CROSS PLATFORM ACCOUNT PACKAGES

by Steve Brown

At our next High Performance Bank Workshop (to be held near the beach in Los Angeles, September 27th and 28th), we will have an expanded session on liability structuring. While this is a high level workshop designed for executive management, one of the things we will be exploring is how to better package products and services to increase customer acquisition, retention and, most importantly, profitability. Marketing a single product, particularly an interest earning account, has largely gone by the wayside. The problem with interest bearing deposit accounts is that Â– follow us closely here Â– they generally bear interest. Paying interest isn't all that bad, except when greedy depositors expect more of it, which is when things turn ugly. Lately, things have been hideous and commercial customers are now demanding all sorts of interest , not to mention waived fees. The answer, as we have said before, is to start bundling products in order to increase the profitability across the spectrum of services. What we haven't said before is how to do this across platforms. If you are a bank that handles both retail and commercial accounts, most likely you have a problem with focus (as there are only a limited number of banks that do both well). One of the traits of high performing banks in this category is the leveraging of bundled accounts across both the commercial and the retail platforms. We call these account groupings "cross-platform packages." These account sets come in a variety of shapes and sizes, but we wanted to highlight a few of the more profitable traits of what produces the best mix of profitability and usability (of course, this package should be adjusted to fit your local market). As a teaser for the Workshop, note that minimum balances should be $115k and include a primary business checking account. In addition, both commercial and personal accounts can be combined to achieve this target balance. These can include savings, MMDA, CDs and lines of credit. Minimum opening balance should be $10k and a monthly maintenance fee of $25 should be assessed if the balance falls below that amount. The account takes advantage of a technique we call "barbell tiering," which puts a big gap between the lower and upper rate tiers. With this suggested cross-platform package, as of 8/2/07 (1-month Libor at 5.33%), we suggest balances below $10k earn 1.01% APY, balances above $10k earn 1.23%, balances above $25k earn 1.41%, balances above $50k earn 4.11% and balances above $100k earn 4.27%. The fractional price structure is created to look advantageous next to the competition, while providing an incentive to group higher profit accounts together. Debit, credit, online banking, investment services and other accessories should be included in the package and it should also be combined with our Dynamic Business Sweep. This will optimize tiering, pricing and elegance (or an alternative 6 pre-authorized transaction limit should be placed on the account with a $15 Reg D fee). Other fees are largely waived. The advantage is that by combining accounts, customers can receive higher rates of interest and lower fees than if they opened up separate ones. Only a handful of banks currently offer a cross-platform package (JP Morgan, Key Bank, National City and BB&T are the major ones), so community banks can gain a marketing advantage. The real profitability of this package is driven either by higher than normal balances left in the account and/or by better cross-sell opportunities. If you are interested in learning more about packaging, contact us for a brochure and come to our next Workshop (limited geographic availability).

BANK NEWS

M&A

The HC for Community First Bank & Trust ($442mm, TN) will acquire First National Bank of Centerville ($104mm, TN) for an undisclosed amount.

Fewer Branches

A new study by Forrester Research finds 41mm households now do some form of banking online and projects the number will double in the next 4Ys.

Tighter Lending

Large banks have significantly tightened up lending practices and companies trying to refinance loans or restructure balance sheets (particularly related to big M&A purchases), are feeling the impact. About $680B in leveraged loans are set to mature by 2011, with more than $150B of so-called "junk" rated loans coming due through 2008. By sector, rating agency Fitch indicates telecommunications and utilities industries have the most significant amounts of loans at risk.

New Approach

In an effort to capture a slice of the baby boomer market, U.S. Bancorp Investments, a subsidiary of U.S. Bancorp ($112B, MN), has opened its first Retirement Planning Center.

Biz Checking

The average minimum balance for premium business checking for 2Q rose to $10, 550, up 6% from a year earlier.

Our New Regulator

The SEC has given approval for the consolidation of the National Association of Securities Dealers and NYSE. The new consolidated self-regulatory organization will be known as the Financial Industry Regulatory Authority, or FINRA.