

LESSONS FROM THE BANK OF SPRINGFIELD

by [Steve Brown](#)

Call us lowbrow, but we still love the Simpsons. As huge fans, we always take note of what goes on at the fictional "Bank of Springfield." Like the time when Bart questioned the bank's logo ("BS") or when Marge lectured Lisa on "professionalism" in banking - only to walk into the branch to see all the tellers dressed up as gorillas as part of a deposit promotion (Marge's quote - "A banker in a gorilla costume is still a professional"). We especially like the motto for the Bank of Springfield - "Misplacing the decimal since 194.5."

The interesting thing about this is that when it comes to quoting interest rates on loans, most banks don't get the chance to misplace the decimal because they often quote to only two decimal places. Worse yet, a majority of banks are in a bad habit of quoting only in quarters of points. Loan rates, these days, at most institutions are either 6.25%, 6.50% or 6.75%. Customers quoted in quarters of points will likely negotiate in quarters of points. What happened to all those digits in between?

It wasn't too long ago (during the early 80's), that a majority of banks quoted loan rates out to 5 decimal places. The practice stemmed from the legacy of using fractions of 32nds for rates. Banks had to use 5 digits when they converted such rates into decimals in order to board the loan onto their system of record. As a result, rates such as $7 \frac{7}{32}\%$ would become 7.21875%. What is your next move as a borrower if you want to counter a 7.21875% rate? It is not a quarter of a point! 5 decimal places seems exact and, if used correctly, limits the amount of concession in negotiations.

While 5 places may be too much, tacking on numbers 3 decimal places out is probably a good compromise. That type of change may not seem like much, but if you have a loan portfolio of \$500mm another 0.005% would garner \$25k to the bottom line with very little work. For that matter, add another 0.00575% to your next loan rate and watch what happens. Instead of 7.25%, quote 7.25575%. Granted, this is a simple and lowbrow tactic, but it works and while many bankers know this, most don't do it. It also works with deposit products. Instead of quoting a 1.25% rate, try a 1.2101% rate and save a couple of basis points.

Expanding to extra decimals will most likely create some noise, but the loudest will most likely be from staff that has to explain the rate to the client. Taking the time to educate and explain the reasoning is essential.

Getting more granular in your loan rates will increase return and stem the quarter point price concessions that have become the norm in banking. While the Bank of Springfield may have problems with their decimal placement, making sure your bank uses at least 3 numbers to the right of the decimal may help bring thousands of dollars to the bottom line. These thousands add up. As Homer once said, "...with ten thousand dollars, we could be millionaires."

BANK NEWS

M&A

Meridian Interstate Bancorp Inc. (\$1.1B, MA), holding company of East Boston Savings Bank, has entered a deal to purchase Mt. Washington Co-operative Bank (\$516mm, MA). As Meridian is a mutual holding company and Mt. Washington a mutual, no money will be exchanged.

TARP Survey

80% of banks polled said their TARP funds helped increase or hold lending stable. In addition, 30% leveraged the TARP funds to invest in mortgage backed securities.

Branch M&A

Floridian Community Bank (\$130mm, FL) will acquire 3 branches, \$100mm in deposits and \$110mm in loans from Valley Bank (\$160mm, FL).

Debt Reduction

After years of steady increases, household debt fell from a record high of 133% of after-tax income to 128% in 2Q. This is the first reduction of debt since Harry Truman was President.

Brutal Projection

A Senator from KY said FDIC Chair Shelia Bair estimated at a Senate Banking Committee hearing that up to 500 more banks could fail.

Online Banking

The latest survey finds nearly 70mm people now use online banking and bill pay, a new record. The study also found actions taken by most people are accessing balances, reviewing account history, paying bills online and transferring money between accounts.

Foreclosures

As of June, the top 5 states in foreclosure filings were NV (1 in 16), AZ (1 in 30 homes), FL (1 in 33), CA (1 in 34) and UT (1 in 69). Meanwhile, on average there was 1 foreclosure filing for every 84 homes nationwide.

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