GIVING THANKS TO YOUR CUSTOMERS

by Steve Brown

This week is Thanksgiving, so in its honor, we will start each daily discussion with some facts in and around Thanksgiving that you might find interesting enough to share with your family or friends when you celebrate this Thursday. To get things rolling, we offer up the fact that about 90% of Americans eat turkey on Thanksgiving and about 20% of all cranberries consumed in the U.S. are eaten on that day. If you are in the camp that is a bit concerned about which foods may be the least healthy and perhaps even avoided during this stuffing festival, Bonappetit.com lists some of the worst offenders which include: deep fried turkey; biscuits and gravy; warm crab or spinach & artichoke dip; gratin potatoes; candied sweet potatoes and stuffing with sausage. Sort of takes the fun out of things, but we thought you might like to know just in case. As you consider whether or not you are going to eat everything you are served this Thanksgiving, consider a few things that are being served up in the banking industry lately. As of 2Q, there were 7,246 FDIC insured banking institutions operating 97,337 offices. While the total number of offices is down 2.2% (from the high water level of 99,540 reached in 2009), there are still plenty of banking competitors. Add to that the 7,598 credit unions operating in the U.S. (not to mention all of the non-bank, shadow bank and other entities), and it is easy to see how extreme the competition has become. To see just how competitive things might be, we took a random sample of 5 different counties using FDIC summary of deposit data. That sample found the average bank is competing with about 32 different banks (median) operating a total of 234 offices in each county. Remember, this is just banks, so when you sprinkle in credit unions and all of the non-banks, the number of competitors is probably closer to 50 to 75 depending on the market in question. That is a lot to keep track of when you consider creating "peer" groups and the data is really very murky when you think about who they all might be. To help your community bank compete more effectively, we consider the results of a recent global banking survey by Ernst & Young. Given community bank business is U.S. focused, we focus on responses for our country only. In the U.S., the primary reason customers said they left their main bank was due to generally poor levels of service quality at 31%. Perhaps a tune up to include ensuring customer facing staff understand what management expects of customer service, reminding employees to smile and interact with customers and making sure the first point of customer contact at the bank stays engaged until the customer's problem is solved or question is answered. The survey also found the second reason (at 23%) customers will leave their bank is due to product and service offerings. Here, it is important to understand what your bank offers and what the competition offers to be sure you aren't missing the boat. One way to do this is to create a simple spreadsheet and drop about 10 competitors into it. Then, list the services your bank offers and compare it to what this group offers and identify any gaps. Finally, ramp up the personalized attention you deliver to your customers. Here, the survey found 43% say they receive "no" or only "occasional" personal attention from their main bank, so more can be done. To gain an edge, stay focused on the customer by leveraging information, as you communicate more frequently and more consistently. Also consider expanding your channels of communication to increase your opportunities. No matter what you eat at Thanksgiving, enjoy your time with family and/or friends. Then, if the timing works out, ask them what they think makes a great bank so you can also bake that into the improvement equation when you return to work.

BANK NEWS

Closure (50 YTD)

Regulators closed Hometown Community Bank ($125mm, GA) and sold it to CertusBank ($1.8B, SC). Certus gets 2 branches, all deposits and nearly all assets.

Bank Failures

From Jan 1, 2008 through the failure listed above, 464 banks have failed.

M&A

Landmark Credit Union ($2B, WI) will acquire Dodge Central Credit Union ($52mm, WI) for an undisclosed sum.

M&A

As of Oct 31, about 50% of publicly traded banks were trading below their book value, at a median price to tangible book value of 86.6%. These two data points have held consistent through most of this year.

New Investment Regulation

The FDIC has issued a new final rule for bank investment securities activities that is effective Jan 1, 2013. Specifically, it prohibits banks from acquiring or holding a corporate debt security if the issuer does not have adequate capacity to meet its financial commitments. Under the rule, banks will have to do pre-purchase analysis (and periodically thereafter), to make sure issuers have adequate capacity to meet all financial commitments under the security for the projected life of the security. The FDIC also requires the issuer present a low risk of default; be likely to make full and timely repayment of P&I; and due diligence may include consideration of internal analyses, third-party research and analytics (including internal risk ratings, the default statistics of external credit rating agencies and other sources of information appropriate for the particular security). One additional catch - banks must modify their analysis (the range and type of specific factors to consider) based on the type & nature of the security.

Settlements

The SEC reports JPMorgan Chase will pay $296.9mm and Credit Suisse will pay $120.0mm to settle lawsuits over the packaging & sale of mortgage securities.