

Now That Is Efficient

by [Steve Brown](#)

It isn't unusual at this time of year to see many people on diets or going to gyms to work off the holiday pounds gained from November through December of 2013. If you are getting bored with this routine, you might be interested to know about a company in Upstate New York called Pedal Power that makes an electricity-generating bicycle desk. It's a recumbent bike so it's comfortable and the desktop sits where the handlebars should be. It is perfect for a laptop or screen and keyboard, but it also leaves you sweating in your dress clothes so be careful of getting too stinky if you have customer calls that day. The bike is so efficient; the pedals generate enough electricity to run not only your computer, but a lamp as well. Generate your own electricity and get a little exercise at work - now that's efficient!

As we talked about the other day, there are many ways to improve your bank's efficiency - even if it doesn't entail putting power generating bicycles under the teller desks. Consider some recent articles we found that explored the deposits of larger institutions. Since large banks almost always have lower funding costs than smaller banks, this is an area where most community banks can gain efficiency. For larger banks, there are certainly economies of scale, a broader branch network and numerous other factors, but that doesn't mean they are impervious to attack, so keep reading and we will try to help you further.

Fifth Third Bank (\$123B, OH) is one of the large banks using an analytics-based deposit pricing methodology to try to protect its deposit base, according to these articles. The bank is analyzing millions of records in an effort to determine customer reactions to rate and product changes (like fee increases). Their goal is to better understand the demand curve, based on a multitude of factors and assigns a predictive score of a customer's price sensitivity based on transaction activity, credit score and household income. What the bank hopes to accomplish is find a perfect price point to gather the amount of deposits it needs at the least interest expense possible.

That got us thinking, so we studied the roundup of deposit growth for Q3 of 2013 for the biggest banks. At the top of the list was Ally Bank, then Union Bank and JP Morgan. Fifth Third was actually #13 on the list, with a net loss of deposits (both for the number of accounts and dollars Q over Q). Maybe they are still experimenting with their data, maybe the data is imperfect or maybe they still prefer some deposits run off.

As rates rise, customers may be more motivated to look for better rates than we have seen in some time. This is likely to be a growing concern for banks, so monitoring such things as deposit runoff closely is important.

Pricing is also important, particularly when you consider most banks still price deposits by looking at the competition in their markets and relying on rate sheet survey reports. This approach may seem like it works, but analysis will show it almost always leads to higher funding costs than necessary. This is because the comparison almost always leads to the highest paying competitor, rather than the competitor who has spent its effort building core deposits slowly and over time.

We monitor the ebb and flow of CD issuance in the brokered markets by the large consumer banks like Amex, GE Capital, Ally and others. Here we find that while many banks are still hyper-liquid, these issuers continue to gather deposits at above market rates (usually 2x to 3x the yield of Treasuries). We have also seen these issuers go longer to try and attract funding further out the curve. To us, this means the big consumer lenders are likely anticipating a rise in deposit rates, an increase in customer interest rate sensitivity and are seeking to lock customers into a lower rate than will be available down the road. We aren't saying your bank should imitate the big guys, but there are things to be noted and learned by watching their activities over time.

BANK NEWS

M&A

Cache Valley Bank (\$683mm, UT) will acquire The Village Bank (\$123mm, UT) for an undisclosed sum.

M&A

Spanish bank Banco Bilbao Viscaya Argentaria (BBVA) has acquired digital banking company Simple for an undisclosed sum. Simple has 100,000 customers and processed \$1.7B in transactions through its debit card last year (tied to FDIC insured accounts). Simple helps people track their financial history, expenditures, savings and set goals.

Regulatory

FinCEN will require FNMA, FHLMC and the FHLBs to develop AML programs and file SARs reports with the FHA. Wow - that is a lot of acronyms.

Layoffs

U.K. bank Royal Bank of Scotland (RBS) is expected to announce layoffs of as many as 30,000 employees over the next few years according to the Financial Times. RBS is refocusing its business and exiting non essential lines.

Back in Black

FNMA said it made a 4Q profit of \$6.5B and passed it along to the Treasury, making taxpayers whole on the bailout of the company back in 2008. FNMA and FHLMC have now both repaid the Treasury.

Small Biz

Analysis of more than 20k small businesses by Biz2Credit finds bad weather that hit various parts of the country also negatively impacted business revenues during the first 6 weeks of the year. Compared to 2013, retail revenue fell 13%, transportation/warehousing declined 11%, construction dropped 9% and health care/social assistance slipped 3.5%.

Tax Refunds

A survey by TD Ameritrade finds investors expect to do the following with their tax refund this year: 45% plan to save it, 24% will invest it, 21% will use it to pay down debt, 19% will spend it on discretionary items and 18% will put it toward necessities.

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