ACCOUNT DESIGN AND FEE WAIVING

by Steve Brown

Since the weather across the US today is rather frightful, one item that will keep bankers warm is the comfort that they have been doing a fantastic job at improving the art of account fee waiving. It wasn't that long ago when banks waived an average of 45% of deposit fees on business accounts. For 2008, this number is now down to an estimated 13%. One item that has helped is the basic construction of business accounts to include provisions for waiving fees. These provisions effectively place control in the customer's hands and reward them not for historical business, but for future business.

At present, approximately 80% of commercial community banks offer a business balance checking account. Of these, 15% allow maintenance fees to be waived if specific minimum daily balances are hit. In addition, 50% of community bank balance checking accounts allow for the customer to waive their maintenance fee if average monthly (instead of daily) balances are achieved. In our studies, both calculation methods appear to be equally effective. However, of the two, in our focus group discussions, business customers seem to understand the calculation of average daily balance better. This results in higher satisfaction.

That said, our research indicates that calculation to waive fees based off average monthly balance has the advantage of garnering slightly higher balances than the minimum (but only to the tune of 10%). Approximately 30% of commercial banks we studied allowed customers to use either method to hit their minimum balances. Additionally, 40% of banks allowed for the utilization of combined or multiple accounts to achieve daily or monthly average balance targets. The availability of utilizing multiple accounts also garners the highest customer satisfaction. To recap, the all-encompassing solution (if systems can handle it), is to allow monthly fees to be waived in a variety of ways, including daily balance, monthly or using combined balances (to achieve either one).

When talking about combined accounts, the subject that most often comes up is whether different types of accounts should have different minimum levels? The answer is yes, but this creates additional operational problems. If multiple business balance checking accounts are offered (such as a premium or mid-level checking), then minimum levels should be different (because of the different cost structures and marketing targets). However, combining these accounts for minimum fee waiving levels presents a host of difficulties. Oddly, only 35% of banks we studied offer different types of business balance checking accounts. Of those, very few (less than 10%) offer the ability to combine balances to achieve the waiving of monthly fees. The question here is what minimum should be chosen when combining a premium checking account (that requires a $20k balance to waive fees) with a basic checking account (that has a $2k minimum). Is it more important to take the higher balance, lower, average or some other method? Unfortunately, we have yet to conduct research on the best method for combining accounts, setting minimums and waiving fees to garner the highest customer satisfaction and the most efficient usage, but we will be working on it for 2009.

Designing the proper deposit account structure is one of the hardest things to do in banking. Banks need to constantly experiment to see what account bundles benefit from different fee and rate levels. By experimenting, when the deposit winds kick up as they are doing now, bankers will already have a layer of earnings protection built in and be free to hum - "Let it snow, let it snow, let it snow."

BANK NEWS

M&A

M&T Bank Corp. ($66B, NY) will purchase Provident Bankshares ($6.2B, MD) for an estimated $401mm in stock or 1.4x book. M&T gains $4.6B in deposits and 143 branches, primarily in MD and VA.

Program Changes

The FRB announced changes to a new program that sets aside $200B to support consumer lending. The program allows companies to pledge auto, student and small business loans as collateral to the FRB and receive loans up to 3Ys in maturity.

Federal Spending

The Gov't percentage of total economic activity is nearing 25%. That compares to a high during 1983 of 23.5% and a peak of 44% reached during World War II. A more normal level is 18% to 20%.