

RETAIL CHECKING IDEA

by [Steve Brown](#)

Everyone has at least one guy in the bank that likes to practice his golf swing in the office while he stands there and talks to you. In essence he is saying "you are so boring that I can practice a sport AND carry on an important conversation with you." We also find it odd that golf is really the only acceptable sport in which someone can do this. It would seem odd, for instance, if someone started pantomiming a throw to first base or an overhead tennis serve right in the office while conversing about a loan. Last week when one of our analysts practiced their swing, they were highlighting a new account concept that caught our attention more than noticing that the swing would have sliced out of bounds. Back in March, BB&T came out with their "Prepaid Money Market Account." The account is interesting in that it presents another alternative to transition away from free checking and improve the profitability on lower balance accounts. Here, BB&T took a Visa branded prepaid debit card and combined it with the attributes of a money market account, in order to form a lower cost, inexpensive way to handle a basic account package. The account is basically a glorified pre-loaded debit card and is targeted at the low balance checking account user that tends to have medium to high transaction volume. Additionally, the account works well for fee sensitive, student accounts and the under-banked. For a low monthly fee of either \$5 or \$10 (depending on the balance), account holders get a prepaid debit card that is integrated with online banking, bill pay and functions as an ATM card. While the account has no check writing capabilities and does not pay interest, the integration of a prepaid account into an online banking and bill pay platform is somewhat unique. The combination allows most account holders about 85% of the functionality of a traditional checking account without costs. If a bank could add person-to-person payment, it would be complete. While most retail-free checking produces a negative return; by dramatically reducing transaction costs, the prepaid money market account moves transactions either online or through debit, where costs are about 80% less. In addition to operational savings, credit and reputational risks are also reduced, as no credit is extended and overdrafts are eliminated. The net result is usually a low balance transactional deposit account that produces a positive risk-adjusted return that varies between 5% and 35%, depending on average balance and debit card usage. If going after the low-margin retail market is within your strategic objectives and your core system can handle it, consider a similar prepaid debit/online banking structure to improve return for a basic checking product. The account is an excellent customer acquisition tool that plays into current consumer compliance trends and is one more step toward eliminating traditional paper check processing. By moving to this account structure you just might have enough time to actually get out on the course and practice that swing.

BANK NEWS

Closed (45)

Regulators closed Atlantic Bank and Trust (\$208mm, SC) and sold it to First Citizens Bank and Trust (\$8.4B, SC). First Citizens gets 3 branches, all deposits (0.75% premium) and almost all of the assets (68% under loss share).

Municipal Reporting

Robert Attmore, the Chairman of the Gov't Accounting Standards Board, spoke out to implore municipalities to release financial statements within 3 to 6 months of their close date. While laughable to banks, it is very common to have a bank qualified municipality take up to 18 months to

publish financial results. When purchasing a muni, a good point of research is to determine if you are dealing with an issuer that has timely financial statements.

Remote Capture

PNC Bank has launched an application that will allow customers to deposit checks using their iPhone, iPod Touch or iPad 2. Customers log into their account using an app, key in the amount of the deposit and then take a picture of both sides of the check with the built in camera. PNC follows other banks offering similar remote deposit services that include USAA Federal and JP Morgan Chase. To help protect against fraud, customers can only deposit \$500 per transaction to a maximum of \$1,000 per month in the first 90 days.

Ally Bank

In an effort to double down on its bet, the bank wants to increase its subprime auto portfolio from 20% to 50% over the next couple of years, due to the superior performance in the sector. The Bank produced a 9.1% ROE last quarter.

Credit Report

You might want to tell your customers that analysis from Smartcredit.com finds only 4% of people claim their free credit report each year.

No Thanks

Nobel Prize winner Peter Diamond said he will withdraw as a nominee for Federal Reserve governor, after Senators criticized him as lacking in monetary policy experience. Diamond's withdrawal leaves the White House with 2 vacancies to fill on the 7 seat Fed board.

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