A FEW GIFTS FOR YOU

by Steve Brown

If the drive into the office this morning is any indication, many people seem to have decided to take this week off. Maybe they want to get out and go shopping, perhaps they are baking cookies or possibly they are packing their bags as they head out to faraway destinations to see family and friends. Regardless, we felt those who remain chained to their desks might appreciate a few small presents wrapped carefully and dropped on their publication doorstep.

Gift #1: Happier customers, more customers and more fees. Consider sponsoring a gift card program for your merchant customers in 2008. Gift cards were the #1 gift received last year and 2007 looks like it will continue. While issues remain related to several vendor programs, the economics can be compelling. Business customers like these programs because their customers on average make 3 transactions on each one, boosting sales. In addition, studies find businesses that switch from coupon/paper certificates to gift cards see 2x to 4x the volume, as impulse buying spikes. In short, gift cards allow bank business customers to strengthen relationships with their existing customers, capture new ones, improve brand awareness, increase customer loyalty and decrease fraud, paper and cash handling costs. Only about 5% of prepaid card volume comes from banks (the lion share comes directly from retailers), but a general purpose gift card that can be used at any merchant has increased appeal, so that is expected to change over time. Oh yea, did we also mention that 37% of gift cards went unused last year (think float and more deposits)?

Gift #2: Help educate your board, give them greater insight and increase regulatory preparedness. Community bankers should take advantage of the St. Louis FRB program designed specifically for bank directors. The FRB provides an online training environment for bank directors designed to provide insight and training on topics ranging from evaluating bank financial performance and managing risk (such as credit, market and liquidity risks). Directors can progress at their own speed through video seminars and sample reports for a sample bank. Included in the package are board responsibilities, understanding bank regulations, attributes of a good director, red flags, board committee structures and much more. To get an overview, follow the 'St. Louis Fed Reference' link to the right.

Gift #3: Get a handle on credit risk exposures, particularly in the commercial real estate, construction and development portfolios. Regulators have made it known, in no uncertain terms, that they are serious about examining preparedness and documentation, particularly in these sectors. Banks with exposures above peer group or above regulatory thresholds (see JPS in December 2006) should have a program in place to effectively identify, measure, monitor and control such risks. At a minimum, bankers should include the following in such a program: an enhanced level of board and management oversight; active loan portfolio management; flexible management information systems; enhanced market and sector analysis; robust credit underwriting standards; portfolio stress testing and sensitivity analysis. In addition, bankers should ensure risk management practices include contingency planning, liquidity and capital.

Whether you are in the office this week and reading this for the first time, or are enjoying some time off and will read this when you return, we hope these gifts are the type that keep on giving through all of next year.

Related Links:
St. Louis Fed Reference

BANK NEWS

M&A

S&T Bancorp ($3.3B, PA) will purchase IBT Bancorp ($773mm, PA), the parent of Irwin B&T, for $181mm, or 2.9x book. Irwin is a commercial and retail 8 branch bank with a 13% ROE and a slightly better liability/loan structure than the average bank. We can't figure out the high premium.

FHA Reform Bill

As expected, the Bill sailed through both the House and the Senate and will now need to be reconciled. Look for lower down payments and higher coverage limit for mortgage loans.

Foreclosures Surge

October was a rough month for delinquent home borrowers as 53k houses were repossessed by banks, up from 30k a year ago, and 224k foreclosure filings were reported nationwide, an increase of 94% from a year ago. For the 10th straight month, NV had the highest foreclosure rate in the nation at 1 in every 154 households.

Auto Credit Crumbles

Delinquencies in auto loans rose to 4.5% in September, up from 2.9% in August, the biggest 1 month jump in at least 8Ys.

Women

A recent survey finds 77% of women have primary or shared responsibility for financial decisions.

Cards

A new study finds 35% of small business owners now regularly use debit cards to manage finances, compared to only 20% in 2004.

Clients

Studies find roughly 80% of client assets are held outside the bank.