THE CONTEXT OF FRIDAY THE 13TH AND CHECKING

by Steve Brown

On average, Friday the 13th happens once every 213 days. This year it occurs 3 times, which is a problem only if you buy into the concept of bad luck. Yes, there are more plane and car accidents on Friday the 13th, only because there are more people traveling during those days. In fact, every Friday has elevated accidents and Friday the 13th is in line with other Fridays. Dating back to the Knights of Templar, Friday the 13th got misbranded and people the world over now change their behavior on this day. The power of behavior and beliefs is powerful, but our point is that it can also be leveraged to your advantage. Consider generic aspirin. It is not has the same chemical composition than branded aspirin, but it is often made by the same company. It is identical in every way except brand and package graphics. Yet, branded aspirin commands a price that is often 2x more than generic aspirin. It doesn't stop there. Not only is there a price difference, if you poll satisfaction of both generic and branded aspirin, satisfaction is, on average, about 30% higher with branded aspirin despite the price difference. If all that is not crazy enough, even if you tell people that the two types of aspirins are identical and charge them different prices, they still prefer, and have higher satisfaction, with branded aspirin. Ironically, branded aspirin is more effective than generic aspirin for curing headaches not for medical reasons, but for branding reasons - people's perceptions become reality. The concept that is at work here for both Friday the 13th and aspirin is a relatively new field of academia within behavioral economics called contextual conditioning. When two products or situations are compared, clues are taken not only from the target product (like branded aspirin of Thursday the 12th), but from other products and situations around the target. People's identity is ingrained in what they buy, because choosing alternatives would say something about the purchaser. It is contextual conditioning that has small business owners paying $37.50 per month just to carry an American Express Platinum card. While some of charge is a result of benefits, some of the premium price is a result of the brand. Unfortunately, less than 35% of community banks offer any type of platinum or elite business checking accounts and those that do usually misprice by charging $15 per month or lower. Contextual conditioning matters a lot less if your basic business checking is $10 and your elite level checking is $15 per month. Similar to branded aspirin, if you structure and market the elite business account correctly, not only can you charge $25 per month; but volume, margins and satisfaction go up. This is the reason why the average community bank business checking account has about a 20% risk-adjusted ROE, but a $25 per month premium checking account returns almost a 45% risk-adjusted ROE (depending on the amount of free items allowed). If you are in need of a greater ROE and you don't already have an elite business checking account, we highly recommend one. If you are a BIGProfit relationship profitability customer of ours, it is likely you already know how to offer and tailor the product for your demographic targets. In addition, come to our EMC Conference coming up May 20th, as we will be presenting not only the best elite account for the average bank, but also show you the details of how to customize the account and package it to meet your objectives. This is an example of something you can take back immediately and roll out within months. A premium checking account may be just what you need to better please your customers, boost return to your shareholders and keep you away from the aspirin. You see, this day is turning out to be pretty lucky so far - it is all a matter of context.

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BANK NEWS

1Q Earnings

JPMorgan beat estimates and earned $5.4B for the quarter or $1.31 per share vs. $1.16 per share est. Earnings fell 3.1% from 4Q; mortgage revenue surged to $2B (vs. a loss of $489mm last year); trading nearly doubled; revenue grew 6%; the bank reduced loan loss reserves by $1.8B; it received a $1.1B settlement related to Washington Mutual and it set aside $2.5B for legal. Retail banking (which includes home loans and checking accounts), earned $1.75B (up from $533mm in 4Q); NIM fell to 2.61% vs. 2.89% a year ago. Wells Fargo reported a 13% increase in 1Q profit, beating estimates, as net income rose to $4.25B vs. $3.76B a year earlier; revenue climbed 20%, led by strong mortgage results; it released $400mm from loan loss reserves; had pre-tax pre-provision profit of $8.6B (up 27% from 4Q); ROA of 1.31%; ROE of 12.14%; total loans fell $3.1B from 4Q to $766.5B (despite an $858mm purchase of commercial asset-based loans purchased during the quarter); deposits increased 3% from 4Q and the bank in reased their quarterly common stock dividend rate 83% to $0.22 per share.

CU Lending

The ABA reports only 0.05% of credit unions are at or near the business lending cap.

Less Branching

JPMorgan said it is cutting the number of locations it plans to open in the next 5Ys by 50%.

Fewest Closures

Analysis of FDIC data by economist Richard Brown (1985 to 2010) finds banks with assets of $100mm or less were the least likely to fail. As a percent of all banks, this group declined from 97% to 94% of the total.

Titanic

It was 100Ys ago this Sunday that band leader Wallace Hartley made legend in the annals of heroism, grace and customer service as he instructed his band to keep playing on the deck as the great RMS Titanic was sinking. No surprise, Hartley was also a community banker by training.