THE CHRISTMAS CLUB ACCOUNT

by Steve Brown

One of the hottest trends in depository accounts ironically happens to be one of the oldest. The Christmas Club account is back and making a resurgence, thanks to the latest deep discounting trend at retailers across the nation. The account was one of the first mass marketed bank products invented around 1908 and became popular during the Great Depression. From 1960 to modern day, the Christmas account was largely relegated to the less sexy bank product pile, as its low rate of interest and short duration didn't drive substantial value. Last year, however, the Christmas account made a resurgence and continues to pick up steam.

Traditionally, the Christmas club account was designed to help consumers save for holiday gifts and travel. This short-term savings vehicle was promoted each Jan for a low minimum opening amount (usually $20) and account users were encouraged to deposit a set weekly or monthly amount, in order to grow their savings. The account paid a moderate rate of interest, in exchange for not allowing withdrawls prior to Oct. To the bank, the account is a form of a goal-oriented savings account that provides for longer duration and less interest rate sensitivity. Unfortunately, because the maturity is usually a short 19 months on average, its value is limited, compared to the standard savings account. However, that said, given how fast banking has shortened the duration of money market accounts, the Christmas club account has retained its low interest rate sensitivity (usually providing the same duration of a 3Y CD) and has become relatively more important for value creation.

In 2008, many banks quickly picked up on the current savings trend and rolled out Christmas Club accounts to promote enhanced savings. Last year, a few of these banks made an innovative change that we expect to catch on more in 2011. Banks, not wanting to pay interest, started partnering with local merchants such as toy, clothing, hardware and general merchandise stores. The current trend towards online discounts, such as Groupon and others have played into this. Banks have typically negotiated a 5% to 15% discount at these locations, that they can market similar to interest earnings. These merchants appreciate the cross-promotion and know that they have a dedicated amount of disposable income locked in at these banks to help drive sales. The bank not only gets a non-interest bearing balance, but also helps support local merchants, particularly important in this day and age.

While there are many ways to pull this account off from an operational standpoint, mostly the account is structured almost identical to a health savings account (whereby either a separate debit card is issued on a dedicated basis or an existing one is leveraged). Other ideas are more manual and include making a holiday club checking account or issuing discounted preprinted checks/coupon that are basically items drawn on the account that the merchant redeems.

While the Christmas Club account isn't going to revolutionize anyone's liability structure, promoting goal-oriented accounts driven by merchant discounts, not interest earnings, will create a return that will make your shareholders smile enough to give you gifts at the end of the year. This Jan, if you are a consumer-focused bank, consider promoting such an account for 2011.

BANK NEWS

Closed (143 YTD)

Regulators closed 4 banks on Fri, pushing the total above the 140 that were closed last year. Banks closed were: 1) K Bank ($538mm, MD) was sold to M&T Trust Co. ($67.3B, NY). M&T assumes 7 branches, all deposits (no premium) and essentially all of the assets (76% under loss share). 2) Western Commercial Bank ($99mm, CA) was sold to First California Bank ($1.6B, CA). First California will acquire 1 branch, all deposits (0.5% premium) and essentially all of the assets (85% under loss share). 3) Pierce Commercial Bank ($221mm, WA) was sold to Heritage Bank ($855mm, WA). Heritage will acquire 1 branch, all deposits (1.0% premium) and essentially all of the assets. 4) First Vietnamese American Bank ($48mm, CA) was sold to Grandpoint Bank ($99mm, CA). Grandpoint will acquire 1 branch, all deposits (no premium) and essentially all of the assets.

FDIC Assessments

Tomorrow, the FDIC is scheduled to issue a proposed rule implementing the new deposit insurance assessment base. In general, it is based on a bank's average consolidated total assets minus its average tangible equity, but the devil is in the details and bankers are eagerly waiting.

Consumers

Total credit outstanding jumped $2.1B in Sep, as non-revolving debt rose by $10.4B while revolvers dropped for a 15th consecutive month.

Bank of America

Getting recently hit with Foreclosuregate, BofA reportedly needs to raise an estimated $1.1B in equity under an agreement with the Treasury, when it paid back its TARP. As a result, the bank looks to pay a higher percentage of 2010 bonuses to employees in stock, to conserve capital.