TEENAGERS AND BANKING

by Steve Brown

For banks that want to become more sales-centric, here's a training idea - have a group of salespeople try to get a teenager out of bed in the morning. Most salespeople are woefully unprepared for this test and will resort to pounding on the door and yelling threats, such as, "You are going to be late for school if you don't get up." After doing this for 20min, salespeople (and most parents) learn how moronic this approach is. It assumes that the teen wants to be in school in the first place, sitting in a stuffy classroom, memorizing the atomic weight of Dubnium (its 262 if you can stop laughing at the name) - instead of keeping with the soft down pillow.

While we are on this topic of selling and teenagers, we would like to bring up an effective product for banks that have a retail presence - the teen account. Targeting customers between 13 to 18Ys of age may be a barely profitable endeavor, but it helps capture new customers early. Studies show that a majority of teens retain their original banking relationship well into their 20's and often beyond. Further, while many banks have college-type accounts (18-year old minimum), less than 30% specifically target teens. This distinction is important, as teens and college age kids have different needs. Segmenting the customer base allows banks to offer a lower cost set of services and fulfill needs, while still retaining profitability. In addition to garnering new customers, having a teen account also attracts (and retains) parents who usually assist their children in establishing credit and good banking habits before going off to college.

Our recommendation is to promote a bundled package of a very low interest earning savings account, a non-interest checking account (if over 16-years old), free debit card, free online banking, online statementing (only), limited checking and discounted student loans. The account package should come with a monthly fee of approximately $5 that can be waived for balances over $1k (or if linked to a parent account). Parents should also be allowed to set dollar limits on the teen's checking, ATM and POS transactions at account opening, if possible.

Finally, the bank should have a college-type account that the teen can transition to free of charge that offers expanded services. Analyzing these accounts at several banks, we have found that while average balances are exceedingly low at $453 dollars, transaction volume (and hence risk) is also next to nothing. While interchange fees make up a portion of the revenue, most of the value comes as a result of non-interest and extra-long duration balances. As a result, these accounts are slightly profitable and are a great way to establish the brand and begin a relationship with a new client. Promotions geared around saving for a car, college, computer or reducing the tax burden (targeted at parents) have proven very effective and served to increase balances by 20% above average levels.

While teen checking accounts usually aren't profitable, this is another example of why banks should think bundled product solutions instead of individual transaction accounts. By combining services and tying teens to their parent's accounts, banks can increase relationship profitability, while differentiating themselves in the marketplace. As for salespeople trying to get their teenager out of bed, we are still working on ideas, but we are pretty sure the most effective has to do with pancakes and Facebook.

BANK NEWS

Wells Fargo

2Q net income increased 47% from a year earlier to $2.6B. It is hard to tell what is going on as few details were released on the source of earnings. We doubt it was core bank profitability, as the largest US home lender saw credit quality deteriorate and delinquencies climb 45% from 1Q.

Corus Bank

The beleaguered Chicago-based bank announced that it will have to restate its 1Q earnings due to higher provisions for credit losses. It won't much matter, as the Bank is already "Undercapitalized."

Underwriting

An OCC study finds 86% of national banks tightened commercial underwriting standards during the 12 months ending in March and none eased standards. Further, 37% originated more loans and 31% saw no loan growth.

CRE

Delinquencies rose to 4.3% in the 2Q and WSJ estimates at this pace, CRE losses may top $30B by the end of the year. On average 34% of banks' portfolios are comprised of CRE loans.

Remittance

According to a study by the Association or Financial Professionals 95% of firms would like remittance information included in wire transfers. The FRB will standardize cover letters between banks in November, with the goal of integrating remittance data by the end of next year.

Good Job

A Bloomberg poll shows 75% of global investors give Bernanke top marks for combating the worst financial crisis since the Depression. Bernanke had the highest approval rating of any Central Banker.

Builder Optimism

The National Association of Home Builders confidence index jumped to its highest level in 10 months in July.