TRUMP, FASHION AND EXPENSE CONTROL STRATEGY

by Steve Brown

The comedic value alone for this column of Trump running for President is worth a $20 donation just to hear classic quotes. The other day he gave an interview where he implied one of the problems with financial firms was basically they are "money grubbing dogs." We are not even going to touch the multiple-layered irony in that statement, but he did have some solid advice - banks aren't focused. The Donald tells of his experience in the 80's where he flew off to Europe to attend fashion shows, lost his focus and ended up with real estate problems. We are sure he is right that lack of focus, like so many other developers, was the cause of his over leverage. Thus, the next time someone says, "Stan, let's blow off the Loan Committee meeting tomorrow and go see Gautier's new fall line in Paris," learn from Trump and pass.

Speaking of focus, we have noticed that while many banks are talking about keeping expenses in check, their strategy might need alignment. Bank of America's admission yesterday that they needed to get better focused on streamlining operations and serving their customer, is now an imperative to better compete in the future. The easiest example to see this in action is how many banks continue to send out paper canceled checks or paper statements. Why not economically align your customer base with both the Green movement and the fact that sending out paper costs 30x more. The rise of online banking and bill pay gives the opportunity to push customers to electronic statements. If customers really want paper, then charge them $5 per month for it and see what happens.

Another simple example for banks is to have online account opening and "live help" via the Internet. Both are basic processes that can easily be outsourced, increase sales, improve customer satisfaction and save money. Why not do it? Consider the cost of opening up an account, answering product questions and dealing with issues costs around $12 per event. Now compare that with a variety of options that banks now have at their disposal. If the account, question or problem can be pushed entirely online in a self-service format, the cost drops to $0.30 an event. Granted, customers still like human interaction if they have questions, but that can be handled via e-mail/text for $0.90 or live chat for $3.40 per event. Even if you want to maintain a call center, just instituting a "click to call me back" system is not only cheaper at $7.20 per event (because volume can be better managed), but studies show it increases customer satisfaction.

We note that about 75% of large banks currently have this capability, as well as several dozen community banks as small as $250mm in total assets. Doing this leverages technology and gives banks an option to handle customer interaction in more of a granular and graduated format. Not every account opening, product question or issue requires an in-branch visit.

If you are looking for more information about online account opening, or live help options; be sure to come to our annual EMC Conference next month. We will share cost analysis, survey results, best practice ideas and vendor suggestions. If you can't make it, our points today are to take a look at all of your processes and see what can be streamlined utilizing today's technology - also, like Trump, we also urge you to stay away from fashion shows, lest you cause another drop in real estate prices.

BANK NEWS

Earnings

Bank of America reported 1Q earnings of $2.05B, down 36% from the 1Q of last year, as lower loan losses were offset by lower revenue (1Q revenue fell 116% to $27.1B). Loan loss provisions fell to $3.81B from $9.81B 1Y ago and $5.13B in the prior quarter. During the quarter, the bank also reached a settlement with monoline insurer Assured Guaranty for $1.6B to resolve the insurer's outstanding and potential repurchase claims on mortgage-backed securitizations.

Muni Focus

The head of risk for the OCC said examiners will be reviewing municipal securities holdings of banks, given the potential for rising defaults. Among the areas examiners are expected to review - geographic concentrations, bond types, projected tax collections, independent analysis and any potential impediments to repayment.

Mortgage Servicing Crackdown

Banking regulators announced enforcement actions against the 14 largest mortgage-loan servicers (represent 68% of the mortgage industry) that require them to improve their foreclosure practices. The action requires servicers to provide delinquent borrowers with a single point of contact; ensure that foreclosures are not pursued once a mortgage has been approved for modification; establish controls over third-party vendors; and reimburse borrowers who suffered financial losses because of wrongful foreclosures or other deficiencies.

Hedging Rules

Regulators have issued a proposed rule that would require swap entities to collect minimum amounts of initial and variation margin from counterparties based on the relative risk of the counterparty and also of the swap.