MINIMUM ACCOUNT BALANCE TRENDS

by Steve Brown

Along with some of the highest deposit rates relative to Libor in modern day banking, this year is bringing a couple other changes on the commercial deposit side. One development is that the average minimum opening balance has dramatically dropped at banks all around the country. After years of going up, we have seen a rapid downward trend for every month we have surveyed for 2008. In 2007, the average minimum balance for business accounts was $10,200. As of July 2008, the average minimum dropped to $2,300.

Such a large drop deserves explanation, as it is more than banks reducing minimums to increase balances. In fact, when we look at all the factors for deposit sensitivity, varying the minimum opening balance requirement is probably the least sensitive of all factors (fees, rate and the number of free processed items are the top 3 reasons). While banks have, in fact, steadily lowered minimum balances, the real driver is more subtle.

One major change is that many banks are focused away from premium account lines. In an effort to try to capture more deposits from small businesses, banks have grown DDA and MMDA accounts with customers with less than 20 employees. Often referred to as the "Hook and Book" or "Up-tier" marketing tactic, banks lure in small businesses with a middle or lower tiered checking account with a $500 approximate minimum balance. This has made it easy for small businesses to have multiple relationships and the thought has been that once a bank has part of the relationship, it is easier to argue for more business and more deposits. This strategy has worked remarkably well for some banks and once the bank is in the door with the new customer, they then use a premium deposit product to get the customer to broaden the relationship and bring over more money from other banks. The tactic has been widely successful over the last 30 days in particular, as community banks have pulled money out of large regional banks above the $100k FDIC limit. The sheer number of new, middle-level checking and money market products, has served to increase the number of deposit account types outstanding (faster than any other banking account), while lowering average minimum balances by our calculations.

In similar fashion, this move has also manifested itself in the overall trend of relationship-based pricing. Here, more and more banks have moved from offering a single account, to offering multiple account types. This is designed to increase profitability and retention by giving customers a broader set of products to choose from for a reduced price. This has pushed standalone minimums to the wayside. In its place there are minimums on the combined relationship, which usually supersede or replace any minimum on a single depository account. This is the 2nd biggest reason why account minimums appear to be dropping, as the $10k common minimum balance is now split between 2 DDA accounts and a MMDA account, for example.

This trend also manifests itself in "waived fee minimum balances." These balances are the minimum deposit amount required to maintain an account free of charge. This gets a little confusing, as many banks have minimum daily balances, some have target average balances and most banks now have minimum combined balances. The good news is, unlike the minimum balances described above, waived fee minimum balances are much more homogenous across banks. For community banks, the average target balance in July is just over $22k (it is about $25k for larger and regional banks). This number is down from the $41k level surveyed at the end of last year and goes back to the level of 2002. Like minimum balances, many banks have dropped or lowered waived fee minimums in an effort to grab more deposits. Interestingly, waived fee minimum balances show more sensitivity to generating deposit balances and rank in the middle of the pack.

Hopefully, this article will serve as the impetus to take a look at your bank's minimum and waived fee balances to see if you are keeping up with the competition.

BANK NEWS

Watch List

Historically, 13% of banks on the FDIC's troubled bank list have failed. In March, 90 banks were being closely monitored. This list of banks will be updated in August.

Merrill Lynch

The Company said it would take a $5.7B 3Q writedown, raise $8.5 billion by selling new stock and agreed to sell $30.6B of CDOs to a private equity firm for about 22 cents on the dollar.

Paper Checks

A new study projects that by 2009, paper check volumes will decline to 17.9B transactions, 5.2B less than in 2006. This change will largely come from consumers' transition to electronic payments, as evidenced by online bill pay growth of nearly 30% between 2005 and 2007. On the flip side, due to difficulties associated with making and receiving electronic payments, many business-to-business payments are still being made through paper checks (which amount to nearly 60% of the volume for all check payments).