NO SHOT TO MAKE

by Steve Brown

Given all the time spent traveling, signing autographs, speaking and racking up major tournament wins, we wonder how Tiger has the time to have any purported dating lifestyle whatsoever. Some people we know have rationalized these reported indiscretions as result of him being denied a childhood along with temptations of being young, rich and powerful. The sad part is that statistics show that about 40% of American spouses cheat - a figure that cuts across socio-economic, age, geographic, religious and even gender lines (men cheat slightly more than women, but not by much). While it remains to be seen how many of these reported relationships are real and how many are just seeking fame, we have lost some faith in this superstar. Unfortunately, infidelity also occurs in banking.

Take for instance relationship cheating. It happens all around bankers as both commercial and retail customers often stray from their primary bank. In so doing, they take deposits and profitability elsewhere. Once a customer starts to see other banks, research shows that it ironically mirrors marital infidelity, and leads to a divorce about 40% of the time. Customer defection is more common than most realize.

For example, a typical branch loses almost as many accounts as they gain. The problem is that while bankers often track new customer acquisitions, few also monitor and report account attrition. This is too bad, because the "hidden expense" of customer attrition is substantial. In fact, it costs a typical $500mm asset bank $1mm per year in extra work and resources to replace lost customers (not counting any loss of profitability). Slowing customer defection should be the goal of every bank, in an effort to boost net income.

Banks that don't know their "customer churn" (also known as a "defection rate") stand a higher risk of losing customers. This rate takes into account both voluntary and non-voluntary (such as moving) customer defections for a given year and divides it by the total customer base at the start of the year. On average, rates below 12% for a community bank are good, while those above 20% are destructive.

An important question to ask is what to do about it? Research finds bank customers give some signs that can be modeled that will help stem defections. Transaction activity level changes, diminishing balances, recent account closing, maturing loans and formal complaints all usually precede a switch to another bank.

At BIG, we have developed a predictive model to help banks identify which customers could leave and why. We will present some of our findings tomorrow via a webinar at 11am PT / 2pm ET. In addition to highlighting the precursors of customer defection, we will also discuss tactics that successful banks employ to help keep customers happy and faithful.

Don't worry because we plan to spare the golf jokes, so the discussion will take approximate 45min. To register click on the link in the related links section on this page.

REFUND ANTICIPATION LOAN FINANCING ("RAL")

As in years past, we are getting ready to release our annual RAL offering, as soon as it clears final regulatory hurdles. The financing begins Jan 17th and as structured will give community banks a unique short-term investment opportunity with fees of 20bp and a 3.25% coupon rate (for approximately 22 borrowing days). A primary risk is the purchasing of consumer receivables pending repayment directly from the IRS, in connection with a household's tax return refund. Different than in years past, financing will be done out of a bankruptcy remote subsidiary in order to give participating banks an additional layer of protection. Look for more information shortly.

BANK NEWS

Consumer Credit

In Oct, the amount of outstanding consumer debt dropped for a 9th consecutive month, a 9% annualized rate. Revolving lines also shrank at a 9.3% annualized rate.

TARP Recovery

The Treasury estimates a $42B loss on the $370B provided to struggling firms from the TARP program, down sharply from a summer estimate of $341B in losses.

Citigroup

Secretary Geithner said the Treasury will hold off on selling its 34% of Citigroup until a broader plan to repay all obligations has been worked out.

Lower Losses

The Obama administration has cut the projected long-term cost of TARP by more than $200B over the next 10Ys, given banking industry resurgence.

Permanent Mortgage Relief

Executives at Bank of America and JPMorgan released data that shows that only about 30% of temporary mortgage modification applicants return completed paperwork for permanent mortgage loan relief.

Bank Accounting

FASB is set to propose more flexible accounting rules for banks. In a speech, FSB's Chairman, called on bank regulators to use their own judgment in allowing banks to move away from GAAP.