

JOHNNY AND NON-PROFIT ACCOUNTS

by [Steve Brown](#)

Little Johnny, that pre-pubescent wise-acre was in his math class when his teacher posed the following problem: "A wealthy man dies and leaves \$10mm to be divided up. In his Will, the man leaves the following breakdown: One-fifth to his wife, one-tenth to his 35 year-old child, one-twentieth to his butler and the rest to his favorite non-profit. Now, class, what does each get?" After thinking for a second, Little Johnny raises his hand, and answers - "A lawyer!"

For bankers that missed the humor in the above, the reason is that either it is Monday or your bank is one of the 80% of community banks that do not have a special account package targeted at non-profits. If you did have a dedicated effort to non-profits, you would know that the non-profit checking account is one of the most profitable accounts a bank can have. In fact, it is rare that when we conduct profitability reviews for banks, that we find that the non-profit account isn't always profitable.

The reason for a non-profit account's profitability is due to above average balances and below average usage. Yes, non-profits tend to demand higher interest rates on accounts, but that doesn't mean they are interest rate sensitive. To clarify, non-profits usually have higher interest expense than small business account packages, but their lower usage, higher balances and lower correlation to interest rates place these types of accounts in the forefront when it comes to generating earnings.

An analysis of non-profit accounts at community banks shows a couple common characteristics. For starters community banks that have at least one dedicated salesperson to non-profits tend to have 3x the number of these non-profit accounts than banks that just have each branch handle the marketing of such. These banks with dedicated relationship managers usually have specific marketing material that also seems to help the effort. Banks have also been successful when combining the account package with additional give-aways such as free Quickbooks or finance counseling services. While we are talking about marketing, if you do have a non-profit target, please put it on your website. We were shocked to find out that of the banks that have non-profit accounts, only 50% of the banks advertised the product on their website.

From an account structuring side, the most profitable non-profit accounts can be opened with a balance of \$1,000, have no monthly maintenance fee (usually above a minimum balance), receives free online banking (with bill pay) and comes with a free debit card. The goal is to incent less expensive electronic usage, which is why many banks also charge an average of \$0.22 per paper item with the first 40 items free.

One important feature is the fact that non-profit accounts should either pay interest or be attached to a money market sweep that pays interest. Here, the need for interest is greater than for small businesses (demanded more at account opening) which tends to hurt profitability, however, once established, non-profits tend to not move money dependent on interest rates (although we have seen some hyper sensitive accounts). Interest rates for these packages start at 0.0% and go up to 0.75%, with a weighted balance average of 0.22%. Usually, non-profit accounts work best with 3 to 4 tiers as the distribution of accounts appears less compared to small business packages.

If you are like Johnny and looking for ways to stand out in the crowd, we recommend considering going after non-profits with a specialty account and marketing. A dedicated non-profit effort is one of the many hallmarks of top performing banks these days as they usually produce a ROE in excess of 48%. To get more Little Johnny jokes and find out more characteristics of top performing banks, be sure to attend our upcoming May EMC Conference www.pcbb.com/2009Conf_Summary.asp.

BANK NEWS

#17 Closed

Freedom Bank of Georgia (\$173mm, GA) was shut down Friday. Northeast Georgia Bank, (GA) will purchase \$167mm in assets for \$13.7mm and assume all \$161mm of Freedom's deposits.

M&A

CommerceWest Bank (\$255mm, CA) will acquire Discovery Bancorp (\$171mm, CA). Discovery took a net loss of \$5.4mm for 2008 and received a cease-and-desist order in January to cut down on troubled loans and improve operations.

More Time

The ABA is lobbying the Treasury to get CPP approved banks more time to decide on if they will take the capital. The ABA asked for the deadline to be extended sometime after clarification on the executive compensation is rendered.

TALF

The Treasury removed executive compensation limits for companies involved, extended the program to include equipment and vehicle fleet leases and are planning on a future expansion to \$1T (which may include MBS). The \$200B start of TALF will begin offering loans March 17.

Credit Markets

Lower bank equities continue to increase credit spreads as Libor, the Ted spread and Fed Funds borrowing rates for 2nd tier banks have all risen about 15%. In addition, quarter end and Japanese year end are also putting pressure on funding and credit concerns.

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