GETTING SUPER WITH COMBINED BALANCES

by Steve Brown

If you look back at pictures of the original Superman, you notice a couple of things about George Reeves. To start, he did not look stronger than a locomotive or faster than a speeding bullet. In fact, he looked like the average middle-aged banker in a Halloween costume who was battling a Krispy Kreme fetish. This is a different perception than when we first saw him on TV, where he seemed to be truly the Man of Steel. Things change and in 2012 we expect our Superman to log in a little more time on the bench press. Our perception of banking has also changed. In Reeves' time, families had one checking account with their financial institution and everybody was happy. Now, the goal is to capture more of a customer relationship (as well as ancillary relationships) in order to increase profitability, aid in retention and improve satisfaction. That makes sense when you consider that the average business has 3 to 5 banking relationships. If Superman walked into a bank, a good account officer would not only get him to open him up an account, but would want to make sure they were getting Clark Kent's balances, Ms. Lane's and even the Daily Planet's corporate account. While few bankers would disagree, there is still a shortage of community banks using combined balances. A combined balance feature allows customers to utilize balances in savings, checking, money market, CDs and even loans to meet a minimum level where fees are reduced or waived. A combined balance feature is particularly attractive for higher fee premium accounts, as it gives the bank the best fee waiver sensitivity to balances. In other words, despite a higher than average fee, a premium account customer is more likely to bring over higher average balances than an intermediate or entry level account structure. A combined balance feature also accomplishes something important - It reminds the salesperson to ask about other accounts that can be brought over from other banks in return for waiving fees. This forces the bank to become a selling organization and opens the door to talk about other products the bank offers to better serve the customer. One benefit of allowing customers to combine balances across products is that it entices them to sign up for more services. Banks don't have to stop at balances and can utilize combined services to generate additional fee income. For instance, banks can waive the $45 monthly business checking fee, if customers use foreign currency services. Here a bank can come to us and utilize our international platform to generate $2,500 per month for the account - not a bad trade off. The additional fee for international services helps dramatically boost both ROA and ROE and provides an additional revenue stream with limited risk. The customer is happy, since they can handle both their operating account and foreign exchange in one place. Not only does satisfaction and fee revenue increase, but the duration of the account also jumps higher, as larger, less interest rate sensitive balances are usually kept at the bank. The net result is a win-win for both the customer and the bank. As every additional product is sold, profitability and retention are increased and interest rate sensitivity is decreased. When we conduct a product review for a bank, one of the things we check for is utilization of a combined balance feature. We find the proper use of combined balances only about 65% of the time. Banks should evaluate their use of a combined balance feature to make sure they have one in place. The next step is to make sure it is applied to the most profitable products and utilized in the correct manner (in order to provide incentives to customers to conduct more business). Banks that pull this off can be considered "Super" in the modern day sense.

BANK NEWS

CFPB Head Appointed

President Obama installed former Ohio Attorney General Richard Cordray as director of the Consumer Financial Protection Bureau without Senate approval. The President used a questionable recess appointment process that is expected to see a legal challenge.

Job Cuts

This month's Challenger report shows planned firings are up 31% from a year earlier. Reductions in municipals & financial services account for the largest change.

Apartment Sector

Property research firm Reis reports U.S. apartment vacancies fell to a 10Y low in 4Q at 5.2%, compared to 6.6% a year earlier.

CFPB Ruling

The CFPB issued guidance to banks that they may not selectively withhold any documents requested based on the bank's judgment that the materials are not necessary to the CFPB's execution of its responsibilities or that other materials would be sufficient to suit CFPB needs.

Consumer Healing

Consumers continue to dig out from underneath debt, as a new report from the ABA finds more consumers are making HELOC payments on time, as delinquencies fell to the lowest level in 4Ys.

2011 Bank Failures

In 2011, 92 banks failed, compared to 157 in 2010 and 140 in 2009. Meanwhile, the number of banks on the FDIC troubled list fell slightly to 844 at the end of 3Q. While that news is good, our analysis shows 220 banks are in dire need of capital and will likely have difficulty raising it, so expect to see more closures this year.