

What - A Walbank On Every Corner?

by [Steve Brown](#)

The founder of Walmart, Sam Walton, had a simple way to check on shopping traffic in the early days of his emerging empire. He would fly his small plane over store parking lots and estimate the number of empty spaces. Nowadays there is a more advanced technique to measure the same thing called "comparable store sales." While statistical analysis has replaced Sam's eyes, the importance of the question remains the same. Both techniques would arrive at the same conclusion, that for several months now, Walmart has suffered stagnant US sales. The tepid economic recovery has not helped as traffic in stores remains weak.

Walmart had to drum up a new strategy to pull more customers through the door. They have recently announced a new banking initiative called GoBank. Through GoBank, Walmart will offer mobile checking accounts with debit cards in its 4,300 US locations by the end of Oct.

We all know that Walmart is not a bank. They have been interested in offering banking services before, but when the giant retailer tried to secure a federal bank charter, it failed in the face of opposition from the industry. Walmart abandoned its bank project in 2007, but they never rested and found various workarounds. The retailer already offers various financial services like check cashing, wire transfers and bill payments through its money centers. Now Walmart will add another piece to the puzzle. They are partnering with Green Dot Corporation to build GoBank. Green Dot is primarily known as a specialist in prepaid cards but they also have a subsidiary, Green Dot Bank, and this will provide the platform.

Walmart is flirting with lower income families who are often rejected by traditional banks as typically their credit history is too damaged to get a checking account. The FDIC estimates that some 10mm American households do not use bank services at all and could be attracted to the simplicity of GoBank. There are no fees for overdrafts and a monthly fee of \$8.95 is charged, but only if the customer doesn't maintain a minimal \$500 balance. The idea is that consumers who may be shopping at Dollar Tree or Family Dollar stores could be lured back to Walmart with a financial services incentive. Tech savvy millennials looking for a hassle-free account are also expected to be attracted to a simple, transparent checking product that is low-cost and accessible through a mobile app. GoBank makes it easy for applicants by not using credit scores. Anyone over 18 who passes an ID check will be in.

Whether Walmart profits from this new proposition remains to be seen. Overdraft fees are a significant source of income for banks and GoBank will have to do without that revenue stream. In its favor, the initiative is very low-cost. Customers pick up a starter kit at Walmart stores, activate their accounts with a one-time fee of \$2.95 and complete the application process via their smartphones.

There are also community banks we know that lease space inside Walmart stores and the success of their effort is suddenly at risk. Bank branches can be found in 40% of Walmart's retail space in America and these institutions rely more than normal competitors on overdraft fees. It seems likely that they will have to change their business model and rely less on traffic from Walmart customers. At least for now, these banks are the only lenders in Walmart territory, but we can only imagine that GoBank will rapidly move that direction. Stay tuned.

BANK NEWS

Bank Closed

(16 YTD): Regulators closed: The National Republic Bank of Chicago (\$954mm, IL) and sold it to State Bank of Texas (\$413mm, TX) under a P&A agreement. The agreement calls for State to get 2 branches, all deposits and about 66% of the assets.

M&A

San Diego Private Bank (\$340mm, CA) will acquire First Security Business Bank's loans and deposits (\$74mm, CA) for an undisclosed sum.

M&A

Heartland Financial USA (\$6B, IA) will acquire Community Bank & Trust (\$520mm, WI) for about \$52mm in stock or roughly 1.55x tangible equity.

European Stress

Experts predict European banks may need roughly \$13B to fill capital holes after regulatory stress testing is completed in coming months.

Branch Reach

Analysis of the 10 largest US banks finds that as of Q2 there were 94,725 bank branches in the country and this group controlled 33% of them (30,858). Of note, the top 5 banks have 24% of all branches nationwide or about 300% more on average than the next 5 largest. Here is the breakdown: Wells Fargo (6,314); JPMorgan (5,682); Bank of America (5,096); U.S. Bank (3,238); PNC (2,821); BB&T (1,843); Regions (1,673); SunTrust (1,514); Fifth Third (1,348) and Toronto Dominion (1,329).

Customers

A survey of investors with \$10,000 or more in investible assets by Wells Fargo and Gallup finds: 58% say they are doing "about the same" or "worse" financially than 5Ys ago; 46% say they are still feeling the effects of the recession "a lot" or "a fair amount" and 46% are "very" or "somewhat" worried about outliving their savings.

Ponzi Scheme

The U.S. Attorney for the Southern District of Florida has charged two people with operating a \$300mm Ponzi scheme in FL. The two reportedly sold 1,400 investors vacation rentals that included an upfront leaseback payment of 15% to 20% of the purchase price. They were charged with bank fraud and conspiracy to commit bank fraud.

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