NEW DEPOSIT PRODUCT TRENDS

by Steve Brown

A bank CEO, CFO and COO were walking to grab a sandwich. After tripping over an antique oil lamp, the CFO rubs it and is surprised to see a Genie pop out. For the first wish, the CFO immediately jumps in and said, "I want to go to Hawaii and relax on the beach with an endless supply of Mai Tais." The Genie granted the wish and poof, the CFO is gone. The COO, not missing a beat, jumps in and said, "I want to quit this stinking job and be in the Bahamas, driving a speedboat, without a care in the world." Poof! She was gone. "OK, you're up," the Genie said to the CEO. The CEO said, "I want those two back in the office after lunch." The lesson here - always let your CEO have the first say.

Speaking of CEOs having the first say, a recent trend in community banking is for CEOs to push their organization to develop new deposit products. While we will explore new products more in depth at our next Tactical Workshop coming up in Laguna Beach, CA on the 9th (Please see the attached brochure for more information), we wanted to highlight a couple trends that all banks should be aware of.

Rewards Programs Ã¢Â€" Reward programs are expanding and now not only allow customers to earn rewards for making transactions with debit cards or deposit balances; but also on loans, online banking and remote deposit capture. The key to this structure is to motivate profitable customers to use profitable products, but without making the overall program too costly or too complex. This is an area that we are currently conducting research to see the profitability of such efforts. Until those results, we can say that anecdotal evidence indicates these programs have been successful in building balances and cross-selling other bank products. National City's points program and Citibank's ThankYou program are two leading examples of this trend.

Enhanced Free Checking Ã¢Â€" Banks have recently heaped bells and whistles on free checking in an effort to grow balances. Free checks, foreign ATM fees, outgoing wires, ID theft, NSF/OD fee waivers and an anniversary cash bonus are all trends that we have seen increase profitable balances. In addition, enhanced free checking bundles tend to increase retention, further helping liability and cost structure.

Savings Marketing Ã¢Â€" Falling equities and aging Boomers have created a near pandemic over the lack of savings. Banks with automatic savings programs for their customers have seen huge increases in cheap balances. More importantly, because of the structured nature of these programs (that are independent of interest rates), these balances exhibit a 20% longer liability duration and an even greater increase in positive convexity. BofA's Keep the Change, Wachovia's Way2Save and Guaranty Bank's Savings PayBack are leading examples. In addition, some banks have reported traction in marketing campaigns aimed to promote the safety and soundness of bank deposits versus other investments (such as equities, bonds or annuities).

Bank deposit balances are on an upswing after years of a downward trend. Banks are starting to get creative and have learned to go after these balances with service, not rate. Until you find your own Genie to grant you the wish of lower funding costs, it may pay to follow the CEO trend and look into refinements you can make to your product line up.

BANK NEWS

M&A

Northern Trust ($79.5B, IL) will buy regional investment manager Lakepoint Investment Partners (OH) for an undisclosed sum. Lakepoint has $586mm in assets under management and works with individual investors, corporations and foundations.

More Writedowns

An analyst at Lehman said it is likely Merrill Lynch will take a $5.4B write down in 2Q, as the company takes further losses in asset-backed and collateralized debt obligations. Meanwhile, insurance giant AIG said it would absorb losses on its insurance units totaling $5B.

Job Cuts

Bank of America will cut 7,500 jobs over 2Ys following its acquisition of Countrywide. Given a combined mortgage and home equity workforce of 60k, the layoffs amount to roughly 12.5% of workers in those groups.

GSE Trouble

FNMA reported home loans past due 90 days or more that it guarantees climbed to 1.22%, double the rate of the prior year. Meanwhile, FHLMC also reported a worsening situation, at 0.81%, compared to 0.40% at the same time last year. Both GSEs reported about 6% higher delinquency rates compared to the prior month, as well.