# IMAGE IS EVERYTHING

by Steve Brown

It used to be that banks offered lockbox services everywhere. Provided as a way for customers to accept checks and speed processing, lockbox services were designed to be convenient and simple to use. Lockbox got its name because it was a special post office box, where customer payments were delivered and bank couriers had a key. It was their job to lock the box after they emptied out all the checks, as they delivered the payments to the bank. Sold as a basic cash management service, contents could be removed and processed multiple times a day if desired. This generated fees and float for the bank, along with deposits, so it was often sold with basic cash management services to business customers.

For the customer, the muss and fuss of processing checks was handed off to the bank and money was deposited into their accounts much faster. In addition, the hassle of bundling up checks and running down to the local branch to deposit them was expensive and cumbersome. Customers love the lockbox.

From the bank's standpoint, offering lockbox generated fees, improved float, increased deposits and helped capture larger clients. Customers were happy, banks received fees and funding, so everything worked just fine - at least until people stopped writing checks and went electronic.

These days, with remote deposit capture, heavier credit card use and ACH, fewer companies than ever are using lockbox services. An upsurge in electronic payments has simply reduced the need to open envelopes and process checks. In fact, Citigroup, JPMorgan and other large banks have sold off their lockbox operations entirely, choosing instead to refocus energies on electronic delivery channels.

There is both good and bad with this change. For companies that are unable to deposit checks on a timely basis, but that continually receive customer payments through the mail, the lockbox is beloved so a solution must be found. For bankers, the lockbox has generally outlived its usefulness, is expensive and carries increased risk. Most banks with lockbox operations send couriers to pick up checks, which can lead to theft and fraud. In general, most bankers we know are happy to see the lockbox go.

The transition away from physical lockboxes to electronic ones has been a rapid evolution. While banks have offered image-based lockbox for online check viewing, the underlying purpose was likely designed as an intermediate step to get customers using online channels to view balances. Today, the ubiquitous remote deposit capture (RDC) machine has been installed in businesses around the country as the trend away from lockbox accelerates. In fact, the ICBA reports that 62% of community banks now offer merchant RDC and 97% of large banks do so.

It was only a matter of time, but a new study finds 30% to 45% of banks report a decline in branch transaction volume and 90% say the bulk of transaction declines are linked to teller transactions involving checks. As RDC adoption continues to accelerate and customers increase the use of online banking, less and less lockbox activity is expected. In fact, 60% of banks that have deployed RDC to business customers report a significant downward impact on branch traffic and branch transaction volumes.

As physical lockbox services head for the exit door in banking, we wonder how much longer it will take until we see significant branch downsizing. We think it will be a while, so in the meantime, consider boosting cross selling efforts to better utilize any downtime and remember - image is everything.

## BANK NEWS

**Higher Rates**

In order to prevent an inflationary bubble and due to underlying economic improvement, the Australian Central Bank hiked rates 25bp and became the first G20 country to move up rates since the crisis began.

**Stimulus Part II**

The White House is discussing a mix of spending initiatives and tax cuts (including a boost in transportation spending and an extension of an expiring tax credit for first-time homebuyers) to support the economy.

**Salary Cuts**

According to the WSJ, Pay Czar Ken Feinberg wants to shift a large chunk of compensation into restricted stock. This is targeted at only the 175 most highly compensated employees of the 7 firms that received the bulk of the TARP funds (BofA, Citi, AIG, etc.). The Czar's report is due out late next week.

**States Hammered**

State tax revenues are off 17% in the 2Q compared to the same period last year, the biggest decline since the 1960's. Overall, state income tax is down 28%, while sales taxes are off 9%.

**Lower Base**

The OCC reported 10% of SFR loan modifications in the 2Q involved a reduced principal amount, up from only 3.1% in 1Q.

**Caution**

Analyst Meredith Whitney, who is credited with forecasting the bank crisis early on, projects US banks are "only in the early stages of the second half of this credit cycle" and that credit will continue to contract through 2010.

**Apt Vacancies**

Multifamily occupancy dropped to a 23Y low.

**CC Flood**

In Jul and Aug, large banks sent out 82% more small-business credit card offers than they did for the same period in 2008. Analysts say the shift indicates large banks may once again be willing to lend to certain small businesses.