RETAIL DEPOSIT ACCOUNT UPDATE

by Steve Brown

By way of an update on retail deposit accounts, we wanted to give bankers insight into May data in hopes that it may spur some product and marketing ideas. In general, May saw a reduction of balances from April in checking accounts, while savings continued to rise. In order not to get caught up in month-to-month fluctuations, we wanted to take a look at general trends for the year.

For the first 5 months of 2009, the growth in savings accounts has been the single largest driver of profitability on the liability side of the balance sheet. It remains the most important trend in community bank liability management. As of the end of May, the average savings account nationwide rose to $6,600, which is up 46% from year-end. This is part of the savings trend that we talked about 2 weeks ago when we reported that some banks were capitalizing on this by rolling out structured savings accounts. Other community banks are finding more sensitivity to marketing campaigns and have rolled out specialty savings accounts targeted at home buying, college savings and vacation/travel with profitable success.

Next to savings, money market accounts are up 20% from year-end, to an average of almost $39,000. For May, increases have slowed from past months and the variance between money market accounts has increased. CD balances are up 11%, to just over $39,000, while non-interest checking is also up 11%, for the year to just over $3,000 per account. Interest checking account balances are up 5%, to just over $7,500.

Higher market rates at the end of the month have served to increase interest rate sensitivity overall (shortening duration), but not appreciably. However, it appears in the quest for more income, banks have increased fees, which brings us to the 2nd most important liability trend of the year - higher fee sensitivity.

Prior data suggests that retail depository accounts were largely insensitive to fees for anything less than a 15% change. These days, a 10% change in fees elicits account closings and reduction in balances (shorter duration).

As we analyze depository fee data, one method that works for banks is to accompany a fee increase in conjunction with more flexibility in automatically waiving such fees. While banks don't want to train their staff to waive fees more often, by allowing greater flexibility in the account structure, bank staff can be instrumental at steering clients into accounts that have lower fees (while resulting in an increase in long-term profitability).

An example of this type of account is one that was recently rolled out by Bank of the West (CA) that modified its Choice Interest Checking account. Previously, the account only allowed customers to waive their monthly fee of $10 if they maintained either a $1,500 minimum balance or a $5,000 combined balance (in checking, savings, CDs or IRA account). Now, the monthly fee can be waived by making 5 or more bill payments per month or having a direct deposit in the account of $250 or more. The end result is more flexibility for the customer and hopefully either an increase in profitability or greater loyalty.

By taking another look at how depository accounts are structured, banks may be able to increase balances, move to higher fees and generate greater profitability. To give banks more insight into building liability balances, we will be holding a series of "Tactical Workshops" across the country in 2009 that are designed for community bank executive management. The Workshops will provide practical examples of what banks are doing in each region. While we will have more information out shortly, here are the remaining dates and locations for the 2Q: Los Angeles (June 23rd); Charlotte (July 28th); and, Seattle (August 19th). After that we expect to hold more in Richmond and Chicago/Midwest for 4Q.

BANK NEWS

37th Bank Failure

Bank of Lincolnwood ($214mm, IL) was shut down Friday and the FDIC entered into a purchase and assumption agreement with Republic Bank of Chicago ($1.17B, IL) to assume the failed bank. Republic assumes all deposits and about 75% of the assets ($162mm). The FDIC will retain the remaining assets for later disposition.

Revamped Board

Bank of America restructured its Board to beef up members with banking expertise, expanded the board's size to 20 and replaced 2 directors that resigned last week. BofA named 2 ex-regulators and 2 former bankers as new outside directors. Added to the mix were ex-Fed Governor Susan Bies, former FDIC Chairman Donald Powell, retired Bank One executive William Boardman and ex-CEO of Compass Bancshares, Paul Jones.

1Q Results

During the 1Q, 22% of institutions lost money and nearly 60% reported lower net income, compared to the same quarter last year.

Branch Numbers

There are over 99k branches in the US, of which the average size is 3.5k sq. ft. According to TowersGroup, the average size is expected to shrink to 3k sq. ft., while net new openings of 1,200 branches are expected over the next 4Y.