

ACCOUNT DESIGN AND FEE WAIVING

by [Steve Brown](#)

Since the weather across the US is rather frightful, one item that will keep bankers warm is the comfort that they have been doing a fantastic job at improving the art of account fee waiving. It wasn't that long ago when banks waived an average of 45% of

deposit fees on business accounts. For 2010, this number is now down to an estimated 12%. One item that has helped is the basic construction of business accounts to include provisions for waiving fees. These provisions effectively place control in the customer's hands and reward them not for historical business, but rather for future business.

At present, approximately 80% of commercial community banks offer a business balance checking account. Of these, 15% allow maintenance fees to be waived if specific minimum daily balances are hit. In addition, 50% of community bank balance checking accounts allow for the customer to waive their maintenance fee, if average monthly (instead of daily) balances are achieved. In our own studies, both calculation methods appear to be equally effective. However, of the two, in our focus group discussions, business customers seem to understand the calculation of average daily balance better (which seems to result in higher general satisfaction scores).

That said, our research indicates calculations to waive fees based on average monthly balance have the advantage of garnering slightly higher balances than the minimum (but only to the tune of 10%). Approximately 30% of commercial banks we studied allowed customers to use either method to hit their minimum balances. Additionally, 40% of this group of banks allowed the utilization of combined or multiple accounts to achieve daily or monthly average balance targets. The availability of utilizing multiple accounts also garners the highest customer satisfaction. To recap, the all-encompassing solution (if systems can handle it), is to allow monthly fees to be waived in a variety of ways, including daily balance, monthly, or using combined balances (to achieve either one).

When talking about combined accounts, the subject that most often comes up is whether different types of accounts should have different minimum levels? The answer is yes, but this creates operational problems. If multiple business balance checking accounts are offered (such as a premium or mid-level checking); then minimum levels should be different (because of the different cost structures and marketing targets). However, combining these accounts for minimum fee waiving levels presents a host of difficulties. Oddly, only 35% of banks we studied offer different types of business balance checking accounts. Of those, very few (less than 10%) offer the ability to combine balances to achieve the waiving of monthly fees. The question here is what minimum should be chosen when combining a premium checking account (that usually requires a \$20k+ balance to waive fees) with a basic checking account (that has a \$2k minimum). Is it more important to take the higher balance, lower, average or some other method? Unfortunately, we have yet to conduct research on the best method for combining accounts, setting minimums and waiving fees to

garner the highest customer satisfaction and the most efficient usage (but we will be working on it for 2011).

Designing the proper deposit account structure is one of the hardest things to do in banking. Banks need to constantly experiment to see what account bundles benefit from different fee and rate levels. By experimenting, when the deposit winds kick up as they will no doubt be doing when rates rise, bankers will already have a layer of earnings protection built in and be free to hum - "Let it snow, let it snow, let it snow."

BANK NEWS

Closed (157 YTD)

Regulators closed 6 banks on Fri, including: 1) Bank of Miami, NA (\$448mm, FL) and sold it to 1st United Bank (\$1.1B, FL). 1st United acquired all deposits (no premium) and \$442mm in assets (71% under loss share). 2) Chestatee State Bank (\$244mm, GA) and sold it to Bank of the Ozarks (\$3.2B, AR). Ozarks acquired all deposits (no premium) and virtually all assets (80% under loss share). 3) Appalachian Community Bank, FSB (\$76mm, GA) and sold it to Peoples Bank of East Tennessee (\$170mm, TN). Peoples acquired all deposits (no premium) and \$68mm in assets (69% under loss share). 4) United Americas Bank, NA (\$242mm, GA) and sold to State Bank and Trust Co (\$2.7B, GA). State acquired all deposits (no premium) and essentially all assets (81% under loss share). 5) First Southern Bank (\$192mm, AR) and sold it to Southern Bank (\$565mm, MO). Southern acquired all deposits (0.25% premium) and \$153mm in assets. 6) Community National Bank (\$32mm, MN) and sold to Farmers & Merchants Savings Bank (\$261mm, IA). Farmers acquired all deposits (no premium) and nearly all assets.

M&A

American National Bankshares (\$824mm, VA) has entered a deal to purchase MidCarolina Financial (\$552mm, NC) for \$39mm, or about 1.04x book.

M&A

United Bankshares (\$7.5B, WV) agreed to acquire Centra Financial (\$1.4B, WV) for \$187mm or 1.3x book.

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