

THE STUDENT ACCOUNT

by [Steve Brown](#)

When we were in college, our goals were not only to get a degree, but also to end poverty, stop nuclear proliferation, start the next Hewlett Packard, run for Governor, impress members of the opposite sex and be at happy hour by 4pm. These days, our life's ambition is just being able to watch a football game with minimal interruption. Things have obviously changed since college. For one thing, our laundry is a lot cleaner. Another thing that has changed is the view of the student checking account. What we thought was a cool thing in college (the fact that a bank would trust us enough to give us checks), now appears to us as a quagmire of unprofitability. For years, banks have used student checking as a loss leader to capture younger customers and garner their parent's business. The problem is that a dire quest for profitability has many banks questioning whether the effort is worth the cost.

The student checking account is largely aimed at the college set that has a defined usage pattern of low balance and higher check usage. For the average community bank, student checking produces profitability of roughly -2.60% (that is for every \$1 of balance, the bank would lose 2.6 cents due to risk, acquisition expense and operational costs). However, during the last 5Ys, profitability increased to -1.45%, as a result of better bundling of credit and debit cards along with checking and savings. Credit risk for this group tends to be elevated, balances are small and usage is high; resulting in negative earnings. In fact, the student account is usually one of the least profitable accounts, only surpassed by retail free checking. While college customers usually turn into profitable customers down the line that normally takes 7+ years. Banks are finding it is better to increase profitability now and risk losing the customer than to absorb the losses. The current overdraft legislation has further hurt profitability of this segment, causing banks to take another look.

As a result, many banks have restructured their student accounts in the last several months. Community banks looking for examples might look at Chase, Wells Fargo or Citizens Bank. These banks present a good mix of profitability and marketing and are suitable examples to emulate. These banks offer a student account bundle consisting of checking, debit card, online bill pay and online/mobile banking. Monthly charges range from \$3 to \$6 per month with the weighted average at \$4.75. Wells Fargo offers discounts on auto loans for credit qualifying students and Citizens Bank is one of the more innovative, offering a cash back rewards program, cell phone protection and warranty extension (the last 2 offered through 3rd parties). It should be noted that while Citizens doesn't allow the fee to be waived with balances, most banks (including Wells and Chase) do with a minimum balance usually set at \$500 to \$1,500. Chase has the unique structure that the account must have a minimum balance of \$5,000 or be linked to a qualifying parent account. Linking the account usually serves to eliminate the credit risk, thereby making the account more profitable.

If you are a retail bank, take another look at your student offering to see if it needs further education. Usually, at a minimum, we find our client banks fail to package these accounts for profitability and often don't leverage offerings to increase related account profitability. For many banks, the number of student accounts most likely doesn't warrant management attention given other issues at the bank. For other banks, reworking student accounts is just another step towards fine tuning profitability. Now, if banks can only figure out how to package a laundry service with the account.

BANK NEWS

Tax Cuts & More

President Obama reached agreement yesterday with Republican leaders in Congress. Among the deal points: Bush tax cuts are extended for 2Ys; jobless benefits are extended for 13 months; businesses can deduct 100% on investment in plant and equipment; the estate tax rate is 35% for 2Ys (next year would have jumped to 55%); to spur hiring, payroll taxes are cut from 6.2% Social Security tax to 4.2% next year; the capital gains and dividend tax rate is preserved at 15% for 2Ys. The agreement is now off to Congress to work out the details.

Expensive Problem

CNBC is reporting that production of the new \$100 bill has been shut down. The bills reportedly are unusable because of a creasing problem in which paper folds over during production, revealing a blank unlinked portion of the bill face. The bills incorporate sophisticated high-tech security features, including a 3-D security strip and a color-shifting image designed to foil counterfeiters.

Pricing Feedback

Some feedback from yesterday's top left article questioned how important pricing is to profit. Further research on our Amazon.com example finds analysts believe their "Prime" loyalty/pricing program accounts for 20% of all sales. If true, this is a clear example of how pricing can be a competitive advantage. We gave an example of how this could be implemented in a bank, so why not give it a try?

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