

BREATHING BETTER THROUGH SERVICE

by [Steve Brown](#)

Two things startled us yesterday. The first was when we found out that our laser printer was on the list of the most toxic office equipment. It turns out, according to Australian research, printers spew out tiny particles of toner that embed in the lungs to create damage. The other startling thing we heard was that Bank of America started paying 5.25% for a 3-month CD special. This is a bank that usually shows pricing discipline. This is why we were so surprised they were paying above FHLB and brokered CD levels for the first time since the early 1990s. With IndyMac at 5.40%, Countrywide at 5.35%, and now BofA paying up, how is a community bank going to compete?

Here is the answer – you are not. Seriously, stop looking at other banks. It doesn't matter what the competition does since you are not competing on rate; so why track it? Besides, rate surveys are inherently inaccurate, they lag a week and most banks don't possess the time or resources to really figure out cross-sensitivities anyway. Chances are your bank is all about service. If this is true, why do you even bring up rate? Why not track service? Do you ever see Tiffany & Co. market on rate? UPS? Ritz Carlton? Starbucks? Never. They market on service, on selection, on quality - but never on rate. Do you think customers even try to get discounts at Tiffany's? The answer, according to a store manager is "almost never." In fact, if they did, they would sell less not more as the product and brand would be devalued in the marketplace.

We all know that marketing on rate makes your balance sheet more sensitive, raises your cost of funds and trains your customer. However, like smoking or sitting next to a printer, competing on rate also has some other long-term unintended consequences – it damages you.

Chances are your mission statement says nothing about rate, yet many banks use it as a primary tool. Employees see management come out with a nice CD promotion and think to themselves - "it is OK to please the customer on rate." If you think training your employees is hard, try retraining them. It is multiple times more difficult to undo previously rewarded behavior than to train correctly in the first place.

Enhance your cash management options, segment your customer base, bundle your products, get more of a sales culture, be more proactive in client consulting and spend more on marketing. Add value through service and you will make inroads. Granted, marketing on service is a longer, more disciplined process than marketing on rate, so retraining is needed.

If you need help, we stand by with our Liability Coach product ready to assist. We have a verifiable track record helping hundreds of banks lower their interest rate sensitivity. In the meantime, consider staying true to your service focus and ignore other banks that market on rate. Oh yea, we also suggest you move away from your laser printer.

BANK OPERATING HOURS

After our piece yesterday, bankers asked - what community banks are open on holidays? One hard working bank CEO that we talked to, often works holiday's. He is always pained to see his good customers drive up, only to find their branch closed. Help us conduct further research to find out if

banks should consider opening on holidays. If anyone is open during holidays, please let us know as we would love to follow-up with a few questions.

BANK NEWS

M&A

Third Century Bancorp (\$130mm, IN) will acquire an Indiana branch of Somerville National (\$131mm, OH) for an undisclosed sum.

FHLB System

Members borrowed a record \$163B from the FHLB system in Aug, and Sept. as commercial paper funding became scarce. Banks such as Countrywide, WAMU and others reportedly borrowed significant amounts, pushing outstanding Advances up 21% to a record \$1.15T.

Subprime Cost

The latest tally of losses to the world's biggest banks and securities firms in bad loans and trading losses has reached \$30B. Meanwhile, the loss at Merrill Lynch alone wiped out 20% of total equity and is more than the amount earned for the company for the past 3Ys combined.

Spin Off

TSYS, an electronic payment processor, will spin off from parent Synovus Financial Corp (\$34B, GA) to become an independent company.

\$100B Housing Loss

A Congressional report predicted the economic damage of the housing market meltdown will reach more than \$100B by the end of 2009.

Pandemic Performance

According to the ABA, banks did not fare so well in a recent financial service-wide pandemic drill. 56% responded their continuity plan was only "moderately effective," while 28% rated it "minimally." Only 12% of banks were happy with their plan.

Mortgage Opportunity

A subsidiary of Coastal Banking Company (\$424mm, SC) has formed a new wholesale mortgage division in an effort to generate non-interest income with minimal risk. The division, based in Atlanta, is a response to "significant opportunities in the mortgage lending industry" and will serve markets in FL, GA, and SC.

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