DON'T BE THE GOOD WITCH OF OVERDRAFT

by Steve Brown

It has always troubled us that in the Wizard of Oz, Gilnda, the so- called "Good Witch," was not only not very good - she was cruel. At the start of the movie, she acted like she had no idea about the power of the Ruby Slippers, how to kill the Wicked Witch of the West or what the true nature of "Oz" was all about. By the end of the movie, we learned that Gilnda knew all about the Slippers, knew exactly how to kill the Wicked Witch and knew that Oz was not "great and powerful," but was just a drunk cult leader with an inferiority complex and a smoke machine. Glinda's explanation for not telling Dorothy's crew all the details sooner was that they "wouldn't understand." Really??!! Our take is that if a gilded angel suddenly appears in the middle of Kansas after you have just experienced the worst natural disaster of your life, you are totally going to believe everything the lady says. The reality of the Wizard of Oz, was Glinda just used Dorothy to do her dirty work for her and kill her sister - not cool. In similar fashion, banks continue to struggle when it comes to overdraft protection and how to draw the line between helping customers and protecting shareholders. Some of the latest trends in checking accounts bring banks to a more balanced place when it comes to overdrafts. We term for this type of account is "Balanced Account" and the goal is to limit overdrafts, while increasing a monthly fee stream. We have seen 3 such accounts introduced in the last 3 months from Suntrust, Key and Chase. For these types of accounts, overdrafts from ATM withdrawls, point of sale, debit cards or checks are limited to either nothing or a deminimus amount of, say $10. In cases where customers do try to overdraft their accounts by check, a reduced fee is charged that is something like $20 for returned checks (compared to the average of $35). In some cases, these accounts allow up to a $100 debit only OD for an $18 charge (compared to the average of $28). The trade off is that the monthly charge is $12 per month, that can be waived for combined balances that are over $3k. While the $12 monthly fee is slightly on the high side ($10 to $12 is the range for this type of "intermediate, basic" account), the structure is relatively attractive, as it usually has a lower combined balance requirement of $3k, when compared to the average of $4,100. At the end of the day if a customer really does not want the convenience or overdraft charges, then this is a clean way to handle customers given overdraft limitations. The account has the advantage of being very clear with customers since it eliminates the standard opt-in/opt-out confusion, has reduced OD/NSF fees and allows a basic level of flexibility (for customers that just aren't as accurate as they could be at reconciling their accounts). In addition, it allows the bank to market reduced OD fees, if that is important to the local market (or in case the bank does want to court the Occupy Wall St. crowd). For some banks that don't want to be perceived along the lines of Glinda, a balanced account structure for retail customers is a simple way to go that it is clear from the start. For banks with operational limitations or those that want to have targeted account marketing (or want to reduce consumer compliance risk); the balanced account may be worth consideration. By offering a limited OD account, you may tap into the sentiment expressed by Dorothy at the end of the movie - "If it is not in my backyard, then there really isn't any need to go looking for it."

BANK NEWS

M&A

Prosperity Bancshares ($9.6B, TX) will acquire the parent company of First Federal Bank Texas ($211mm, TX) in an all stock transaction for an undisclosed sum.

CFPB

The Senate voted down a procedural motion to advance the nomination of former Ohio Attorney General Richard Cordray to serve as the Consumer Financial Protection Bureau's director.

Still Deleveraging

TransUnion reports the average credit card debt per borrower fell to $4,762 in 3Q, a $1,000 decrease from the year earlier period. The decrease was driven by a combination of consumer deleveraging and issuers cutting or reducing lines to reduce risk. Meanwhile, the Federal Reserve in a separate report indicated mortgage debt had fallen to its lowest level in 5Ys in the 3Q.

Ratings Cut

Moody's cut its ratings on the long-term debt of French banks BNP, Credit Agricole and Societe Generale, citing increasing difficulties in raising funding and a worsening economic outlook. Of note, the eight largest US money market mutual funds cut holdings in French banks by 68% in Nov.

Muni Reporting

The Governmental Accounting Standards Board (GASB) is expected to force cities and states to release cash flow projections and pension costs 5Ys into the future, under a proposal to be released today. GASB is taking the action to enhance disclosure about the financial health of local and state governments amid public outcry from investors for more transparency and more timely information.

Mounting Pressure

The Post Office reports mail volume has fallen more than 43B pieces over the past 5Ys and it needs to further downsize its locations. Since the US Postal Service is a common tenant in bank retail center loans, banks are analyzing their existing property loans to quantify the risk of potentially losing a gov't credit tenant.