TO FEE OR NOT TO FEE

by Steve Brown

There was a recent article in one of the major business magazines entitled "The Most Ridiculous Service Fees." It ran the gamut from merely annoying to outrageous. Some of the more unique entries included charging $2 extra for a cocktail that was not served "on the rocks" (the idea was a glass without ice would always use more liquor) or charging $1 to leave cheese off a burger. Our personal favorite, however, was an extra $10,000 for living too long since a pre-paid funeral didn't quite cover the cost of the casket. We were relieved that there were no banking fees in this particular honor roll. Fees are a tough sell regardless of the industry as can be seen above. Retailers can raise prices, but anything a bank charges is considered a service charge. Given the low interest rate environment and sluggish loan growth in most markets, margin compression for bankers remains an ongoing struggle. The obvious solution is to generate more non-interest income by charging fees. However, that is easier said than done. Part of the reason is that the public has been trained to hate fees. Bank of America's ham-handed attempt to impose debit card fees made the situation more difficult for all bankers. Another reason is that the banking industry fee-sensitized its own customers. Remember those big banners advertising free checking back in the day when banks needed deposits because loan growth was going through the roof? That's when we taught our customers they shouldn't have to pay for a checking account. These days, however, only 39% of large banks offer free checking any more, down from 76% just a few years ago. That means your community bank might also be able to charge for checking, so it might be time to experiment to gauge customer sensitivity but be cautious. If you must offer free checking in your market, make it less expensive by requiring a customer to have other services (direct deposit, online bill-pay, internet banking) and certainly don't send paper statements. To help you identify the easiest solutions, we have found many banks have fees built into loan agreements and for other services, but then routinely waive them. There are times when it is appropriate to waive fees for high value customers, but it should be the exception and not the norm. Banks know this, but they still waive fees for customers of all stripes. The reality is that bankers just can't afford to do that anymore. If there are required appraisals for loans, if customers are not providing updated tax returns or loan officers have to chase down documents, then charge a fee. If your loan agreements don't contain a provision for fees when the bank has to do extra work, then it's time to revise those loan agreements. As you search for services to provide your customers that generate fee income, we know it won't be easy, but some fees are available. Consider that trust departments generate non- interest income and while this would be difficult to start from scratch, you might be able to partner with another bank and split fees perhaps. Another area includes services like international transfers, where banks can capture fees and customers are doing business overseas. Yet another is to capture fees up front through hedging when you originate longer-term fixed rate loans. Nothing about capturing more fees is easy and there is no doubt that you will have to continually search high and low to even find one gold nugget. To begin the process, think outside the box as you look for ideas all around the bank and in every aspect of your market. It won't be easy, but over time you might eventually win a persistence award like the guy in the picture.

Related Links:

PCBB 2013 Executive Management Conference

BANK NEWS

Highest Paid

The WSJ reports Wells Fargo CEO John Stumpf was the highest paid chief executive of the major commercial banks, taking home $22.9mm in 2012. His base pay was $2.8mm, cash bonus was $3mm, pension gains were $3.5mm and he got stock awards of $13.5mm.

Quicker

The Fed announced a change to better facilitate the release of information to the market. It is shortening the time between the release of the FOMC statement and the Chairman's news conference. Policy statements will now be released at 2:00pm ET with the conference at 2:30pm ET.

Auto Loans

SNL reports at end of 2012, Ally Financial was the largest bank holder of auto loans, followed by Wells Fargo, JPMorgan Chase, Capital One Financial and Bank of America.

More HARP

FNMA and FHLMC reported they refinanced 1.1mm mortgage loans in 2012 under the Home Affordable Refinance Program (HARP) vs. 438,228 in 2011. The increase was the result of changes that allowed more underwater borrowers to participate.

Big Biz

The latest survey of the Business Roundtable, which represents the CEOs of 210 large businesses, finds the percentage expecting their company's sales to increase in the next 6 months has gone from 58% in q$ 2012 to 72% as of Q1 2013. The percentage expecting to increase hiring remained flat over the same period at 29%.

Student Loans

The CFPB issued a proposal that subjects any nonbank student loan servicer that handles more than 1mm borrower accounts to its supervisory authority. The 7 largest nonbank servicers handle 49mm borrower accounts.