

No Song Bird

by [Steve Brown](#)

Bluebirds are medium-sized, bug-eating birds of the thrush family found throughout North America. They are notable for their beautiful, bright blue feathers and a light-colored underside. Bluebirds are desirable in your garden because they are voracious insect eaters and any bird that chows down on squash bugs or tomato worms is a fine friend to keep around. Bluebirds have also been adopted into numerous popular songs, like "Over the Rainbow" and have come to symbolize happiness and cheer. May the bluebird of happiness fly up your nose!

There are no such feelings of happiness for bankers when it comes to a different sort of bluebird that is showing up in Walmart stores. "Bluebird" is the name of the service we have discussed previously here being offered by American Express in conjunction with Walmart. While it seems like a prepaid card, Bluebird acts more like a bank account. Bluebird's web site even has proclamations like, "Your Checking and Debit Alternative," and "Loaded with Features. Not Fees". What kind of "alternative" is Bluebird referring to? Is this a bank account? Well, not exactly; it just acts like one. It seems that Walmart is offering financial services through American Express without a bank charter.

One of the first things we note is that they are soliciting government direct deposits like Social Security. The FDIC logo doesn't appear anywhere on the Bluebird site, but you can get more information about that by linking somewhere else. We did that and found the funds are placed into custodial accounts (at Wells Fargo and American Express Centurion Bank) and are insured by the FDIC up to \$250,000 in most instances.

That means the Bluebird song brings together the melody of some of the largest companies in the country: Walmart, American Express and secondary custodial service provided by Wells Fargo. All of this helps Walmart offer what are essentially banking services without a bank charter.

But if it is as Bluebird promises, and there really are "no annual, monthly or overdraft fees and no minimum balance" with a few asterisks attached, where do they make money? We took a closer look and found fees are charged for reloading cash on the card, out of network ATMs, MoneyPass ATMs and check ordering. These fees could generate some revenue, but this partnership seems so carefully thought-out that there must be some other motivation. The motivation likely is that this relationship will cost Walmart a great deal less in debit card swipe fees than other debit cards issued by banks. Walmart avoids the price controls of the Dodd Frank Act because Bluebird is neither a debit card nor a cash card, so regulated interchange fees don't apply. There is plenty of discussion that even if Bluebird doesn't bring bank regulators to Walmart's door, it's already rumored to be attracting the attention of the CFPB.

For community bankers, Bluebird (and other services like it) is another reason to be sure your offerings cover what bank customers need. Let's run down the Bluebird features: online bill pay; mobile deposit; ATM access to cash; checking; overdraft protection; direct deposit; account management online or in the Walmart checkout lane (can also make deposits).

It's a comprehensive set of services, but it remains to be seen whether customers flock to Bluebird. In any case, bankers should monitor the real game going on behind cute little blue birds.

BANK NEWS

M&A

Wintrust Financial (\$17.7B, IL) will buy the mortgage banking business of Surety Financial Services (CA) for an undisclosed sum. Surety originated \$1B of mortgage loans over the past 12 months.

M&A

Georgia Commerce Bank (\$785mm, GA) will buy Brookhaven Bank (\$179mm, GA) for an undisclosed sum.

M&A

BOK Financial (\$27.6B, OK) will buy GTrust Financial (OK) for an undisclosed sum. GTrust is an asset management fee-only financial planning company with \$600mm under management.

Shutdown Impact

JPMorgan estimates that each week the government is shut down will subtract about 0.12% off the quarterly annualized growth rate of GDP.

Settlement

SunTrust Banks has agreed to pay FHLMC \$65mm to settle claims related to loans it sold from 2000 to 2008 that did not conform to guidelines. The action follows other settlements by Bank of America (\$1.3B), Wells Fargo (\$869mm) and Citibank (\$395mm).

ROE Performance

Bloomberg reports US bank return on equity is projected to be 9% in 2012 and 2014 based on consensus vs. 11% average for the past 20Ys.

Lawsuit

The NY attorney general says he is suing Wells Fargo because they did not follow the agreement reached last year related to the national mortgage settlement.

Reverse Mortgages

A federal judge has ruled the Federal Housing Administration cannot require the surviving spouse who is not on a reverse mortgage to pay it off in full when their spouse dies or face foreclosure. The ruling is expected to increase losses related to this program.

Flood Costs

As the federal government subsidy expires in some areas of the country, flood insurance rates are jumping as much as 25% on some older properties according to analysts.

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