

DOING BETTER BY THE INDUSTRY AND CUSTOMER

by [Steve Brown](#)

Usually banks raise their reference rate the same day rates go up, but lag a day when rates go down. This is why it struck us as odd that Bank of America cut their Prime rate effective the 18th, or the same day, for the latest 50bp FOMC rate move. While some could argue giving up an estimated \$2mm or more of interest earnings is no big deal to a bank the size of BofA, it is still material. As such, we thought this was the perfect opportunity to test their customer service. To do so, we posed as a small business customer concerned with our daily interest accrual and phoned a local branch to ask a simple question – what Prime rate should we be using for the 18th? This was a tactical mistake, as we became stuck in phone automation hell. After striking out locally, we called investor relations, then corporate treasury and then a regional loan center – all to no avail. Since these calls had all failed, we decided to visit one of largest BofA branches in the country right here in S.F. After speaking with another 4 people in both the loan and operations areas, we finally received the answer – interest accruals are posted to accounts using the rates in the system at 12:01am in the morning. In effect, that means the Prime rate for BofA customers for the 18th was 8.25%, not 7.75%. Here is the tail of the tape on what it took to find this simple answer - total time expended: 82 minutes; number of phone calls: 6; number of people talked to: 9; and, number of prompts pushed: 17 (which easily could have been triple that had we not tried to find an attendant at every turn). These figures are very kind, as we were clear on what we were asking and knew who to call. If you throw in a little customer confusion, took at face value the 2 employees that "guessed" we should use the lower rate or not known who to call, this customer-oriented task could have eaten up half a day or resulted in a failed attempt. For fun, we called 2 community banks and asked the same question and in both cases we were able to get the answer by spending a maximum of 12 minutes and talking to no more than 2 people at each institution. We forgive BofA for misleading their customers and public in their Prime rate change press release and chalk it up to semantics or general confusion. We are more upset that BofA took a leadership role in their press release (they were the first to announce the change in Prime) that led several other institutions to follow suit. This, in turn, was a contributor to the Wall Street Journal posting its own Prime rate change effective the 18th. This resulted in many community bank to set their loan rates down a day earlier than they should have. In our estimation, the lack of clarity in BofA's release cost the banking industry close to \$15mm (but not BofA). What we cannot forgive is the fact that BofA's customer service was so poor and sterile in this regard. When a customer has a problem and is frustrated, they want to speak to someone that has been trained and takes ownership to solver their problem or makes sure their problem gets solved. Given all our interaction with BofA, not one of the 9 people we spoke with ever took responsibility for getting us the correct answer. We would smile at their ineptitude; however, our treatment was so bad that it just gives the entire banking industry a bad name. It is no wonder why bankers and banking rank so low in some surveys of "trusted financial advisors." Clearly BofA could learn something from customer service from community bankers as they still have a long way to go.

BANK NEWS

M&A

The HC of First Interstate Bank (\$4.9B, MT) will buy First Western Bancorp (\$889mm, SD) for about \$251mm, or roughly 3.1x book.

M&A

American National Bank (\$1.5B, TX) will acquire the HC of Dallas National Bank (\$85mm, TX) for an undisclosed sum.

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Bank of Smithtown (\$1.1B, NY) will acquire regional insurance agency Payne & Palmieri for an undisclosed sum. The bank said it was making the move in an effort to increase non-interest income to help counterbalance net income fluctuations.

Easier Housing

The OFHEO said it would allow FNMA and FHLMC to buy more subprime mortgages, but did not remove existing caps on loan portfolios. As part of the change, both GSE's can increase their mortgage portfolio by 2% per year to a maximum \$735B.

Regulation

The SEC adopted final interagency rules under Regulation R that will allow banks to perform traditional investment and other trust activities within the institution and without SEC oversight. This long sought after change is a result of broker-dealer provisions enacted under Gramm-Leach-Bliley.

FHA Changes

The Senate Banking Committee approved a bill that would cut the minimum down payment for FHA loans to 1.5% and raise the maximum loan limit to \$417,000.

Always Hot

Of the 6mm jobs that have been created since 2004, Phoenix, AZ, has been the nation's hottest employment market. In addition, since 2002, the city has added jobs at a rate of 23.4%, almost 4x the national rate.

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