# TAKING ADVANTAGE OF QUIRKY BEHAVIOR

by Steve Brown

Times are tough out there and unemployment is running around 10%, so it isn't any wonder people are stretching the truth or making more outlandish claims in their resumes. We quite enjoyed a recent review of thousands of hiring managers that asked them to indicate the oddest things they had ever seen in a resume. Among some of the craziest- listing a hobby of alligator watching; using God as a reference; including an email that contained 'lovesbeer' in it and having a 24 page resume that covered a whopping 2Ys of experience. We haven't seen any of those yet in our hiring careers, so perhaps the banking industry is a little more normal in the applicants it gets. No matter, as it is still funny to read these and as this information shows, people can be very quirky. The good news is that there are things bankers can do to take advantage of such human quirkiness to generate new deposits, loans or increase fees.

Take for example people who see patterns where none exist. This common problem is probably best described through an example. Suppose you go into a casino and stand behind someone gambling at a roulette table. You see the wheel spin and "black" comes up 10 times in a row. Many people would not only get sucked into the noise and in the action going on around them, but many would also begin to believe this "streak" cannot continue. The color "red" is certainly going to come up next, so they bet heavily on that. Then, the dealer spins the wheel and viola - "black" comes up again. Given that you are sitting at your desk in a much calmer environment, you know logically that past events such as this (barring funny business by the dealer) do not change the probability that certain events will occur in the future. Each spin of the wheel is an independent event that has nothing to do with the prior spin or the next spin. You might be wondering how you can use this in banking.

For the deposit customer, the time is ripe to find ways to extend duration on the liability side. Yields and sensitivity are at historic lows and extending duration ahead of eventually increasing rates by the FOMC makes sense. Utilizing non-interest intensive ways to do this - such as goal-oriented savings, charity/loyalty accounts, mobile banking, cash management (like online bill pay) and rewards checking (points, not rate) are all popular ideas. In addition, given brokered CD rates are some of the cheapest they have been relative to other alternatives, locking in longer terms now where appropriate, can be another good move to lengthen your maturity structure without rate training your customer base. History can repeat and nothing is certain, but anytime you can lock in funding at historically low rates, more chips should be on your side of the table than the other side.

For the loan customer, things are even easier. Here, every loan customer would like to lock in rates for a very long time, given the streak they have seen in business. Revenue and customer flow into the business is down and owners are worried about making the next loan payment. While rates aren't expected to rise anytime soon, it will eventually happen and the effects could be quite impactful. Here, customers seeking protection are positioned to pay more, in order to avoid continuing the streak they have experienced lately and to get their business financials more in order. A program to assist in this process can bear fruit and help your bank capture new customers.

No matter whether you are heading to a casino soon for some fun or brushing up the resume because you are a burned out banker, avoiding quirky behavior for both will improve your odds.

# BANK NEWS

**Earnings**

Morgan Stanley reported a 67% drop in profits over the 3Q with trading revenue falling 36% from the same period last year. US Bancorp reported a 3Q rise in profits of over 51% to $908mm, as loan loss provisions dropped 32% from 3Q09 & 13% from the 2Q to $995mm. Net chargeoffs fell from 2.27% & 2.34%, respectively to 2.05%; while nonperforming loans jumped 14% & fell 9.3%, respectively.

**Foreclosuregate**

A review by HUD & the FHA of the 5 largest servicers found that while some problems exist maintaining the chain of title, no "systemic issues" have been found.

**Beige Book**

The summary of the 12 Fed districts reported widespread continued growth, but at a decelerating pace. Consumer spending appeared to increase and demand for commercial real estate remained weak.

**Employee View**

A survey by Towers Watson finds 40% of all employees say they plan to retire later than they anticipated 2Ys ago. Meanwhile, 68% of older employees said they would work longer to keep their health coverage.

**Consumer View**

A new survey by Harris Interactive finds 66% of consumers are spending less when they eat out and 62% are spending less on entertainment. Meanwhile, over the next 6 months, 52% said they plan to save more; 10% expect to buy a new house/condo and 10% expect to start a new business.

**Boomer Help**

A new study finds baby boomers near retirement like to hit the internet to do research and get information, but 75% of them then want to talk to someone in person when it comes to financial planning.

**Ever Larger**

A NYT article reports FDIC data shows common equity in the banking system as a percentage of bank assets has reached its highest level since 1937 and capital ratios (as calculated by adding reserves and common equity divided by assets) have reached the highest level since 1934.