THANKSGIVING

by Steve Brown

Despite current industry woes, this Thanksgiving Day we have a tremendous amount to be thankful for. In addition to health, family, friends and freedom; we also have capitalism. While slightly out of vogue, this tarnished system is still the best one going and its concepts are heavily ingrained in our collective history. Take Thanksgiving for example.

When the pilgrims tripped over Plymouth Rock in 1620, they brought with them the concept of "farming in common." Here, as a community, farmers tilled the land together and shared equally in its harvest. This would make for a nice grade school lesson in sharing, except it didn't work. As any red-blooded American banker can surmise, thrifty individuals that worked hard resented those that did not. Discontentment and underproduction reigned, until finally, after 3 winters of near-starvation and the loss of half the colony, a new experiment was tried.

The mayor of Plymouth drew up a map and gave each family a plot of land to call its own. Of course, production increased by a factor of 5 the first year. As was noted at the time, "Private land made all hands industrious" and "Each family, attempting to better its standing in the community, increased the hours worked on each plot." After the first spring of this experiment, by the fall of 1623, families had enough extra crop production to share in a "day of thanksgiving," "proclaimed to thank God for good fortune." The following year, families specialized even more and produced such a bountiful harvest that, in addition to having the traditional feast, they started trading excess corn and wheat for furs, spices and goods. Commerce flourished and the concept of private land (and nascent capitalism) was solidified in American tradition.

On this Thanksgiving Day, we are thankful for our health, those around us (including our readership) and for our good fortune. We also acknowledge our most basic desire to get ahead in life, which helps create much of the bounty we enjoy. Like the Pilgrims back in 1623, sometimes harvests are simply a matter of putting in place the proper incentives.

DEBIT KARD TACTICAL CHANGES - CLARIFICATION:

Yesterday, we ran a piece on the changing face of debit cards. Aside from the popularity of the Kardashian Kard graphic, we received many comments seeking clarification on two points. While we claimed that the average interchange charge was 1.79%, a debit card consultant let us know that the average is probably closer to 1.30%. Upon further review, the consultant was probably closer to the truth. Where we just took a straight average off some our BIGProfit research, the consultant used a weighted average by volume. Because consumer charges compose the bulk of the activity, the effective average was lower. When we volume weighted our number, we come out with a 1.36%, while the consultant came out with a straight average of 1.77%, showing that we were all in the ballpark for 2010 data.

The other aspect of yesterday's story that caught the attention of bankers was our assertion that because community banks are largely exempt from the Durbin portion of Dodd-Frank that will likely limit interchange fees in 2011, we thought there might be an opportunity for community banks to exploit this legislation and still offer a debit rewards-type program to compete against the large banks. While theoretically true, it was pointed out by many expert bankers in the field that there is no way Visa or MasterCard will allow this as the large banks will pressure the networks to limit fees for all, so community banks don't have an advantage. We made some calls on this and sure enough, this is probably a likely outcome.

BANK NEWS

Problem Banks

The FDIC problem list grew to 860 from 829, although assets of these institutions dropped 6% to $379B.

Banks 3Q

The industry brought in $14.5B in profits, just 3% short of 2Q numbers. Contributing factors included sharply lower reserves and a large goodwill impairment of $10.8B taken on by one large bank. Assets grew 1.2%, but were driven by securities (up 4.5%) and trading accounts (up 12.8%), as loans fell for the 8th quarter in 9. There are now a total of 7,760 financial institutions.

Jobs

19 states and Washington DC saw unemployment rates drop in Oct., with 14 experiencing a rise. By state, NV once again topped the list at 14.2%, followed by MI at 12.8%, CA at 12.4%, FL at 11.9% and RI at 11.4%.