

The Big Bank Backlash?

Are customers acting on their discontent with large banks? A recent survey from Zogby International indicates they are. According to the survey released March 4, 2010, 14% of the adults polled answered that they "have moved some of their banking in the past year from a large national bank to a community bank or a credit union."

Two initiatives to facilitate this move away from large banks were undertaken in the fourth quarter of 2009. The Independent Community Bankers of America (ICBA) started a site in September 2009 called "My Community, My Bank," where the group provides information on local banks, allows visitors to post testimonials, and provides forms for visitors to send letters to Congress. And Adrianna Huffington of The Huffington Post and economist Rob Johnson of the Roosevelt Institute started the "Move Your Money" campaign in late December 2009 with a video and a website encouraging and facilitating the movement of funds to community banks. While it is hard to say at this time if either of

Core Deposit Growth 2009		
Asset Size	Core Deposit Growth ¹	
	Full Year 2009	4Q09
All Banks & Thrifts	6.3%	3.1%
\$100B+	8.9%	4.5%
\$20B-\$100B	5.2%	6.8%
\$5B-\$20B	2.0%	-3.8%
\$1B-\$5B	7.4%	-0.3%
<\$1B	1.4%	1.5%

Source: CPG Analysis of data from the FDIC.

1. Core deposits defined as deposits held in domestic offices less time deposits greater than \$100,000. Growth has not been adjusted for M&A.

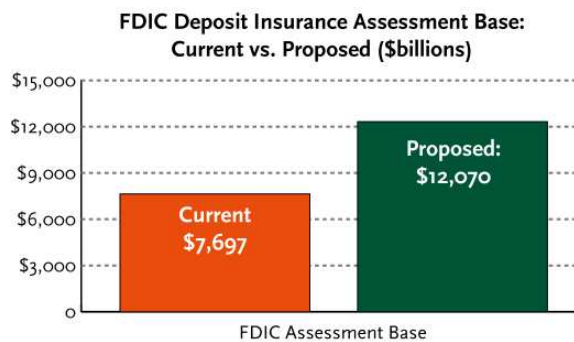
these movements is actually affecting the flow of funds, people are listening: "Move Your Money" has over 35,000 fans on Facebook and the video it released has had over 480,000 views on YouTube.

But an examination of core deposit growth numbers for 2009 refutes the idea that deposits have moved away from the large banks. Banks enjoyed an increase in core deposits during 2009 as a result of the flight to stability, and the largest banks enjoyed more robust growth than other asset tiers.

Data from the fourth quarter of 2009 appears to also contradict the notion of a backlash against big banks. The vast majority of the core deposit growth came from banks with more than \$20B in assets, while community banks with less than \$5B in assets reported anemic core deposit growth or a decline for the fourth quarter of 2009. While an analysis of deposit data for the first half of 2010 might provide additional insight on whether the recent initiatives have had any impact, at this point big banks do not appear to be suffering from any sort of customer backlash.

A Change in FDIC Assessment Base

Included in the regulatory overhaul legislation in both the House and Senate are proposed changes to how the FDIC calculates assessments. Assessments are currently based on total domestic deposits. The proposed legislation would change the assessment base to average total assets less average tangible equity, thereby greatly increasing this base.

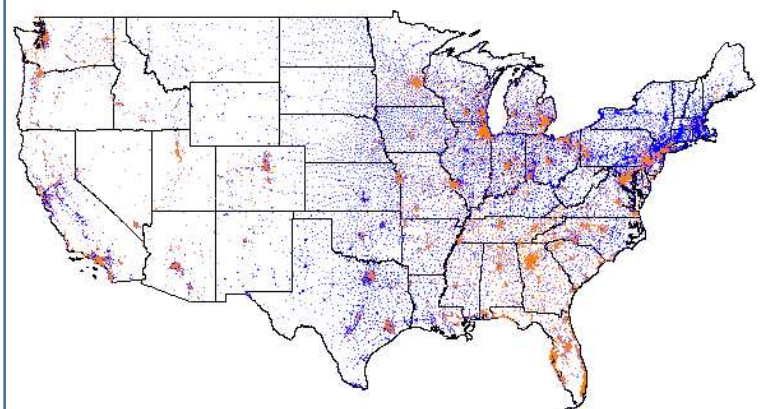


Additional changes to the FDIC assessment in the House bill include:

- The FDIC must consider risks posed by an institution's uninsured affiliates as well as off-balance sheet exposures.
- The FDIC's ability to use separate assessment systems for small and large institutions will be revoked.
- Should the Deposit Insurance Fund exceed certain ratios, the FDIC will have the option of repaying assessments to institutions.

Branches for Sale

Of the approximately 99,204 branches open in the United States as of first quarter 2010, 17.4% belong to banks and thrifts that can be considered "troubled" (institutions with a Texas Ratio at or above the 75th percentile for the industry and net income at or below the 25th percentile for the industry). These branches are concentrated in the Southeast, Northwest, and Great Lakes regions of the country. The percentages of branches belonging to "troubled" institutions in these markets are 28.7%, 24.7%, and 22.5%, respectively. CPG expects to see an increase in branch divestiture activity in these markets in 2010.



- Branches owned by "troubled" institutions
- All other branches

Reg E Blues? Try Better Onboarding

The industry is gearing up to comply with Reg E by July 1 when banks must begin enabling customers to opt out of debit card transactions that will result in overdrafts. While many institutions are putting capabilities in place to capture customer preferences and retain the handful of accounts that make up the lion's share of fee income, Bank of America has drawn a bold line in the sand stating that the company will not allow customers to opt in without subscribing to an overdraft protection plan. This strategy may force many banks to reconsider their own strategies.

Regardless of how banks choose to address new Reg E provisions, the tougher challenge will be replacing lost fee revenue and reinventing the mass market consumer checking account earnings model. Many bankers had planned to revert to some old tactics that were nearly driven to extinction by the Free Checking movement, such as monthly maintenance fees on accounts with no balance or direct deposit requirements, higher minimum balance requirements on accounts that already have them in place, fees for nonuse of debit cards, and the elimination of waived fees for foreign ATM transactions.

We believe better options exist for banks. One of them is renewing the focus on turning checking accounts and customers into deeper, more profitable primary relationships, and one of the best ways banks can do this is by improving onboarding processes. While nearly all banks have established onboarding programs, we believe most would find through closer inspection that they could be doing a much better job at getting customers to adopt and use the services that define a primary relationship.

CPG's Gary Stein recently described how banks can do this in BAI Banking Strategies and presented a teleconference on the subject for Onsite Conference. Visit our website for links to the article and presentation slides or contact us at info@capitalperform.com to discuss how CPG can help your company improve the onboarding process.

Federal Family Education Loan Program: RIP

Industry profitability was dealt yet another blow by the Obama Administration and Congress. Starting in academic year 2010-2011, all new student loans must be originated through the Direct Student Loan Program and funded by the U.S. Treasury. This pulls the plug on approximately \$72 billion of annual originations made under the Federal Family Education Loan Program (FFELP), under which financial institutions made college loans and the government guaranteed the loans in the event of default and subsidized private lenders when necessary to keep rates low. The top 10 originators of the soon to be defunct FFELP include the largest consumer banks as shown below.

FFELP Loan Originations (Gross Commitments) \$ in Billions*			
Rank	Institution	2009	Mkt Share 2009
1	Sallie Mae	\$21.0	29%
2	Wells Fargo	\$10.7	15%
3	Citibank	\$5.9	8%
4	Bank of America	\$4.9	7%
5	JPMorgan Chase	\$3.5	5%
6	PNC Bank	\$2.7	4%
7	US Bank	\$2.3	3%
8	Discover Bank	\$1.7	2%
9	EdAmerica	\$1.6	2%
10	Nelnet	\$1.6	2%
Top 10 Totals		\$55.8	77%
Total Market		\$72.7	100%

*\$ of new originations includes Stafford (subsidized and unsubsidized) and Plus loans (in millions). Excludes consolidated loans.

Source: Top 100 originator of FFELP loans - FY09 & FY08 from Financial Portal at www.dp.edu.gov.

Yodlee's FinApp Store

Yodlee, a financial technology company headquartered in Redwood City, CA., develops and supports personalized financial management (PFM)



and other financial solutions for over 100 leading financial institutions and portals. At the Fall 2009 Finovate conference, Yodlee announced its intention to launch its FinApp Store in July 2010. Modeled after Apple's App Store, the FinApp Store will serve as a marketplace for developers to offer both free and paid-for applications to Yodlee-powered PFM users.

Approved applications will be available to all financial institution/portal distribution partners, but the financial institution/portal partner will still have control over the final product. The partner will choose which applications it will offer its customers and the FinApp Store will be co-branded and accessible through the partner's online banking platform. To give the partner additional customization, it will have the option to set up dashboard themes (templates) for use by specific customer segments, pre-purchase certain applications for all its customers, or pre-fund its customers' FinApp Store account balances.

When a customer of a financial institution/portal logs into online banking, he/she will have access to the partner-specific FinApp Store and any applications that the institution has pre-purchased for its customers. While not all applications will be free, there is a 24-hour return policy to allow customers the opportunity to test products. Applications that are already under development are mortgage and loan calculators; Microsoft Money Financial Data Converter; and savings, budget and goal planning applications. Once customers choose which applications are relevant to them, they can personalize the look and feel of the dashboard and even share their themes with friends or family.

With the number of available applications only increasing with time, the Yodlee FinApp Store will allow banks and portals to offer their customers the highest level of PFM customization.

Need help with online banking? CPG can help! Call us at 202-337-780 or email us at info@capitalperform.com.

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