The Wall of Shame

by Steve Brown

We were in a favorite local restaurant the other day and on the wall next to the cash register was a display of bounced checks people had written. We are certain the people whose names appeared on the checks intended to pay for their meals, although in the end their bank accounts were dry and they never managed to make good on the debt. This kind of public shaming display used to be quite commonplace in smaller businesses, but we must say it had been a while since we had seen the approach. A closer look showed that most of these checks (complete with festively colored "insufficient funds" stamped all over) were dated before 2010.

The truth is that most people just don't write checks anymore, especially for smaller amounts like paying for a meal at the local dive. This is good news for pretty much everyone, as processing checks is expensive for banks in general. A bounced check is costly and time consuming for the business and the bank, plus it's an embarrassment for the check-writer. While financial crimes are rising, check fraud is declining rapidly along with the decline in the use of checks.

We began wondering just how many people had dumped checks for debit, credit or cyber transactions so we took a quick look. Our research found the number of commercial checks processed by the Fed fell in 2013 to around 25mm. Compare this to an average daily volume of around 77mm in 1994, the peak time for paper check usage. Each year since 1994, the number of paper check transactions has declined to a new low. At the same time, the average dollar amount per check has doubled. Though there is significant check volume outside the Fed, their record keeping is the most complete and the trends reported are considered representative of check-writing in the U.S. as a whole. Also of note, Fed studies of non-cash transactions found in 2006 that checks made up 32% of such transactions, but by 2010 that had declined to 23%.

As our readers know, mostly the use of cards has taken the place of checks. However, with card fraud on the rise, we wondered if more people simply carry cash. Interestingly, the statistics don't bear this out. Consider a May 2014 survey by Bankrate.com that found 8 in 10 people in the U.S. carry less than $50 cash on a regular basis and 50% carry less than $20. Only 7% carry more than $100 on a regular basis and 9% don't carry any cash at all. We are truly an ATM and just-in-time society it appears. Overall, customers don't come into branches as much as they used to, ATM usage remains pretty strong and cash itself remains the dominant payment form for low value payments (particularly transactions under $10). In the end after you consider all of the analysis, people just are not carrying nearly as much cash as they used to.

As your bank and others plan for a future with primarily electronic transactions, it is important to be prepared for changes in fee generation structures. Barring some major cyber event, banks will likely continue to see a decline in ATM fee income, as fewer people carry cash over time. Further, while checking accounts are an anchor product for most bank customers, increasing use of electronic channels for payments has fundamentally changed the industry. Even calling them checking accounts should be evaluated and perhaps become a quaint anachronism like the wall of shame next to the cash register. If you ask us, the product name should reflect the diversity of the product itself. The evolution in banking to new channels is ongoing, so be certain your bank's planning process considers the change in customer preferences from every direction to stay ahead of the curve.

BANK NEWS

Bank Closed

(13 YTD): Regulators closed: Eastside Commercial Bank ($169mm, GA) and sold it to Community & Southern Bank ($2.8B, GA) under a purchase and assumption agreement. Community gets 2 branches, all deposits and about 62% of the assets.

M&A

mBank ($579mm, MI) will acquire The Peninsula Bank of Ishpeming ($131mm, MI) for $13.3mm in cash and stock.

M&A

Cape Ann Savings Bank (468mm, MA) will acquire Granite Savings Bank ($70mm, MA) for an undisclosed sum.

M&A

Catahoula - LaSalle Bank ($121mm, LA) will acquire Bank of Jena ($72mm, LA) for an undisclosed sum.

M&A

Bank of the Sierra ($1.5B, CA) will acquire Santa Clara Valley Bank ($127mm, CA) for $15.3mm in cash.

M&A Off

First Mountain Bank ($137mm, CA) and First National Bank of Southern California ($177mm, CA) have terminated their previously announced merger after the OCC would not approve the sale under the agreement's legal terms and conditions.

Branch Closure

First Interstate Bank ($7.6B, MT) will close 8 branches following its acquisition of Mountain West Bank ($634mm, MT) due to close proximity to existing branches.

Branch Closure

Landmark Bank ($279mm, FL) will close 1 branch it recently acquired from its takeover of failed Valley Bank ($82mm, FL).

Yield Elephant

The Wall Street Journal reports China has been buying Treasuries at the fastest pace since records began more than 30Ys ago, as it seeks to keep U.S. yields low in order to expand its export-driven economy and weaken its currency. This is a key reason that despite stronger U.S. economic growth, yields have remained stubbornly low.