BUSINESS CHECKING ACROSS AMERICA

by Steve Brown

We would like to formally announce our 2011 Executive Management Conference (EMC) theme - Community Banking Across America. While last year, we focused on technology (and specifically, mobile banking and social media), this year we highlight core products and practices that are working at community banks across this great country of ours. We plan to visit thousands of banks this year in almost every state, as we try to uncover what is working, which products are the most profitable, best practices and seek out areas where we can assist. In short, we are seeking to uncover what drives the top performers, in every facet of banking. While we will be reporting back throughout the year in the BID, we will be going deeper in sessions scheduled at our upcoming EMC in San Francisco, on May 18th - 21st. In one session, we will be examining what new deposit products are working at banks and how to better construct your offerings. To that end, we have reviewed hundreds of business checking accounts and today we present some recommendations in a 2 part series to whet your appetite.

While most banks are phasing out retail free checking because these accounts are unprofitable, what about free business checking? The key here depends on factors that include your demographics, pricing position, marketing and objectives. However, for the average community bank, we do have some recommendations that may help shed light on product design.

The good news is that business checking, because of inherently larger balances, is usually slightly profitable. The bad news is that slight profitability may not be enough to produce an above 8% ROE. Free business checking tends to attract a more price conscious customer that may be opposite of the service orientation that your bank desires. As such, we recommend you consider doing away with free business checking and replacing it with a set of accounts designed to increase profitability.

First, we suggest a basic level business checking account designed to capture the value conscious business or 1-2 person business (if this is your market). Called e-Biz checking by some, the account could be priced at $10 per month and you could offer 200 free transactions (additional transactions at 40 to 45 cents). The monthly fee could be waived, as long as the customer left a balance of $500 or did 5 debit card transactions. The account, at a minimum, would come with only electronic statements, free online banking, a debit card and no annual fee credit card. This account produces breakeven profitability in a worst case analysis and brings in a respectable ROE of more than 100% (because of the extreme positive convexity of the funds and longer duration in the average case).

Next, we would suggest you launch a mid-tier checking account priced at $20 per month. The fee would be waived above a $500 minimum balance or with 15 electronic transactions per month. Here, you could include 250 free transactions per month. Like the entry level checking account above, these attributes will stand up against almost any competing account across the country. Where the basic checking account is designed not to lose money, by contrast, this mid-tier account is targeted to be modestly profitable and generate an ROE of 100% to 200% with an average balance of about $35k.

This ends Part I, but tomorrow we will look at analyzed and premium business checking. If you are interested in finding out more about profitability, deposit pricing or product design from the executive management level; be sure to attend our Conference this May. For an agenda and registration, go:

http://www.pcbb.com/conference.html

BANK NEWS

4Q Earnings

PNC Financial reported a 26% drop in 4Q profit (to $820mm, driven by a mix of lower loan loss provisions (down 9% from the 3Q), a 20% drop in revenues and a 30% increase in the corporate / institutional banking business. Fifth Third Bancorp reported a 4Q profit of $333mm, easily beating projections. The Bank said performance was driven by an improved credit profile; increased revenue from mortgage origination; lower charge offs and delinquency levels that had fallen to the lowest level since 2007. The bank also reduced its loan loss provision by 61% vs. 3Q. Huntington Bancshares reported a 4Q profit of $123mm, handily beating analyst expectations. Results were driven in large part by lower loan loss reserves (down 90% from the prior year); lower net charge-offs; and fewer non performing assets.

Dodd Frank

The 3rd meeting of the Financial Stability Oversight Council brought more clarity, as concepts were further defined around taking this broad legislation into more refined regulation. More regulation for non-banks, greater prop trading restrictions (such as the CEOs having to certify that trading is for clients only) and TBTF limitations were all topics.