



Going Bananas For Customer Profitability

by [Steve Brown](#)

In the cult-fave television comedy series "Arrested Development," the patriarch of the hapless Bluth clan (a crooked businessman jailed for his misdeeds) gets a visit from his son (who is struggling to keep the family enterprise afloat). The patriarch imparts a mysterious clue about hidden riches in one of the businesses: "There's always money in the banana stand."

In short order, the beachfront frozen banana kiosk is burned to the ground in a scheme to collect on the insurance. It doesn't quite work out. When the scheme is revealed to the still-jailed patriarch, the truth about the banana stand is also revealed. There was literally money hidden in the walls to the tune of \$250,000 now reduced to ashes.

Moral: when hunting for additional profit in your business, be careful where you look and what you burn down. It also serves as an important lesson for community banks trying to boost earnings.

For example, one recurring idea among community banks is to try to attract new customers by offering premiums for new deposits like CDs. Despite various types of restrictions and requirements (running odd-term CDs, requiring new checking accounts), these high-rate promotions almost always wind up getting 40-50% of the funds from existing customers. After all, customers aren't dumb, so they shift money to get the higher rates. That can add 60bp to 70bp to the cost of "new" funds brought into the bank.

We argue there are better ways to boost deposits. One effective strategy is to attract new business checking accounts. These tend to be the most profitable product at community banks. Instead of offering premiums on CDs, a bank could instead promote a bundled business solution that includes a business checking account, credit line, online banking and other features. The account could encourage a customer with a personal checking account to step up to a business account. A bank could also offer a business line of credit, with favorable terms that could lead to the opening of a business checking account.

Service fees represent yet another potential source of new earnings. This is particularly true where bankers have been reluctant to raise service charges. One study in fact found that more than 60% of community banks offered a fee-free checking account, compared to only 25% of big banks. In short, deposit account fees in general tend to be lower at community banks. Some analysts have suggested that community banks are losing out on new revenue - and additional earnings - by not charging more for basic deposit accounts.

Community bankers should tread carefully when adjusting deposit account service fees, however. Lower deposit account fees are one of the competitive advantages that community banks can promote against more expensive bigger banks (which tend to offer a broader array of services).

Still, we estimate that most community banks can increase service charges by as much as 30%, without any significant deposit runoff. To do this, we suggest reviewing service charges, minimum

balance requirements and other fees annually. This will allow you to stay on top of which fees can be increased, that will result in the least disruption or negative reaction from customers. We would also suggest reviewing existing accounts to make sure current customers are being correctly assessed.

As can be seen, banks are a bit like the Bluth family banana stand - there's always money there, but you just need to be aware of exactly where it is and exactly how to get at it.

BANK NEWS

M&A Activity

1) People's United Bank (\$38.9B, CT) will acquire The Suffolk County National Bank of Riverhead (\$2.3B, NY) for about \$402mm in stock or about 1.95x tangible book.

Waiting

After the Brexit and the corresponding hammering down of European bank stock prices, the UK government said it will postpone selling down its shares in Lloyds and RBS.

Job Cuts

Online lender Lending Club said it will fire 12% of its workforce as loan originations slow down.

Closing Branches

Analysis by the World Bank finds banks in some countries still need to close branches to boost profits. Some interesting data points by country of the number of bank branches per 100k adults are: Columbia #1 (256), Peru #3 (121), Spain #7 (70), Italy #9 (60), Brazil #12 (47), Belgium #17 (40), France #19 (38), Japan #27 (34) and US #31 (32). Of note, the UK is at 25 branches per 100k and Germany is only at 14.

CRO Position

A Bank Director survey of risk practices finds 86% of banks with assets \$5B or more has a Chief Risk Officer (CRO) focused exclusively on risk management. The percentage drops to 44% for banks \$1B to \$5B and 15% below \$1B (although 55% said they have a CRO position that does more than just focus on risk).

Student Debt

Research finds 75% of graduates carry student debt that averages \$29,400.

Online Lending

In another sign of stress for the online lending market, Prosper Marketplace will stop accepting new borrowers from LendingTree and Credit Karma as it reevaluates its loan referral programs and works with investors to try and increase funding options given recent stresses in the industry.

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