CALLING CUSTOMERS ABOUT THE EXPIRATION OF TAG

by Steve Brown

You may not have been keeping track, but research firm IDC reports four Android smartphones were shipped for every iPhone in the 2Q. That is up sharply from the same period last year and it shows the war for dominance continues between these two companies. We found that fact to be interesting and thought you might also like to know, as you seek to upgrade or modify your mobile or online banking services in the coming year. Both phones are great and both sure beat the old school method seen in the picture above. As bankers watch the smartphone wars evolve, so too they have had to watch the Transaction Account Guarantee (TAG) on noninterest bearing deposit insurance head for the bone yard in just a few short days. Despite the fact that Congress and the White House have not yet addressed the fiscal cliff, or that overseas markets remain tumultuous and dicey, an extension of insurance on these accounts has been deemed unnecessary by the wizards behind the curtain. As such, community banks have redoubled plans to protect their customers and protect themselves. Since we have been following this issue so closely over the past months, we offer up some thoughts in this area. First, no matter what you do, expect some portion of deposits on noninterest bearing accounts above the $250,000 insured limit to flow out of your community bank and into the arms of either the largest banks (deemed too big to fail) or mutual funds. While hopefully only small numbers of business and municipal customers will move their money, you will need to be prepared and proactive nonetheless. Next, there are some steps you can take, beginning with education. Talk to customers that have balances above the insured limit to be sure they understand the risk they have with you and the risk they have in moving. Funding may be plentiful right now, but that won't last forever and these deposits will be needed to support increased lending activity down the road so keeping them is important. Beyond educating customers, consider whether or not it makes sense to pay interest on these accounts. Some banks we know are talking about it, but most at this point seem to feel rates overall are so low, they won't have much impact in offsetting customer concerns over insurance (unless higher rates are paid). Since no one needs or wants to do that right now (funding levels are high and margin compression is extreme), look for few to pay interest and for earnings credit structures to remain the dominant approach for bankers. Another method that is simple and straightforward is to work with these exposed customers to help them restructure accounts to ensure they receive FDIC coverage without having to move their money. There are many ways to do this with a little elbow grease and work, but getting started early is important to make sure you have time to do so. Yet another thing banks can do is to restart sweep programs. These can be operated by the bank itself or outsourced and many vendors are available. Sweeping funds into mutual funds, repos or other banks are all possibilities, but they also add complexity for the customer, so detailed discussions should be held at the bank to determine whether these are needed. Finally, given such uncertainty and the potential for confusion around this issue as the year ends, calling customers and walking them through the change is one of the best ways to keep them in the fold. Community banks have more capital on hand than at any time in history and you have a good story to tell. Whether the phone you use to call customers about this issue is a smart one or dumb, just making the call is a good idea.

BANK NEWS

Investigation

The WSJ is reporting the SEC, Fed, FBI and Alabama Banking Commission are investigating whether Regions Financial improperly classified loans that went bad during the financial crisis. Two pension funds that own Regions stock allege the bank hid problems by moving $150mm in loans out of nonaccrual status to delay disclosure.

CRA Change

Federal agencies have amended the asset size threshold used to define small bank to $1.186B and intermediate small bank to $296mm but less than $1.186B effective Jan. 1, 2013.

Charitable Giving

A study by the Chronicle of Philanthropy finds the median household charity donation is $2,564 annually.

Employees

In a move expected to be copied by other companies, IBM has informed employees the company will make matching 401(k) contributions annually in 2013, instead of at the time of each paycheck. IBM said the move will save it money on retirement plan costs and improve employee retention.

Less Debt

The Federal Reserve indicates households spent 10.6% of after-tax income on debt payments in the 3Q (the lowest level since 1983) and 15.7% when you add in other required payments not classified as debt (rent, auto leases, etc.), also a 30Y low.

Customer Habits

CNNMoney reports 83% of baby boomers plan to stay in their home through retirement.

Less Money

The net worth of U.S. households is 12% below the pre-recession peak.