

LOOKING AT YOUR RACK IN A DIFFERENT WAY

by [Steve Brown](#)

Maybe it is because we are frustrated writers, but one of our favorite games is Scrabble. Similar to chess, Scramble is mentally challenging. There is nothing like the intellectual accomplishment that comes from racking up 36 triple word points, while forcing your spouse to stare at the word "F-L-O-O-Z-Y" all night. To be good at Scrabble, you have to be creative, competitive and know all 21 words that have a Q in them. In like fashion, when running a deposit promotion, it also pays to do a little homework. The first question to answer is - What exactly are you trying to do? The answer is usually that you are trying to raise money to fund loan growth. If that is true, then let us ask you something - Isn't your energy better spent raising customers? Why spend a minute of time or a dollar of resources in trying to market a rate? That would be like playing the word "B-E-E" - low scoring and you use most of your needed vowels for future words. If you are worried about the competition marketing a high rate promotion and stealing your customers, here is an easy play - let them. You either have a value proposition or you don't. If your value proposition is that you pay a high rate on deposits, then it is just a matter of time before things turn really ugly, so you might as well avoid the rush. Most likely your bank is all about service - at least according to your mission statement. If service is your value, then why attract on rate? You don't even want those customers, so why market to them? Let the competition take your rate sensitive customers, as it saves you the hassle of driving them out later on. Not only that, but capturing these customers also makes your competitors more rate sensitive, saving you the hassle of driving them out of business. When it comes to deposit marketing, like good Scrabble playing, the key is to know where your value lies. In Scrabble, it pays to know how to use Z, Q and other hard-to-use letters. In deposit gathering, it pays to know what customers to target. Instead of competing against other rate payers, form your marketing campaigns to steal service-based customers. In other words target the low rate paying banks in the area, not the higher ones. These service sensitive customers are the ones that you really want. Market longer hours, better business checking, a line of credit with a primary business deposit account or online capabilities, in order to gain service-oriented customers. Granted, marketing on service is harder to do than marketing a high rate, but these customers are many times more valuable. Before you conduct your next rate promotion to raise money, think in terms of gathering customers with the effort instead. The change in tactics not only adds more value, but also catches the competition by surprise - like throwing down the word "kloof" or "fremitus." These really are words and as we learned in Scrabble, it turns out, if you have a big enough dictionary - just about everything is a word.

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BANK NEWS

M&A

TD Bank Financial (Canada) will acquire Commerce Bancorp (\$48B, NJ) for about \$8.5B, or roughly 2.9x book. The move adds 447 offices to TD's existing U.S. network.

Write Downs

Citigroup and UBS warned of significant loan-related losses in the 3Q related to subprime mortgage lending and securitization activity. Citigroup estimated 3Q profit would fall about 60% as the bank wrote down about \$1.3B on the value of securities backed by subprime loans, lost \$600mm in fixed-income credit trading and boosted loan loss reserves \$2.6B. Meanwhile, UBS wrote down \$3.4B in subprime mortgages, creating the first loss in 9Ys for the company.

Following Suit

Wachovia has begun testing an increase to \$3 in its ATM surcharge for non-customers at 200 terminals on the East Coast. Wachovia's move follows that of Bank of America done about 2 months ago. Wachovia said it will review the results of the fee increase in 6 months, as it decides whether or not to roll it out across the country.

More Details

The Office of Thrift Supervision shut down NetBank (\$2.4B, GA) due to "early payment defaults on loans sold, weak underwriting, poor documentation, a lack of proper controls, and failed business strategies" amid the fallout in the mortgage market. The closure marks the biggest failure of a depository institution since the S&L crisis 2 decades ago.

New Revenue Stream

First Sound Bank (\$160mm, WA) will acquire Puget Sound Leasing Company Inc in a move aimed at increasing revenue and insulating the bank against recession. Puget Sound, which specialized in business equipment leases, generates roughly \$8mm a month in new leases and has an average delinquency rate of less than 1%.

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