offering to match funds (say up to $25 per account), giving gift cards away to customers that utilize all 3 accounts or providing a free enrollment into a VIP "savers club" are all ideas that some banks took back and implemented. Tax time represents one of the best times to capture retail funds, as financial issues are topical and anxiety is running high. Another effective product is a "goal setting account." Here, customers are encouraged to apply their tax refund towards a long-term goal. Such accounts are interest bearing and carry names such as "Italy," "College" or "New car." Once the goal is reached, the bank would credit the account with a bonus amount equal to a precalculated percentage of the goal. Minimum time would be 12 months with a minimum deposit of $500. This account would have a current rate of 1.75% with an extra 2.75% of the goal amount paid upon the achievement of the final goal. Since the goal amount can be exceeded, never reached or set so it takes longer than 12 months, the average cost to the bank is an estimated 3.23% in the current environment. By combining this account with tax education, banks have an effective tool to better gather both retail and small business deposits. At the High Performance Workshop, we will be covering more than 32 business and retail deposit accounts (plus product bundles), discussing which ones are best, and hearing from other bank executives about best practices in this area. If you are in need of deposits and want to build lower cost balances, don't miss this event.

BANK NEWS

M&A

City National ($15B, CA) will purchase Lydian Wealth Management (MD) for an undisclosed sum. Lydian has $7.3B in assets under management and is focused on individuals and families with average assets in excess of $40mm. The move boosts City National's assets under management to $35B and increases non-interest income to total revenues to 31%.

M&A

Alliance Bankshares ($644mm, VA) will purchase Thomas Agency for an undisclosed sum. Thomas is a regional insurance company serving the needs of businesses and families in Fredericksburg VA.

Mobile Banking

AT&T's Cingular Wireless has inked a deal with Wachovia, SunTrust, Regions and BancorpSouth to offer customers mobile banking services. Under the biggest such initiative in the U.S. to date, customers that download software onto their phone will be able to view account balances, transfer funds and pay bills online. The application is immediately available for BancorpSouth customers and is expected to roll out in the 3Q at the other 3 banks.

SPECIAL REPORT ON CREDIT STRESS

Banks working on stressing their loan portfolios under the new regulatory guidance that came out in December may want to look to Irvine, CA for an example. There, the depth of the subprime housing debacle is beginning to be felt. Before the issue, office vacancies were at a 3Y low of 8%, home prices were at an all-time high and the unemployment rate was running at 3.6%. Over the past 6 months, that has quickly shifted, as subprime lenders have aggressively fired workers. Now, home prices have fallen 17%, office vacancy rates have soared to 11% (and another 2.5mm in new construction is coming online, which could push the office vacancy level to 22%) and local businesses are complaining their business is down as 20% to 35%. The total impact of the subprime problem has yet to be felt, but stressing the portfolio and working on issues that arise on specific credits as a result of the stress is worthy of more attention.