

EDUCATED ON SCHOOL BANKING RELATIONSHIPS

by [Steve Brown](#)

Not to get all Charles Kuralt on our readers, but today we finish up a 3-city tour of workshops in the Triad area (Winston-Salem, High Point & Greensboro) of North Carolina. This area is an interesting one for banks, as it is Furniture Capital of The World, a leader in distribution companies and has some of the most profitable organizations most often overlooked by banks - schools. The Triad area is home to more than 20 major higher-education institutions and about 55 private intermediate and lower-grade schools. Most represent a 50%+ ROE-type client. That is because established schools have low probabilities of default, low loss given defaults, high terminal value, lucrative operating accounts and valuable long-duration deposits (endowments). One of the most forward-thinking schools in America, High Point University, is located in the Triad. Unfortunately, when it comes to banking, here is an example of what not to do. While the school has several notable former BB&T employees and directors on staff (including its innovative President), the problem lies in that BB&T has a lending relationship with the school and has current employees sitting on the board. This is the definition of a conflict of interest and presents sizable reputation and other risk that will reduce return and could cause problems for both parties. If that is not bad enough, it would appear that BB&T hasn't fully developed its cash management programs to make this relationship really profitable. However, we contrast that with Huntington National Bank's recent partnership with Ohio State University. Huntington paid a pricy \$125mm fee (and is providing 20 internships and Executives to host events and speaking engagements) to drag this business away from US Bank, Chase and Fifth Third. Previously, these 3 banks all had a branch on the campus, which we point out is probably the least profitable way to go. While banking the school is lucrative, the real risk-adjusted money is in affinity credit cards, debit card fees, tuition goal-oriented accounts and the soon to be released mobile payment system that will allow students to use their smart phone or debit card to pay for classes, food, textbooks, on campus living, t-shirts and almost anything else a student wants to buy on campus (we said almost). A relationship like this can easily top the 500% ROE mark, as the combination of commercial and credit offset some of the risk, while fees from cards, cash management and payments significantly enhance return. While we are not advocating community banks go out and try to chase down and bank a major university, we are advocating offering a slimmed down relationship to smaller schools in local markets. Private high schools and middle schools for example have the same needs, alumni following, lucrative endowment funds, operating accounts and student/parent/alumni purchase activity. The average private school easily tops 125% ROE and religious-based institutions can return even more. Banks can partner with any of these schools and offer educational programs, community support, marketing, risk management and a host of other items (in addition to core banking services) in order to win the business. If you are mining for customers and happen to be in an area similar to the Triad, consider focusing on schools in the area in order to boost your ROE - it's an educated move.

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[PCBB 2012 Executive Management Conference](#)

BANK NEWS

The Fed

While the Fed had a slightly more hawkish tone, the forecasts were the most interesting. The unemployment rate outlook for this year was moved below 8% by the end of the year and the "appropriate timing of policy firming" chart revealed a weighted average "first hike" time of Q4 of 2013 vs. Q1 of 2014.

Lawsuit Settled

Citizens Bank (\$139B) has reportedly agreed to pay \$137.5mm to settle a class action lawsuit involving 30 banks. Citizen's was accused of manipulating customer debit and ATM transactions to generate overdraft fee revenues by using software to rearrange transactions from highest-to-lowest dollar amount, rather than the order in which they occurred.

Student Lending

A study by the Fed finds that after excluding loans in deferral or forbearance, the delinquency rate on student loan debt was an estimated 27% as of 3Q 2011. The federal government guarantees 80% of all outstanding student loans and the sector is roughly \$1T in size (larger than either credit cards or auto loans).

Not Buying

A survey by Mintel of college students finds 61% say their financial situation is a concern; the majority say they will continue to rent to maintain security and flexibility and the average student graduating in 2011 had \$22,900 of debt (the highest level ever and 47% more than 10Ys ago).

TARP Troubles

In a quarterly report to Congress, the special inspector general for TARP said 351 community banks (assets below \$1B) owe \$15B to the government but will have a "significant challenge" in raising funds to repay the debt. Overall, a total of \$118B is owed under TARP from all borrowers, including AIG, GM, Ally Financial and others.

Earnings Season

With 178 of the S&P 500 reporting, earnings growth is running around 10.7% above expectations. Financials, technology and telecomm are stronger than est.

Double Dip

Britain's economy unexpectedly slipped into recession for a 2nd time (the first double-dip in 40Ys) after the 1Q showed GDP fell 0.2% and the 4Q of 2011 was down 0.3%.

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