

THE \$250 PROMOTION, VAMPIRES AND CUSTOMERS

by [Steve Brown](#)

A couple months ago there was a story of Philly resident Patrick Rogers that wanted to know why Wells Fargo charged him \$2,300 for a \$1mm forced placed insurance policy when his home was worth far less. After sending 3 letters asking for details, Rogers took Wells to court under RESPA that requires mortgage lenders to respond in 20 days or face penalties. Rogers won a \$1,173 judgment that Wells still didn't acknowledge or pay. Rogers then proceeded to get a Sheriff's lien against a local Wells branch and pushed for a forced sale. Wells ended up paying and Rogers became a national "hero" in a man-bites-dog sort of way. The funny part is that as news agencies went to go interview Rogers, they found out that he is a card carrying vampire complete with all-black attire and sharpened teeth (see picture). Editors the nation over fretted as they had to choose what is the larger story, Rogers being a vampire or his victory over Wells. Most respectable media outlets, gave awkward interviews choosing to keep the focus on Wells and never acknowledging Roger's vampire-ness. We, on the other hand, are under no such respectability constraints and must laugh at the irony that despite his pointed canines, Rogers came out looking the best compared to the media and to Wells. One lesson for both the media and Wells is that it is important to not only know who your customers are, but how to manage them correctly.

To that point, we highlight the fact that many banks today are offering a \$250 cash bonus to new customers that open an interest bearing checking account and keep a balance of at least \$3,500. To qualify, customers usually need to go 3 months with the balance and utilize either direct deposit or be an active user of bill pay. Is this a profitable acquisition strategy?

Throwing cash at customers is always a good customer acquisition strategy, but it may not be a good profitable acquisition strategy. The good news is that upfront cash programs are much better than waiving a high interest rate around, as the customer that is attracted to this program views it as a 1x event without future high rate expectations. The other positive is that if you run a promotion like this, most customers won't try to game the system and just meet the minimum criteria in order to get the money (although some will). The bad news is that while most banks delude themselves into thinking that these new accounts will have the same sensitivity as a "natural" core checking account, the reality is that this is not usually the case. The very customer that is attracted to an upfront cash promotion (a product of adverse selection) tends to also exhibit a duration and convexity profile of about half a natural core account. As such, the attributes of cash promotion accounts are less desirable than a core account based on service. Combined with the low rate environment, lower leverage at most banks and negative impact on existing accounts (good customers will want to know how come they are not offered the promotion); a \$250 promotion usually results in a set of accounts with a negative ROE. Unless a bank can prove a profitable cross-sell plan (tough) or gather balances in excess of \$28k (rare), offering anything more than \$50 upfront is usually a net loser in this environment.

Maybe that promotion money might be better spent on technology, a profitability system or improving customer service? Before you run a deposit promotion, make sure you understand the profitability of the account, customer behavior and how you are going to manage new customers to

ensure profitability. Doing so will not increase your chance of successful management, but will also keep money-sucking customers at bay.

BANK NEWS

US Credit Rating

Moody's and Fitch affirmed the US's "AAA" rating, but still kept our Nation on watch with a negative bias. No word yet from S&P, but we believe they will also affirm.

Housing Inventory

According to Realtor.com, inventory listed for sale falls to a multi-year low. The question is are sales slowing setting the stage for higher prices or is the drop just a reflection of the current logjam of foreclosures?

Mortgage Marketing

Banks are picking up the pace of origination trying to make sure that if confirming limits do revert back to their lower levels on Oct. 1st as scheduled that they have the bulk of their current pipeline closed.

New Marketing

In a stroke of creativity, TD Bank organized a flash mob in Times Square composed of professional dancers and employees that "spontaneously" broke out into song and dance in doctor's scrubs to highlight their free "checking check up service." Personally, we find the whole doctors angle a little creepy, but we admire the attempt. See for yourself at: <http://www.youtube.com/watch?v=hLEIC3NbzM>

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