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## A SMALL STEP TO A BIG RESOLUTION

by [Steve Brown](#)

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When making a New Year's resolution, one recommendation that often emerges is to make sure your resolutions are reasonable and obtainable in order to have the best chance of success. We agree, which is why, in a move for greater bank profitability in 2011, we promote a goal of taking a step in the right direction. Instead of making a majority of accounts profitable in 2011, we are recommending just

making a portion of your accounts a little less unprofitable. In order to take a step towards that goal of taking small steps, we highlight an innovative feature that a Midwestern community bank uses to accomplish better than a 12% ROE.

Commerce Bank (\$19B, MO) recently introduced their new myDirect Checking account ([http://tiny.cc/BIG\\_mydirect](http://tiny.cc/BIG_mydirect)) that is worth noting for product development. This basic account bundle comes with online banking, bill pay, credit/debit card, mobile banking and is free, as long as the account is "active." The "active" definition includes any withdrawal, deposit, ACH or bill payment within the month. Should no activity take place, then the account is assessed a \$3 monthly "inactivity fee." The account pays no interest and is designed to be paperless, in that every paper transaction, such as a check or deposit slip, costs \$2 in addition to a \$2 charge for a paper statement.

While most banks charge a monthly fee, the average of which in the nation is now \$8.30 per month, Commerce Bank created a new approach. Instead of a set fee or a minimum monthly balance, the Bank is experimenting with this inactivity fee that will hopefully inspire the customer to utilize the account, thereby building balances, generating interchange revenue or incurring credit charges. If the Bank is wrong on this assumption, it has covered itself by charging for the items that create an unprofitable account - namely the processing of items and the generation of paper statements.

In creating this retail account, Commerce Bank has done something unique. Instead of ensuring that they make this account type profitable, they have designed the next best thing - a cost neutral account. The \$3 inactivity fee basically ensures the Bank breaks even and covers its direct costs of maintaining the account; while the per-check and statement charges ensure that the account type is not a cost center. From a marketing angle, MyDirect Checking puts the power in the customer's hands by giving them a simple goal of minimum account activity to ensure the account is free. Another thing that the product does is to drive the customer to more efficient online and mobile channels and away from a costly branch network (see yesterday's BID).

If you are looking for incremental steps to take in order to make your bank more profitable, consider the middle ground of an activity charged checking package. By moving a large section of unprofitable retail accounts to a cost neutral basis, overall performance for 2011 can be enhanced - a small step to a greater resolution.

### **Related Links:**

[Commerce Bank myDirect Checking Account](#)

## BANK NEWS

### **Competition**

Wells Fargo is launching a mobile payment trial with 200 employees in CA, by asking them to stop carrying credit cards and cash for awhile. Instead, the bank will offer this group technology that can be inserted into existing phones for mobile payments. Employees will be able to open a Wells Fargo Mobile Banking app, select the pay-with-phone button and wave the phone in front of special mobile-payment readers at participating retailers, restaurants and other vendors. If successful, the bank said it plans to launch a commercial application in 6 months.

#### **CRE Good/Bad News**

Reuters is reporting that foreign investors have overwhelmingly ranked US CRE markets as their #1 choice for investment this year. That said; vacancy rates remain near historic highs at 10.9% for retail and 17.6% for office, according to data firm Reis, Inc. However, when it comes to office space, the good news is that leased space has increased in Nov. for the first time since 2007 (rents also increased 0.2%, a first since mid-2008).

#### **Lending**

Borrowing by small U.S. businesses jumped in Nov to the highest level in more than 2Ys.

#### **Global Regulation**

Bloomberg is reporting that the European Union is considering giving regulators the power to block banks from launching new products; limit trading risks; require changes to legal or operational structures; and require banks to limit maximum individual and aggregate credit exposures to customers. The new rules would apply to banks considered too big to fail, but could spill into the US and eventually move downstream to smaller banks over time.

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