

## CRIMINAL FEE WAIVING

by [Steve Brown](#)

Now that Paris Hilton is behind bars, we can all breath a little easier. Before we breathe too easy however, keep in mind that we still have Britney running around and the issue of bankers waiving fees like never before. Historically, like the VIP rooms at trendy nightclubs, the waiving of fees for checking, money orders, travelers checks, notaries, stop payments and a host of other miscellaneous services have been reserved for all but the highest balance customers. After growing at an 8% clip for a number of years, fee income growth has slowed to a crawl (up 1.5% for 1Q). As of June of 2006, we started to see many independent banks go after high-net worth customers by waiving a majority of fees. Competition responded and many banks simultaneously dropped their definition of "high-net worth" to customers with a mere \$100k in combined balances. By 3Q of 2006, many banks also started to increase the number of allowed NSF/ODs that an account could have before incurring any fees. Despite all of that, none of the fee waiving was institutionalized until last March when Washington Mutual released their restructured "WaMu Free Checking." The product not only gives away checking, but provides the following services for free as well: non-Wamu ATM charges, checks for life, safe deposit boxes, e-Alerts, rewards credit card, ACH fraud protection, Amex gift checks, Amex Travelers Checks, foreign drafts, money orders, notary, IRA trustee work and 1 OD/NSF charge per year. After one month of marketing, our discussion with their customers and employees reveals that the product is taking off. We are still researching Wamu's numbers for new customer acquisition with this product, but given the response we have observed at their branches, it is likely significant. The #1 thing we heard from new customers was that they came to Wamu because they hated paying fees and they trusted that the bank would not "play games with them." For banks looking to roll out a similar product, we just gave you 2 great points to stay on message. Of course, counter to this customer acquisition and retention strategy will be a significant give up in fee revenue. For most banks, this strategy will be a net money loser. For Wamu, with its first mover advantage, it has a high probability of paying off. We believe that over the next several months, retail-oriented banks will have to come up with a strategy to effectively combat this latest trend. Banks will either need to hold firm and risk losing customers (but maintain some semblance of fee income), match the offering with a similar bundled package (in an attempt to capture more of the market before it gets eroded away), or launch a counter marketing campaign highlighting the service aspects of their offering line up. Which strategy bankers choose largely has to do with proximity to a competitor offering a similar bundle and a bank's current retention rate/fee revenue stream.

## SPECIAL REPORT - A CLOSER LOOK AT THE 1Q DATA

While we ran a piece in this publication yesterday, we continued to comb through the 1Q data to discern if there were any other trends worthy of reporting. By major category, here are some we uncovered readers may find interesting. Hedging: The number of institutions with derivatives increased to 1,050 or slightly more than 1 in every 8 banks. In total, that equates to about 6 new institutions each month that began using derivatives over the past year. NIM: 68% of institutions reported lower NIMs than one year ago, as the industry average slipped to 3.32%. Banks with assets below \$1B had an average NIM of 3.91%, the lowest in 16Ys. ALLL: Only 37% of institutions reported higher loan loss reserves, however 73% of banks with \$10B in assets or more increased their reserves. In dollar terms, loan loss reserves saw their largest increase in 4Ys. Housing: Noncurrent

residential construction and development loans increased 36%, while noncurrent residential mortgage loans soared to their highest level in 17Ys. Equity: Institutions increased dividend payouts by 39% over last year. Meanwhile, banks with assets under \$100mm reported an ROE of 6.47%, about half the level of institutions with assets above \$10B. Funding: Deposits grew at their slowest quarterly pace in 4Ys, as interest bearing accounts outgrew noninterest bearing by a factor of about 3 to 1.

## **BANK NEWS**

### **Competition**

Capital One has teamed with MasterCard to offer debit cards that will link to customer's bank checking accounts. The card will be able to be used with a pin or by signature and payments will be routed through the automatic clearing house network.

### **More Customers**

Studies indicate that the #1 most critical business-related issue for business owners (cited by 40%) is to get more free time, reduce stress or make more money. Coming in at a close 2nd with 39% of the vote is funding business growth. Bankers may want to tell their calling officers to find a good book with tips on how to save time, or hold a class for customers to offer time saving tips. As for the growth angle, sounds like a good pitch for another loan opportunity.

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