ANOTHER BRANCH DIMENSION

by Steve Brown

About 50Ys ago, the Twilight Zone made its television debut. One of the first shows of this iconic series stared Burgess Meredith as Henry Bemis - a bank teller that had an affinity for reading. Tired of his wife nagging him, the bank president riding him and his co-workers annoying him, Bemis sought solace in his bank's vault at the exact same time a nuclear explosion occurred. Bemis emerges, only to find he has plenty of time to read (until irony sets in).

We can relate to the need for some workplace quiet. For tellers looking to get away, we continue with our theme of branch restructuring this week. Our final episode of the declining importance of the traditional branch comes in the form of the Personal Teller Machine (PTM) that some financial institutions are rolling out. At a cost of approximately $60k upfront and $20k per annum to operate, the PTM is an ATM machine on steroids, with a direct high speed video connection to a peacefully situated remote teller. The machines replace about 90% of what normally occurs in a branch including making change, taking deposits, dispensing coin/currency, printing checks, handling new account opening documents and verifying signatures. Unlike an imaged ATM, the PTM gives customers the best of both worlds Ã¢Â€"electronic efficiency plus human verification.

If all this sounds like the "wondrous land of imagination," know that these machines are already deployed with great fanfare. Banks and credit unions that have installed them, have usually ordered more, because of their success in reducing delivery costs and enhancing customer service. Banks can use these machines to more evenly distribute customer load by routing service to a centralized location. For example, 5 tellers can handle the load of 5 branches. Meanwhile, banks that deploy 7 can provide 24/7 coverage at each of them. At a single location, hours can be more efficiently extended, service expanded, training enhanced and the customer experience better-managed.

The tactical use of PTMs vary, as some banks use them for fully automated locations, while others use them to supplement existing teller stations during times of high traffic. PTMs change the way banks will think about future delivery. While the full service branch may always be needed, establishing a series of inexpensive satellite offices around the main branch can increase market presence, while holding down costs.

Before you jump to the standard Rod Serling-type conclusion that machines will never be able to replace people, consider that customers that use these machines report satisfaction levels very close to traditional tellers. What these machines lose in face-to-face interaction, they make up for in efficiency. PTMs can be programmed to ask a series of questions about the customer's issue and then route a call directly to a specialist. That means a much wider array of inquiries can be handled, such as foreign exchange, wire transfers and even lending questions with a limited increase in overhead.

While PTMs may not work for every bank, we predict that they will catch on in popularity and go far to bring bank efficiency ratios back to where they need to be Ã¢Â€" below 65%. A large portion of bank branches are unprofitable, but it is just possible that through use of technology, the economics of branch delivery can move back to your favor without going into the Zone.

BANK NEWS

Watch Out

Regulators are reportedly considering forcing banks to cut back sharply on short-term borrowing. One ratio apparently being considered would compare bank assets to core deposits and long-term unsecured debt.

Unemployment

The latest data shows job seekers outnumber job openings by 6x1, the worst ratio since the government began tracking the data.

Ethical Activity

A new survey finds 48% of people agree that senior management at their company models corporate values of ethics and integrity, while 29% said they disagree and 12% strongly disagreed (the rest did not know).

Mortgages

In 2008, the number of home loan applications and originations fell 34% and loans purchased dropped 40% compared to 2007. On the foreclosure front, the OCC and OTS finds over half the mortgages modified in the 1H of 2008 were more than 60 days past due by the end of the June this year. And on a slightly more positive note, 33% of mortgages with payments reduced by 20% were delinquent compared to 60% of those with payments unadjusted or increased.

Originations Costs

The MBA is reporting that the net cost to originate a single family loan (includes all production operating expenses/commissions, but excludes sales gains, servicing and interest spread) fell to $1,725 in the 1Q, down from $2,324 in the 4Q of 2008. Meanwhile, production costs (includes commissions, compensation, occupancy, admin, etc.) fell to $3,738 per loan in 1Q.

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