OF BUGGLES AND BRANCHES

by Steve Brown

If you were ever an MTV fan back in the days when it played music videos, you will fondly recall the song "Video Killed the Radio Star" by the British New Wave group The Buggles. The song was released in 1979 and it rang true from the moment it was released, as videos had taken over and radio was relegated to something you did in the car. We think the song for banks is now "online and mobile killed the branch star." As with the radio, branches still play on today, but much of their original design and applicability has been changed by a shift in consumer and business behavior. We venture to say that if you walked into a crowded coffee shop in the morning and asked 10 random people when the last time was that they were in a branch it would range from "never" to "rarely." The branch isn't gone, but to maintain its relevance, it must undergo significant changes. To begin, a study by Novantas in 2011 found average transactions per branch in the U.S. had declined 25% from 2006 to 2010, as online banking passed the branch in 2008 as the primary way customers do their banking. To understand the impact of this change, consider that if this trend continues, in just 3 years banks will see over a 55% drop in branch activity, so banks will need to cut staff by about the same amount as they take action to reduce the physical footprint. Another survey by Ally Bank found that one of the most common reasons people said they visit bank branches was to deposit a check. Given the penetration and growth rates of online, remote capture and other technologies, that is quickly becoming unnecessary. Banking used to be about walking into a branch, seeing the smiling face of a teller, talking to that friendly person about getting a loan and then opening up a deposit account that was going to stay for a long time. Now, some 70% of people go online to research banking products and services, a 67% increase from just 5Ys ago and a trend that seems destined to continue. In addition, 60% of people say they use online channels to transfer funds now, about double the rate of 5Ys ago. These changes are significant, particularly when you consider some 65% of costs typically reside in the branch distribution and delivery system. This data is one reason why larger banks have already begun to close unprofitable branches, but what about the brand impact on a community bank that has only a handful of branches - all of which are within a small area? As with anything, they key is to have a plan and stay focused. If you are going to close a branch in an area, it is important to make customers aware well in advance of other locations and options. Give demonstrations of online and remote capture capabilities and get your sales teams into the offices of your customers to talk to them directly about your desire to "bring the bank to them." The customer wants you to get closer to them, so this is a good opportunity to do so directly. Embrace it, because you also cannot stop it, as you focus efforts to show customers how other tools can improve their life. Then, work to redesign branches to meet these evolving behaviors. Start shifting toward more self service activities digitized customers want, such as offering more video ATMs, as you leverage videoconferencing to deliver product experts to branches without taking up physical desk space. Then, work to reduce branch footprint size, as you train staff to be advisors. The branch is under pressure as banking has shifted from a place to go, to something people do. People have changed the way they interact with banks and banks will need to adapt faster than expected it would seem. We also just cannot seem to stop the song from playing over and over in our ear, that online and mobile killed the branch star.

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BANK NEWS

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Dimon Title

Two proxy advisory firms have asked JP Morgan's shareholders to consider putting an independent director as Chairman and moving Jamie Dimon to just CEO.

SAR Activity

FINCEN released its annual report and details everything you want to know about Suspicious Activity. While filings hit a record in 2011 and were up 14%, it turns out that mortgage fraud, not terrorism is a much larger threat to the American way of life.

Mortgage Delinquency

TransUnion reports 5.78% of mortgage holders were behind on their payments 60 days or more in the 1Q vs. 6.01% in 4Q (-3.8%) and 6.19% for the same period last year (-6.6%). The rate reached a peak of nearly 7% in 2009.

Slow Refinancing

Low interest rates, less competition, more regulation and tighter credit standards have pushed the time it takes the biggest mortgage lenders to refinance a mortgage loan from 45 days a year ago to more than 70 days now, according to Accenture Credit Services. The four largest banks control 55% of all loan originations, up from 38% in 2004.

Less Ownership

The homeownership rate in 1Q slipped to 65.4%, the same level as 1997 and nearly 6% below the peak level of 69.4% reached in 2004.

Refinancing

FHLMC indicates about 58% of homeowners in the 1Q held their principal balance the same after refinancing, an all time high. Meanwhile, an even 21% each either reduced (cash paydown) or increased (cash out) their principal amount.