PREVENTING DEPOSIT OPTION AND REWARD GREMLINS

by Steve Brown

Banks searching for low cost deposit balances may want to look into two tools that we will cover at the next High Performance Workshop coming up in Los Angeles, Sept 27th and 28th (e-mail if you would like a brochure, but we have limited space in limited areas). One tool is the "build-to-suit" personal or business checking account that lets customers choose up to 5 free options from a basic package of 10 and 2 premium options from a list of 14. The basic package can include e-mail alerts, theft protection, ID security, free checking, online banking and no fee credit card to name a few. Meanwhile, the premium package includes options such as waived foreign ATM fees, cash-back rewards, interest options, charity donations, annual cash rewards, overdraft protection and a host of other options. In addition, customers can choose to pay $2 and $5 per month for each additional option beyond the bundle of 7. In some of our test marketing, the build-to-suit account ranked higher than several bundled package options and showed promise in retaining customers, as well as attracting new ones. Since this product is still fairly new in the market, we are in the process of gathering data on sales cycles, sell-through rates, costing and usage. It is our hope to gather quantitative information that will help banks better understand these products utilizing both our Liability Coach and Relationship Profitability services. While this product sounds solid at first pass, we wonder what small deposit gremlins lurk in the details. During testing in many cases, we have seen bank personnel steer their customers towards interest and high cost options (free ATM fees). The result is higher cost checking and additional system overhead of administering the program. This problem is further exacerbated by the cannibalization of existing checking accounts, as well as the payment of 3rd party administration fees. Because of these complications, banks need to spend more to advertise, market and train, further increasing costs. On the customer side, about 45% of the time, restrictions (usage of signature debit transactions, online bank usage, etc.) have caused penalties to be evoked and interest earnings to be foregone. This digital outcome has proven painful for some banks. They either end up with upset and confused customers or with higher cost/more interest rate sensitive depositors. The worst part about a program like this is that banks fail to plan an exit strategy. Once customers are involved in rewards or options account, it is hard to transition them. While we like these products, we are trying to figure out a way to make them more profitable for banks. If your bank utilizes either a rewards checking product or a build-to-suit deposit package, contact us. You can help be part of our research in exchange for the aggregated information and recommendations. For those attending our Workshop, stay tuned for the findings.

BANK NEWS

Credit Crisis Intervention

The Bank of England has officially intervened in the global credit crisis, after offering banks in the U.K. close to $9B in overnight funding at a reduced rate. The central bank said it did so to reduce "unusually high" overnight rates and calm financial market conditions.

CRE Sector Softness

A new report from Real Capital Analytics indicates investors bought the lowest number of commercial properties last month. Experts project CRE prices could see their biggest drop since the 2001 recession next year, as expectations mount that prices will soon begin to fall. Prices are projected to sink from 5% to 15% over the next 2Ys depending on type of property, location and quality.

Jump In Layoffs

A combination of softness in the housing sector and a crisis in the credit markets has pushed August job cuts up 85% compared to last month and 22% vs. the same period last year, according to a report from Challenger.

Advances Surge

FHLB Advances climbed 17%, rising by $110B in August to $769B. Lower rates and an investor pull back from the repo markets were the primary drivers.

Banks Like Biz Loans

A new study finds banks in the southeastern US have switched their focus from residential construction or land acquisition loans to corporate lending, prompting a 9.6% rise in business loans of less than $1mm.

LIBOR

For banks that have loans tied to LIBOR (or swapped to LIBOR), the recent credit turmoil and shape of the yield curve has increased margins some 45bp. Fear of a large bank failure has caused lending to large banks to be cut by almost 50% in the market. Because of tight credit, pricing has increased to compensate for this perceived risk. Recently, 1-month Libor has trended around a 5.35% rate, but now it is at 5.82%.