

## THE POWER OF EDUCATION

by [Steve Brown](#)

Part of our job each day is to educate our readership in hopes of promoting better performance. However, today we don't think we are going to accomplish this, because of the news we are about to tell you. According to CNN, ASTEROID 2005 YU55 IS HURTLING TOWARDS EARTH AND MAY CAUSE A 4K MEGATON BLAST. Sorry for the caps, but we are a little upset by the news. The asteroid will pass within 202k miles, which to put this in astronomical perspective, if your computer screen was the sun and your head the earth, this rock would be in the space between the tip of your nose and your lip. Do you really want what NASA calls a "potentially hazardous object" the size of an aircraft carrier whizzing that close to your face? Before you answer that, while we are on the topic of education, we do have a banking tip for you today.

Similarly to how we educate our customers, you might want to do the same for some non-obvious reasons. Educating your customer can not only garner goodwill, but also improve satisfaction, help cross-sell and build your brand. It can also change the composition of your balance sheet. Take liquidity for example. Banks have a flood of liquidity and the question is how to turn it into franchise value. In the past, we covered the inverse sensitivity of reducing CD rates to drive more money into core and we covered new products, such as business and retail goal oriented savings accounts, which can create long term value. Today, we offer you the simplest and cheapest solution of them all - client education.

For example, let's say your goal is to increase the duration on your deposits so you can make more fixed rate loans. You can come out with a campaign to retail and business customers that talks about budgeting or how much money one should keep in a checking account. You can talk about how customers should look at their monthly expenses, add an emergency cushion and then move the balance over into a savings account that serves to separate the money into a long term spending account. You can provide some examples, data from your area, an Excel template or even a web application to help in their calculation. You can underscore sound retirement planning or discuss the need for capital planning and educate your business customers how to save at least at their rate of depreciation. Considering only 35% of individuals' budget and only 60% of businesses, the education may be well received. By emphasizing the advantages of a separate account, reinforcing that savings are long term and combining the education with a manual or automatic sweep of excess balances, you can increase the net combined duration of both accounts by helping build balances and making both accounts less interest rate sensitive. Basically, you would be now taking the time to retrain your deposit base to make them focus on sound cash management instead of rate.

Getting back to that big, fiery object zooming by your nostrils, we just pulled up a picture (above) that reveals it really is just a big, fuzzy Q-tip. Maybe we were too much of an alarmist at the start of the article. Chances are we are going to be safe, but for efficiency, we wouldn't start the client education program until after the asteroid's expected 6:30pm ET target. For 2012, consider a client education program that helps extend liability duration, generate fees and increase performance on loans (while garnering customer goodwill). Hopefully, you will do a better job than we have done today.

# BANK NEWS

## **Recapitalized**

United American Bank (\$285mm, CA) who had been carrying a 2Q Texas Ratio of 209%, leverage ratio of 3.3% and risk based capital ratio of 5.6% has been recapitalized by ATBancorp (\$1.2B, IA).

ATBancorp reportedly invested \$10mm for an 88% stake. ATBancorp also received warrants to purchase an additional 2.5mm shares for 30 cents over the next 5Ys and United's board also invested \$1.2mm at 30 cents each. As part of the transaction, ATBancorp will make additional investments as needed at 68% of book to keep the bank well capitalized.

## **M&A**

BB&T bought employee-benefits consulting firm, Precept Group of CA for an undisclosed sum. The purchase adds to the insurance business of the bank and expands its CA presence. Precept focuses on middle-market and larger companies and has 140 employees.

## **Lender's Survey**

The latest Fed lending survey reports that banks slowed the easing of underwriting standards and terms on CRE loans. A moderate net fraction of banks reported weaker demand for C&I loans, in contrast to the increased demand reported in the previous 3 surveys. Several large banks also reported increased demand for CRE loans. On the household side, demand for loans to purchase homes reportedly increased, though those reports may reflect the moderate rise in refinancing activity. Demand for home equity loans decreased, and demand for consumer loans reportedly was little changed.

## **CFPB**

The Consumer Financial Protection Bureau announced that they will be kind enough to give a 14-day early warning notice to institutions that are subject of an investigation in order to get their response before they take legal action.

## **IB Combo**

UBS and Credit Suisse are rumored to be in talks about combining their investment banking groups into a JV.

## **Good News**

The NFIB reported small business confidence improved for the 2nd straight month in Oct, as the outlook for business conditions got better.

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