
LESSONS FROM THE BANK OF SPRINGFIELD

by [Steve Brown](#)

Call us lowbrow, but with the opening of the Simpson Movie this week on the 21st, we are thinking about giving all our employees that day off to celebrate (it is what Mr. Burns would do). As huge fans, we always take note of what goes on at the fictional "Bank of Springfield." Like the time when Bart questioned the bank's logo ("BS") or when Marge lectured Lisa on "professionalism" in banking - only to walk into the branch to see all the tellers dressed up as gorillas as part of a deposit promotion (Marge's quote - "A banker in a gorilla costume is still a professional"). For the movie, we were delighted to find out that the new motto for the Bank of Springfield is "Misplacing the decimal since 194.5." The interesting thing about this is that when it comes to quoting interest rates on loans, most banks don't get the chance to misplace the decimal because they often quote to only two decimal places. Worse yet, a majority of banks are in a bad habit of quoting only in quarters of points. Loan rates at most institutions are either 7.25%, 7.50% or 7.75%. Customers quoted Prime by their bank that feel like negotiating will likely be countered with an 8.00% rate instead of 8.25%. What happened to all those digits in between? It wasn't too long ago (during the early 80's), that a majority of banks quoted loan rates out to 5 decimal places. The practice stemmed from the legacy of using fractions of 32nds for rates. Banks had to use 5 digits when they converted such rates into decimals in order to board the loan onto their system of record. As a result rates such as $9 \frac{7}{32}\%$ would become 9.21875%. What is your next move as a borrower if you want to counter a 9.21875% rate? It is not a quarter of a point! 5 decimal places seems exact and, if used correctly, limits the amount of concession in negotiations. Tacking on numbers 3 decimal places out may not seem like much, but if you have a loan portfolio of \$500mm another 0.005% would garner \$25k to the bottom line with very little work. For that matter, add another 0.00575% to your next loan rate and watch what happens. Instead of 8.25%, quote 8.25575%. As we said, this is a simple and lowbrow tactic but it works. The groups that will most likely complain the loudest are those that have to explain the rate to the client (and also operational staff) unless you take the time to explain the reasoning and educate them on how to answer customer questions. Getting more granular in your loan rates will increase return and stem the quarter point price concessions that have become the norm in banking. While the Bank of Springfield may have problems with their decimal placement, making sure your bank uses at least 3 numbers to the right of the decimal may help bring thousands of dollars to the bottom line. These thousands add up. As Homer once said, "..with ten thousand dollars, we could be millionaires."

BANK NEWS

M&A

First Bancorp (\$2.1B, NC) will acquire the HC of Sentry Bank & Trust (\$219mm, SC) for \$38.2mm or about 1.4x book. The move adds 3 branches to First Bancorp's existing 69.

M&A

Merchants and Manufacturers Bancorporation (\$1.5B, WI) will sell its subsidiary bank, Fortress Bank of Cresco (\$169mm, IA) to the HC of Decorah Bank & Trust (\$229mm, IA). The move follows Merchant's previously announced sale of itself to Bank of Montreal subsidiary, Harris Bank.

M&A

The number of banking deals announced during the first 6 months of 2007 increased 5% from last year to 148. While flow slowed down in June to only 21 deals (versus an average of 27 per month), we expect M&A activity to continue with so many bank stocks in the doldrums. For the month of June, the average bank share price was down 11%.

Bank Stocks

A new study finds investor concern about credit quality has been one factor that has led bank stocks to decline 4% during the 1H of 2007 (compared to the S&P 500, which increased 6%). So-called small cap banks (mostly community and smaller regionals) have been the hardest hit, falling over 14% during the same period.

Basel II

Disagreement among regulators may postpone the launch of the proposed Basel II capital rule, which is slated for a one year test run beginning in 2008.

Cards

American Express Co. announced that it will stop selling its prepaid travelers check card due to lack of adoption by consumers and slow product growth.

College Package

Many banks roll out their college packages this week in preparation for students heading back to school. Community banks have found success with packaging free checking, savings, debit / credit cards, student loans, free foreign ATM access and links to parent's accounts. The key to profitability is to require/incent the parents to move a chunk of money over to these accounts early in the year, in order to increase the duration on deposits and account profitability.

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