

# STRATEGIES TO INCREASE FEE INCOME & REVENUE



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**Presented by:**

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## Today's Agenda

- About Haberfeld Associates
- Industry Backdrop
- To raise fees or not to raise fees...that is the question
- The value of a retail customer
- Opportunities to raise fee income without raising fees

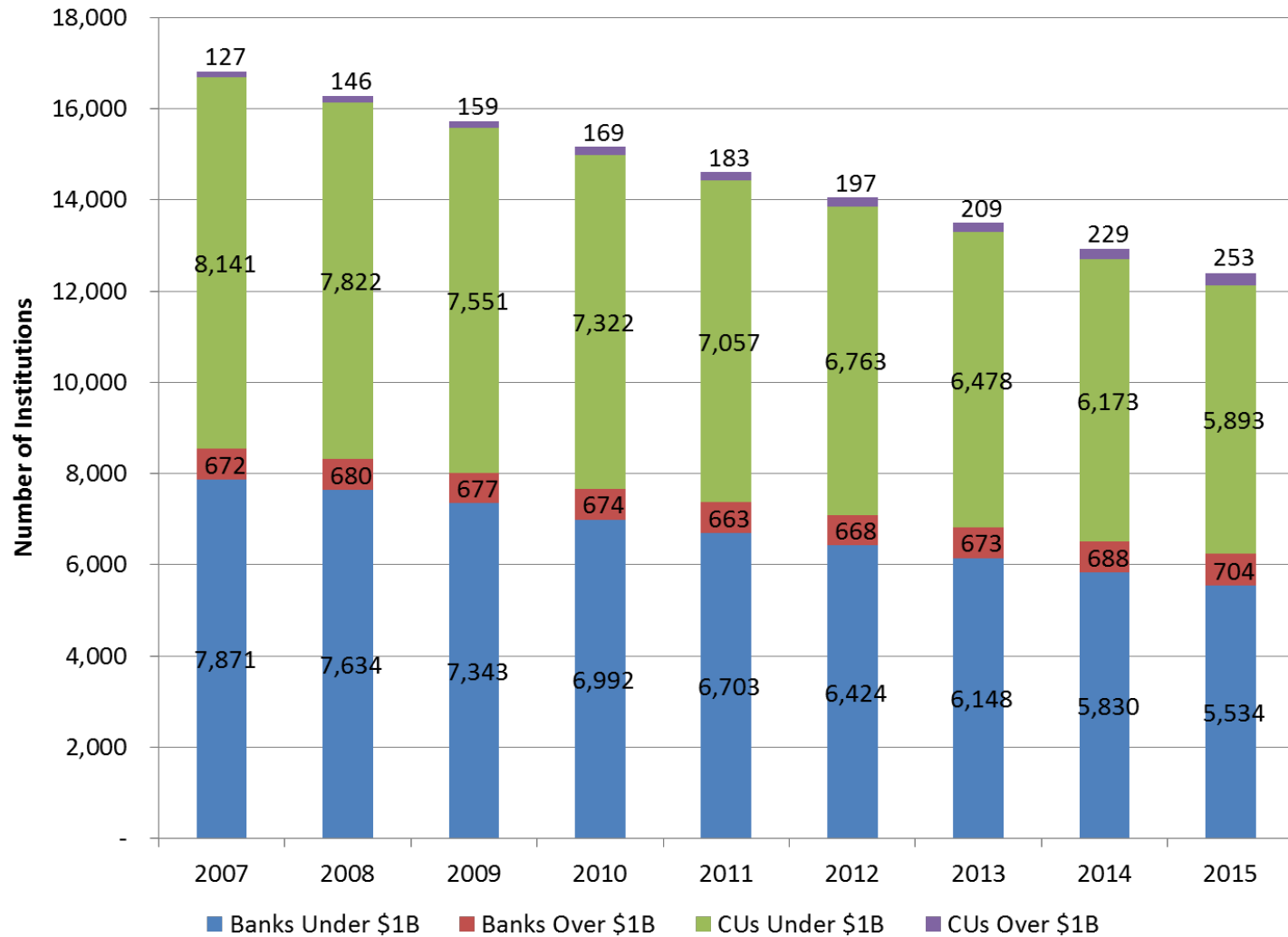
## About Haberfeld Associates

Helping banks grow profitably for over **30 YEARS** **8th** largest bank in America

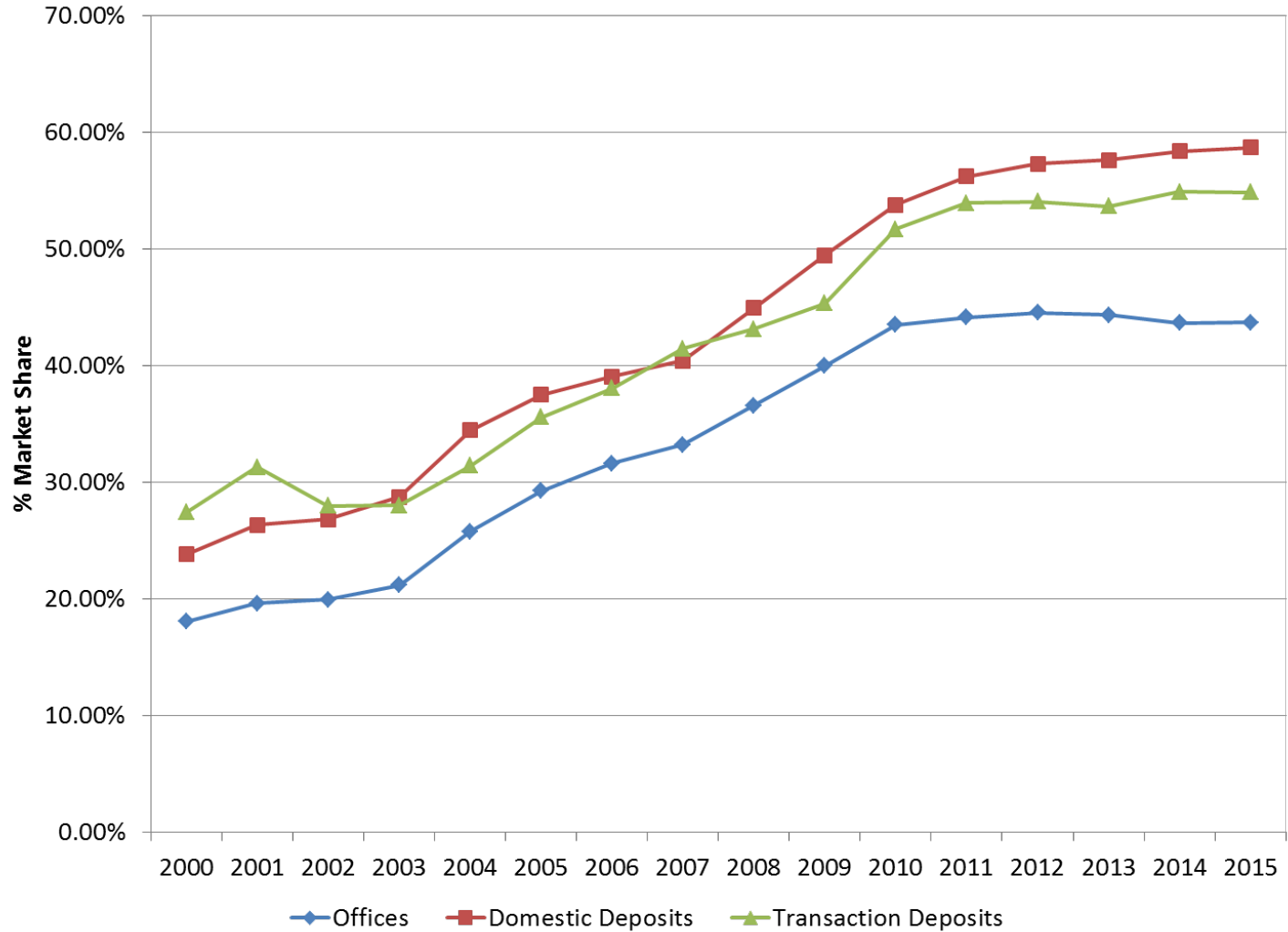
**EMPLOYEE OWNED** **7.5 MILLION** new core relationships

**DATA DRIVEN RESULTS** Clients are high-performers in many **PROFITABLE** categories **INTENSIVE TRAINING**

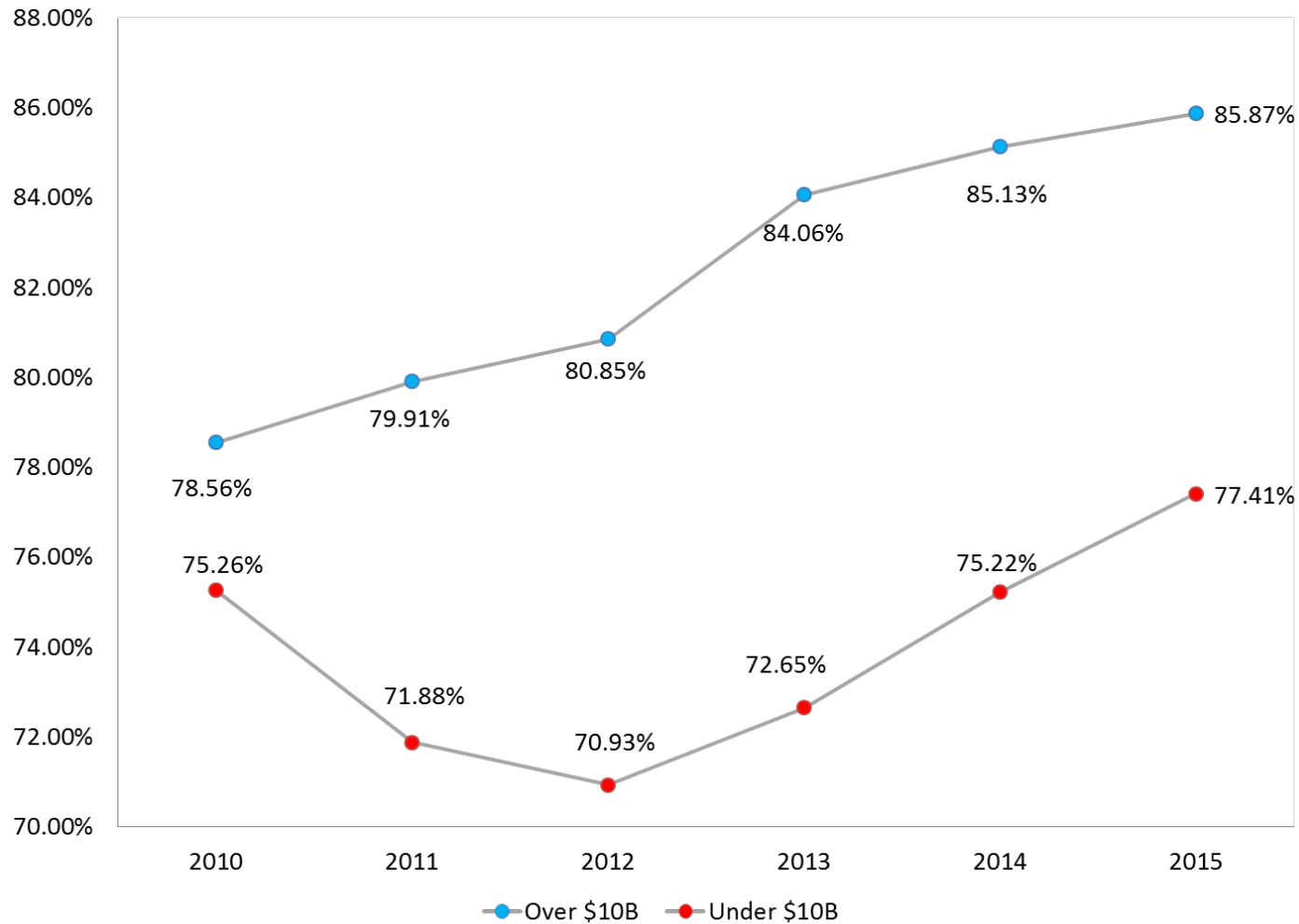
# Total Number of Financial Institutions



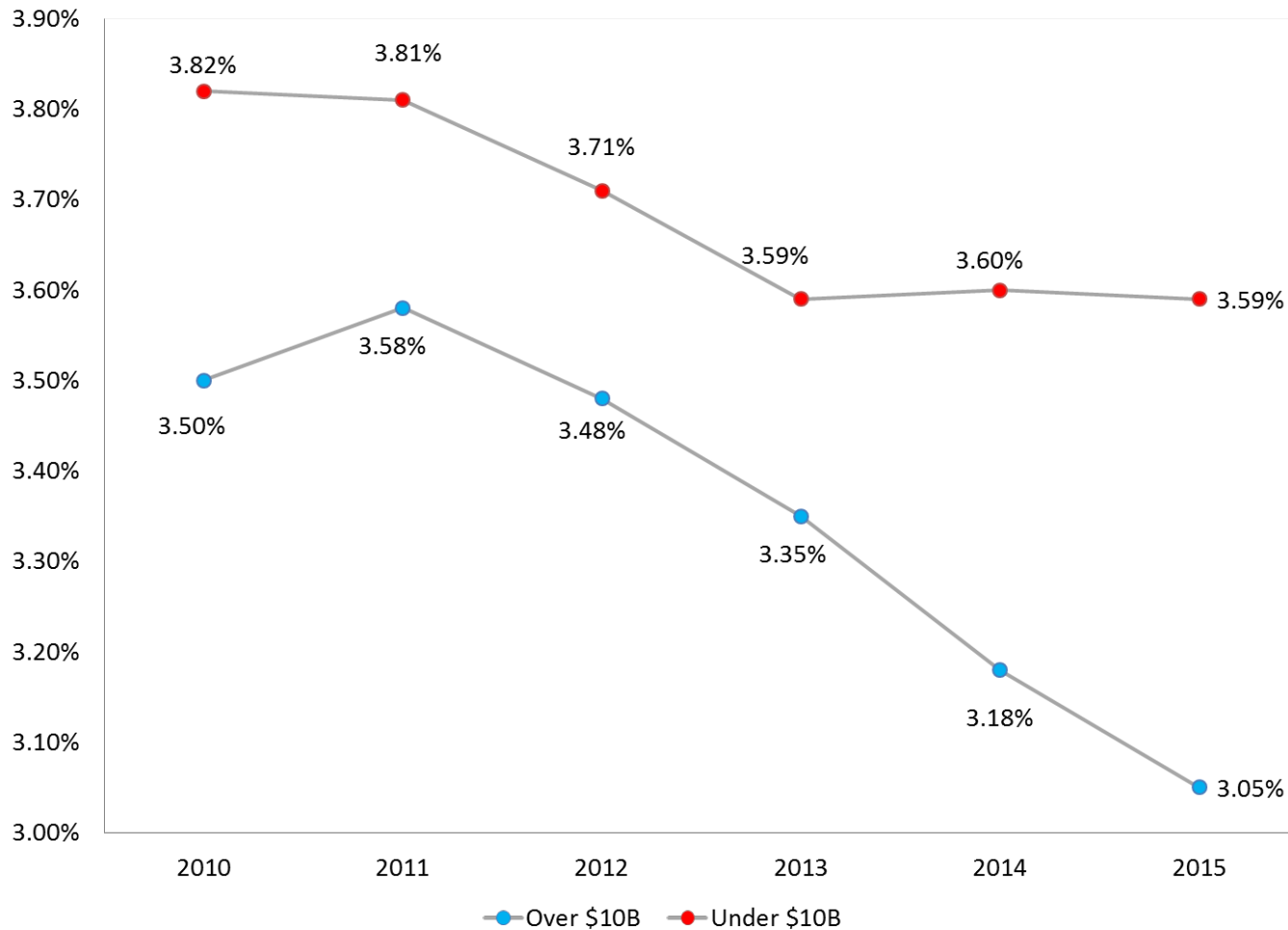
# Top 30 Market Share



# Loan to Deposit Rates



# Net Interest Margin

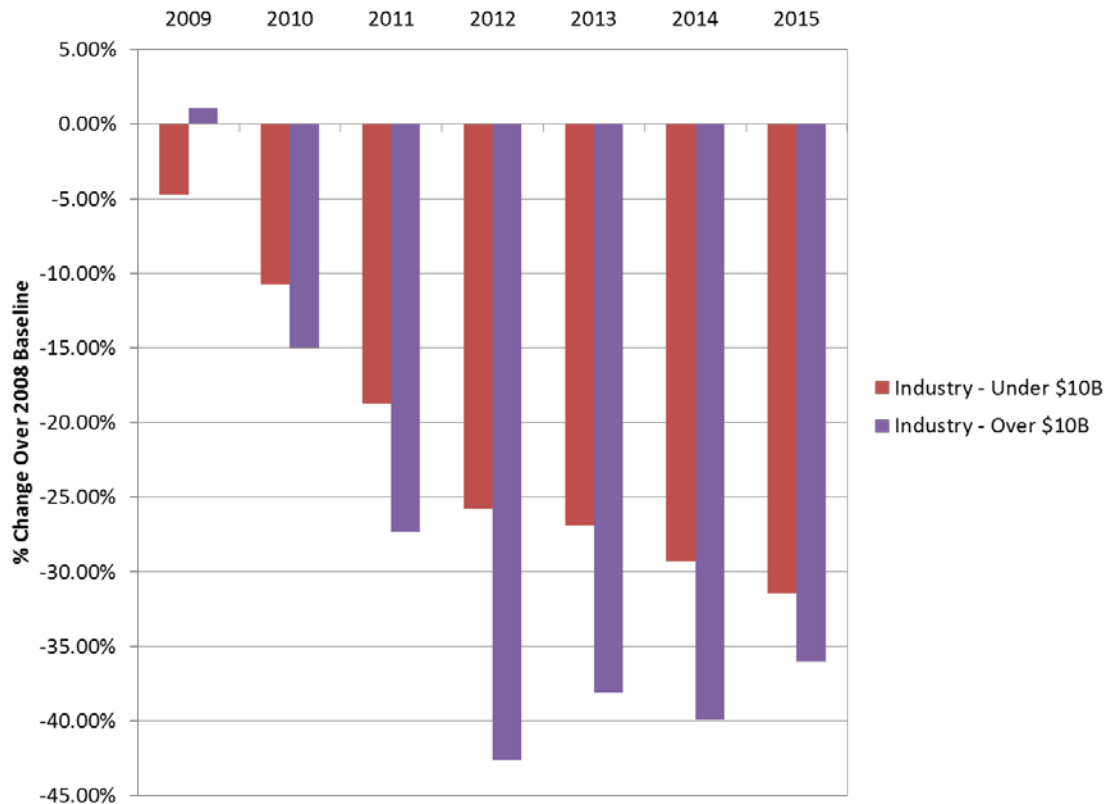






## Regulatory Impacts

- Regulatory changes have significantly impacted Fee Income
  - Reg E
  - Other looming overdraft regulation from the CFPB





## Industry

- Slight improvements in loan to deposit ratios
- Stabilized fee income
- Stabilized Net Interest Margins (for community banks)



## Industry Environment

- I hear this all the time now...
  - “I am awash in cash, can’t make enough good loans, margins stink, the only way to make it up is to raise fees”
- Is that the right answer or the only answer for a community bank?
- Or are there other opportunities to increase fee income without raising fees?

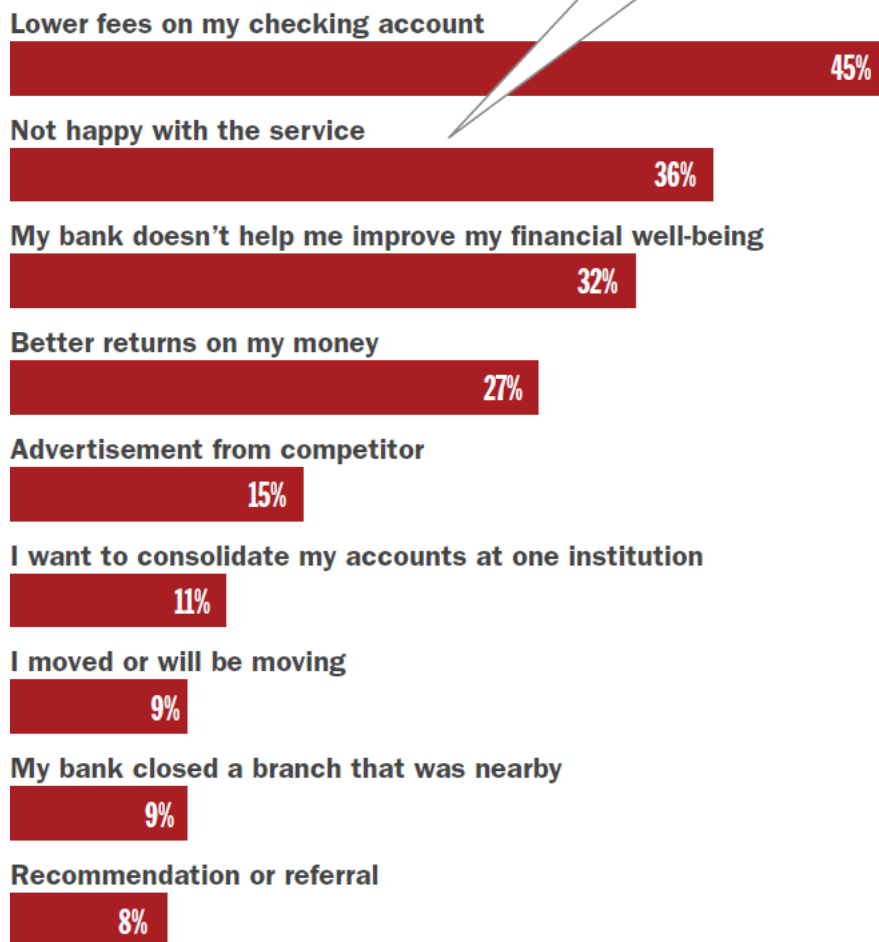


## What's the industry doing to fees?

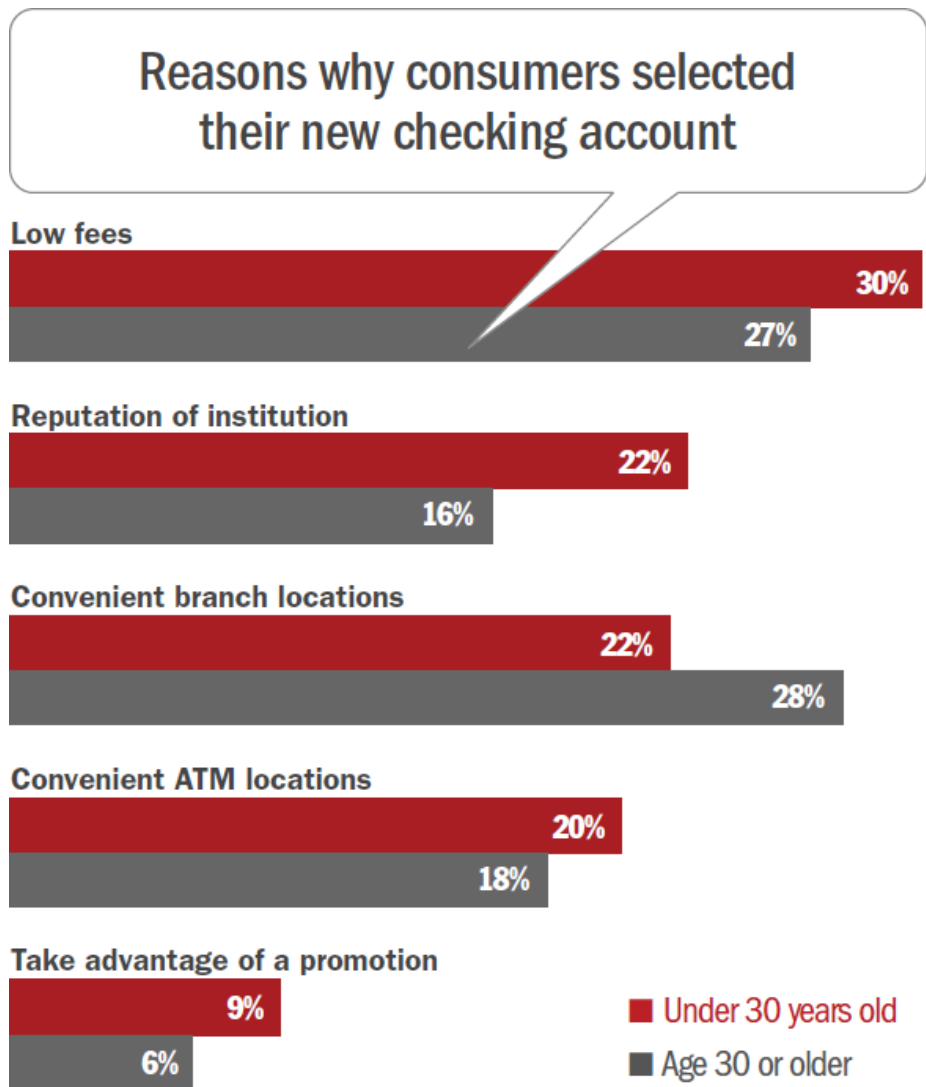
- The average monthly maintenance fee for a checking account is now \$13.29 per month. That's \$2.40 higher than in 2014
- Overdraft fees average \$32.38
- The average minimum balance to waive fees is almost \$800
- Out-of-Network ATM fees average \$1.73 for customers, and Non-Customer ATM charges now average \$2.67

## Switching Banks

Primary reasons consumers have thought about switching banking providers



# Switching Banks



A man in a dark suit stands at a fork in a paved road that splits into two paths leading into a green field under a blue sky with scattered clouds. He is seen from behind, with his right hand on his head, suggesting a state of confusion or deep thought.

# A Fork in the Road

Should you raise fees?  
How do we make up the lost income?  
Are there other opportunities?



## How do you grow fee income in 2016

### Option 1

- Do away with free checking and raise regular service charges?
  - Many have instituted “Free If” accounts?
- Packaged products (ID Theft, Shopping Discounts, Cell Phone Insurance, etc.)?
- Raise overdraft fees?
- Figure out how to charge for new technology?

## Or can you grow fee income with raising fees?

### Option 2

- Do we have capacity in our branches?
- Get more PFI accounts?
- Increase debit card usage?





## Raise Fees?

### Option 1

- Only 1 of the top 15 banks is offering free checking today
- Many have raised fees
- Should you follow suit
  
- There is only one possible intelligent answer
  - Raise Fees to make up the difference!
  - 14 of the 15 biggest banks in the country have gone that route
  - The Big Banks are 2,000 times your size; they must be 2,000 times as smart...



## Raise Fees?

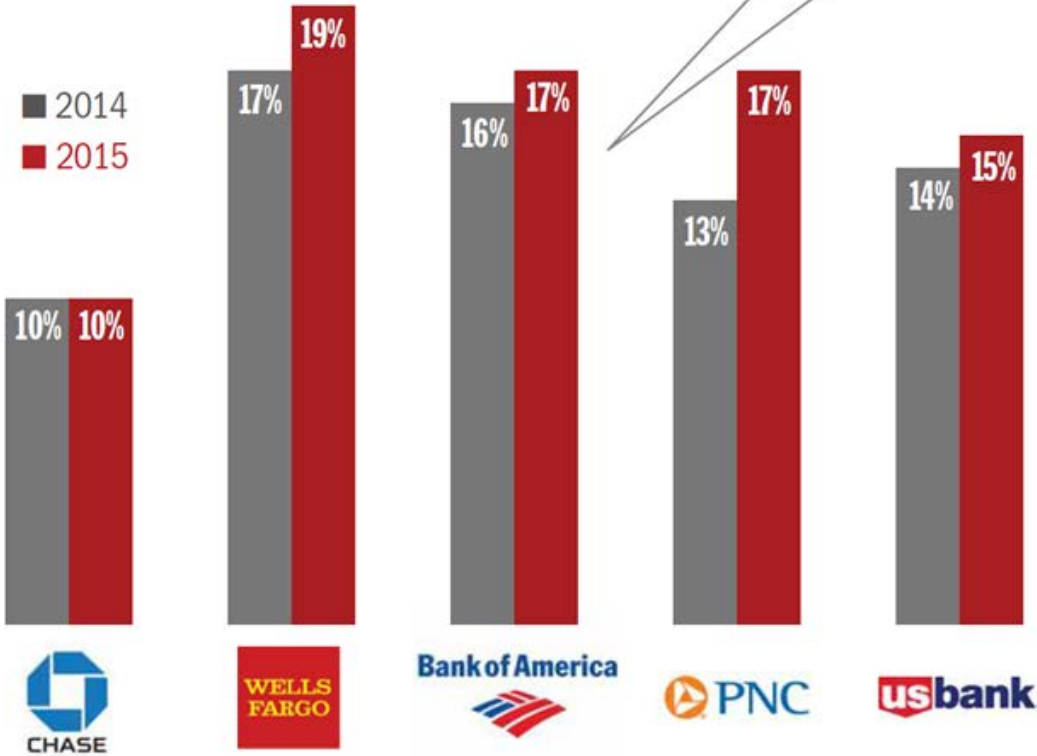
### Option 1

- Bankrate.com Survey
  - 72% of customers would consider switching you their financial institution raised fees
  - Of those with HH incomes > \$50,000, 81% would consider switching

# The Big Bank Run-Off

Option 1

Consumers who are considering switching in the next six months



Source: Market Force © December 2015 The Financial Brand

## The Business Case

Option 2

# Capitalizing on Competitive Advantages



## Our contrarian view...

- What is your biggest competitive advantage as it relates to core customer growth?
- Most community banks response: “Better Customer Service”
- Our view: better services isn’t an acquisition tool (expect referrals)
- Your bigger advantage: You have a very different business model so don’t follow the bigs...

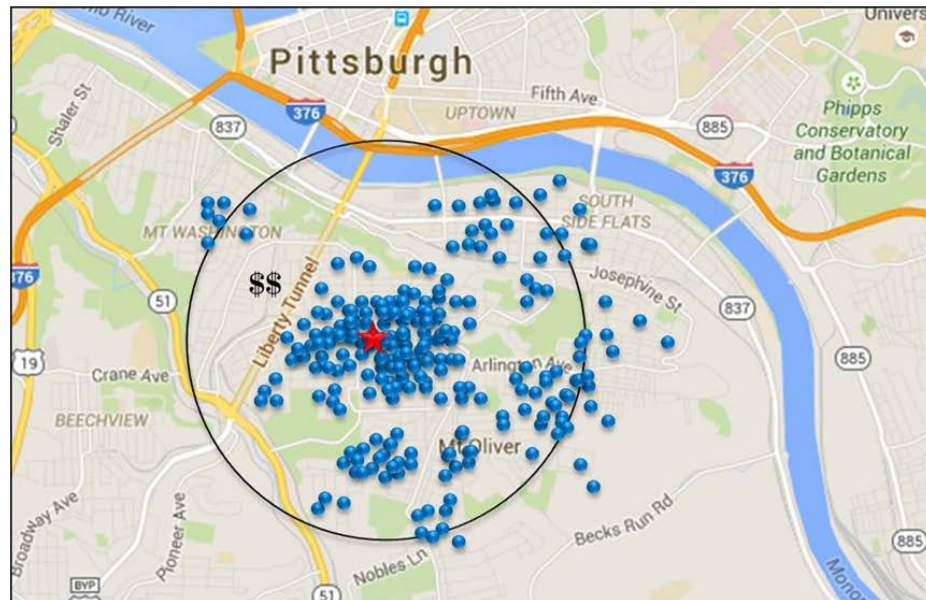
## **Competitive Advantage #1**

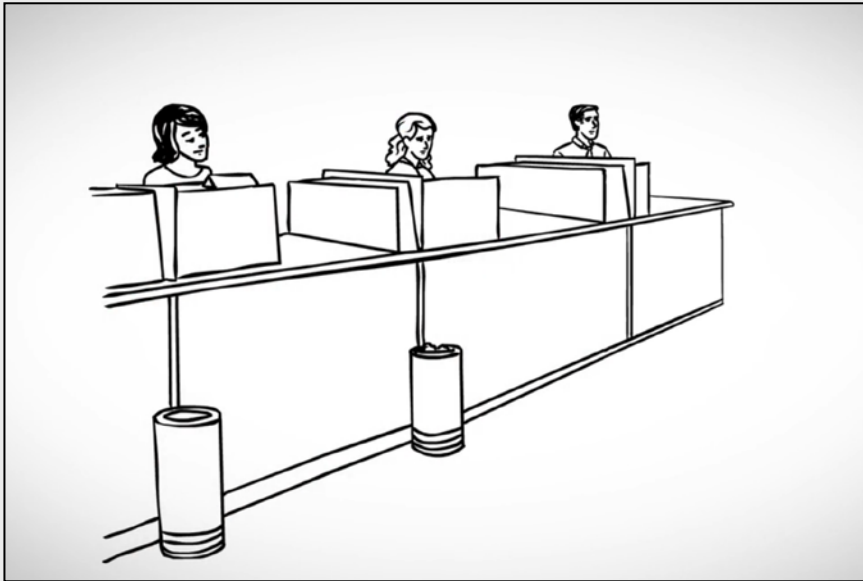
Capacity

## Competitive Advantage #1: Capacity

### One metric to illustrate

The average community bank branch in America opens about 175 **retail** and **business** checking accounts per branch per year (3/branch/week) and has about 1,200 checking accounts per branch.





Community Banks average  
1000-1500 customers per branch



Big Banks averages  
4000-6000 customers per branch





## Competitive Advantage #1: *Capacity*

- We are in a business of high fixed costs...
  - Build expensive factories that we call “branches”
  - We run our factories at less than 50% capacity
- To increase fee income what if instead of raising fees we focused more of our attention on getting more customers



## Competitive Advantage #2

Marginal Revenues are many multiples of marginal cost



## Competitive Advantage #2

### Profitability at the Margin

- In general, the notion of a single unprofitable customer (or some segment of unprofitable customers) drives bankers to drink...
- But many businesses are made profitable at the margin (i.e. they have many unprofitable customers):
  - Movie Theaters
  - Convenience Stores
  - PayPal



## Competitive Advantage #2

- Do you have capacity in your branches today?
- At most of you offices, most of the time I could fire off a cannon and not hit a live customer.
- You have tremendous excess capacity!



## Competitive Advantage #2

Under the notion of excess capacity...

Instead of raising fees:

1. Double new customer acquisitions
2. Enhance Fee Income without raising fees



haberfeld associates

## Competitive Advantage #2

# Retail Checking Economics

*At the margin...*

## Competitive Advantage #2

### Consumer Account Annual Fee Income

NSF/OD Fees	\$	90
Sustained NSF/OD Fees		9
Miscellaneous		4
Pure Checking		104
Debit Interchange		50
Foreign ATM		4
Fraud Loss		(3)
Card Revenue		51
<b>Total Fee Revenue</b>	<b>\$</b>	<b>155</b>

Annualized NSF Frequency = 3.32

## Competitive Advantage #2

### Consumer HH Averages (Cross-Sell)

Account Group	Ratio	Average Balance
Checking	1.557	\$ 5,068
Savings	50.6%	\$ 6,429
Money Market	3.1%	\$ 60,654
CD	8.8%	\$ 26,552
IRA	3.6%	\$ 17,517
HSA	1.7%	\$ 2,240
Consumer Loan	6.8%	\$ 10,411
Line of Credit	1.0%	\$ 8,737
HELOC	3.6%	\$ 35,865
Mortgage	6.8%	\$ 122,547
Business Checking	11.7%	\$ 16,574

Cross-Sell	Balances
Total Relationships	<b>2.534</b>
Total Deposits	\$ 17,969
Total Loan Volume	\$ 10,420

**What is this worth?**

$$\$10,420 \times 4.0\% = \$417$$

$$\$ 7,549 \times .25\% = \$19$$

\*Based on Haberfeld Associates analysis on over 3 million checking accounts





## Competitive Advantage #2

### Marginal Revenue

- Fee Revenue = \$150
- Balances (assuming Haberfeld average on loan) = \$400+
- Annual Marginal Revenue: **\$550**
- Average account life: 8.38 years
- Lifetime Value of a Retail Relationship = **\$2902**



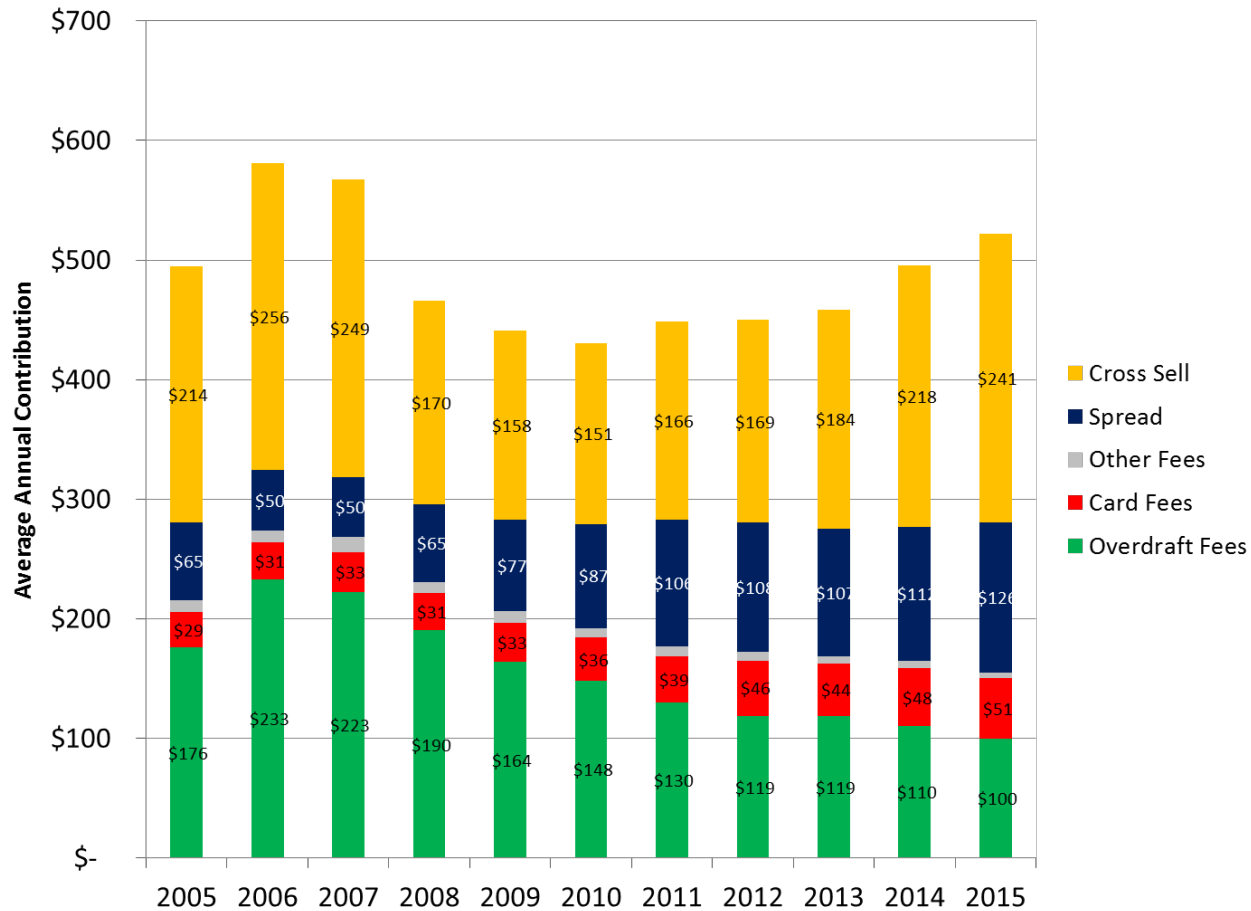
## Competitive Advantage #2

### Marginal Costs

- So you add one more PFI customer:
  - Issue a debit card
  - Send a statement (perhaps)
  - A little more data processing
  - Write off a little principal from overdrafts on some
- Our client average direct marginal costs are about \$30-\$40/customer/year

# Competitive Advantage #2

## Annual Relationship Value Trends



\*Based on Haberfeld Associates analysis on over 3 million checking accounts



## Competitive Advantage #2

### The high-level math

- The typical bank spends about \$200 to get a new customer (one more than they were getting at “steady rate”)
- The average customer produces > \$300/year in marginal value (conservatively, in my opinion)
- They will stay for an average of > 8 years
- An average customer is worth in excess of \$2,000 over their lifetime
- You have tremendous excess capacity
- If you get a lot more of them, fee income goes up, and you haven't raised your fees



## Competitive Advantage #2

### My opinion

- Bankers will spend money for acquisitions and to build new branches in order to grow...
- But they severely under-invest in marketing to fill up the branches they already have.
- Most community banks can DOUBLE the number of new customers they are attracting!
- ...and do it in a very profitable way

# Expanding Market Share

You have to steal from the other guys



## You first must become the PFI

- When a consumer gives your name in response to the question: “Where do you bank?”
- They are generally telling you where they have their primary operating checking account
- The primary operating checking account is the beachhead to PFI status
- It is the key starting point to the overall household relationship
- PFI households buy loans, other deposit products and produce fee income

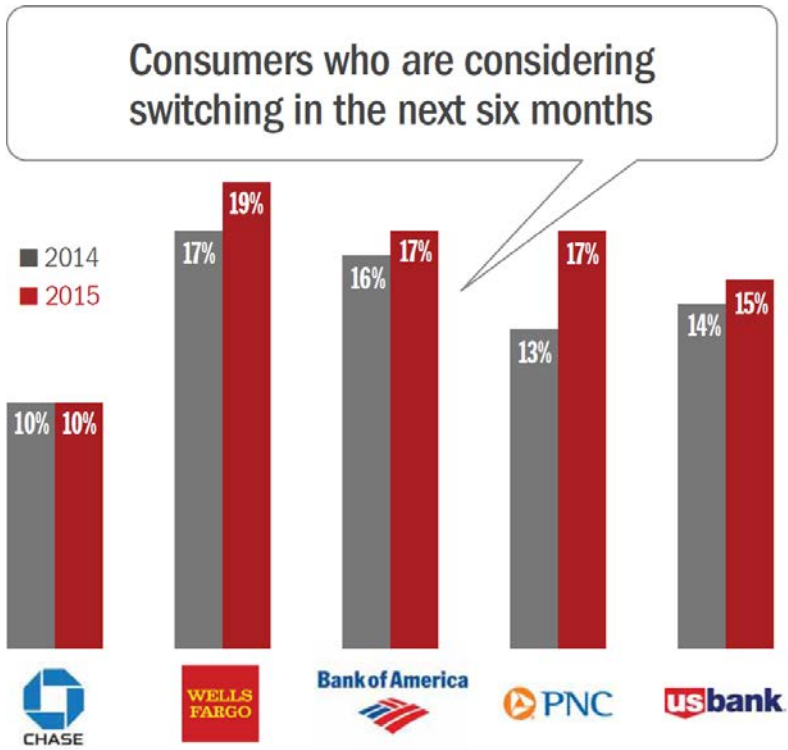


## In a fixed market...

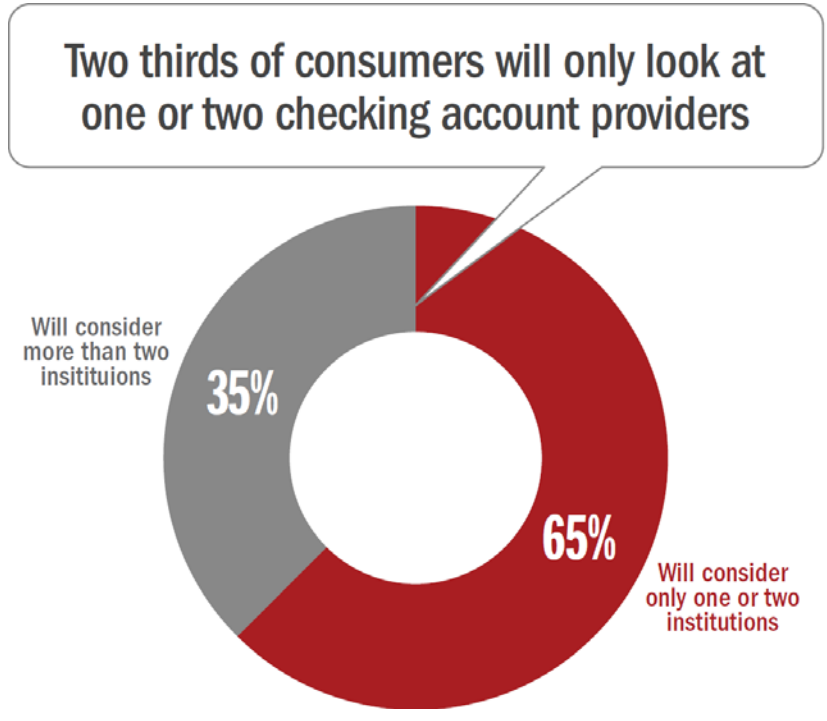
- In a given year, about 10% - 15% of the households “change banks”.
- When you start getting new customers, by definition, your competition is getting fewer.
- We call this system **net zero**—when FIs are trading households back and forth



# Stealing from the BIGs



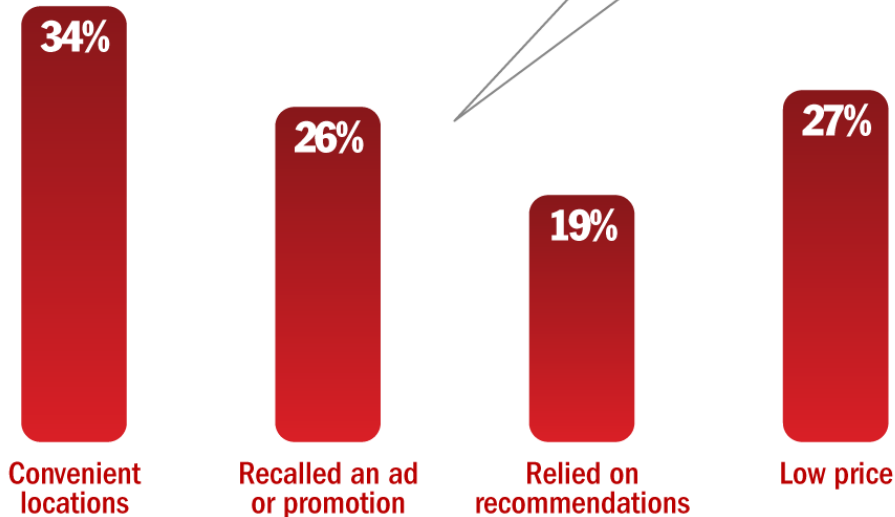
Source: Market Force © December 2015 The Financial Brand



Source: Novantas © June 2015 The Financial Brand

# Stealing from the BIGs

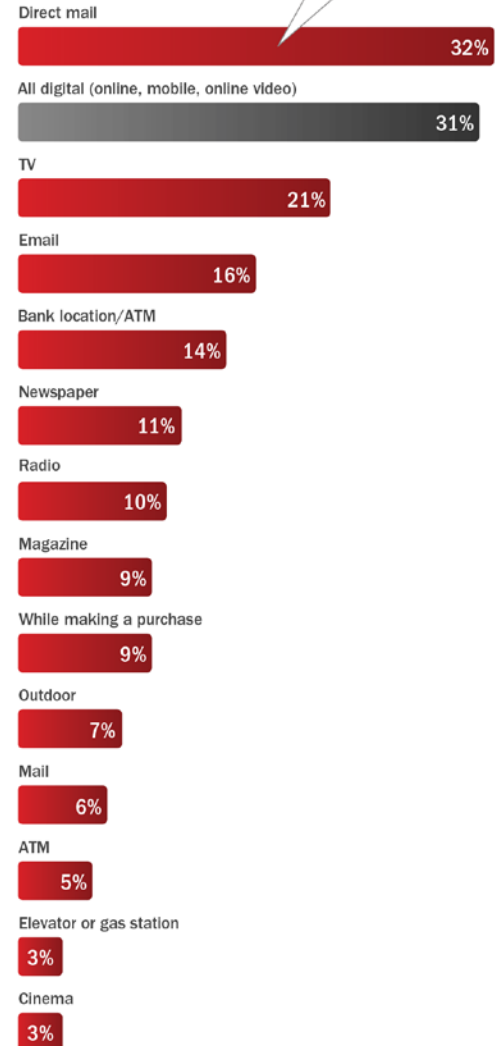
Why consumers specifically selected their new checking account



(Jan through Sept 2014. Multiple responses accepted.)

Source: Novantas © October 2014 The Financial Brand

Marketing channel influence on new checking choice



Of consumers who cited ads/promotions as an influencer



## “Changing Banks”

- Switching is really, really hard
- People only do it if they have to
- Certain events beyond our control create the opportunity, you rarely get people to switch, it’s just too hard
- Be there when they decide to switch
- Set the right conditions for them to notice and pick you!



## **But how do we double?**

1. More “At Bats”
2. Improve your batting average

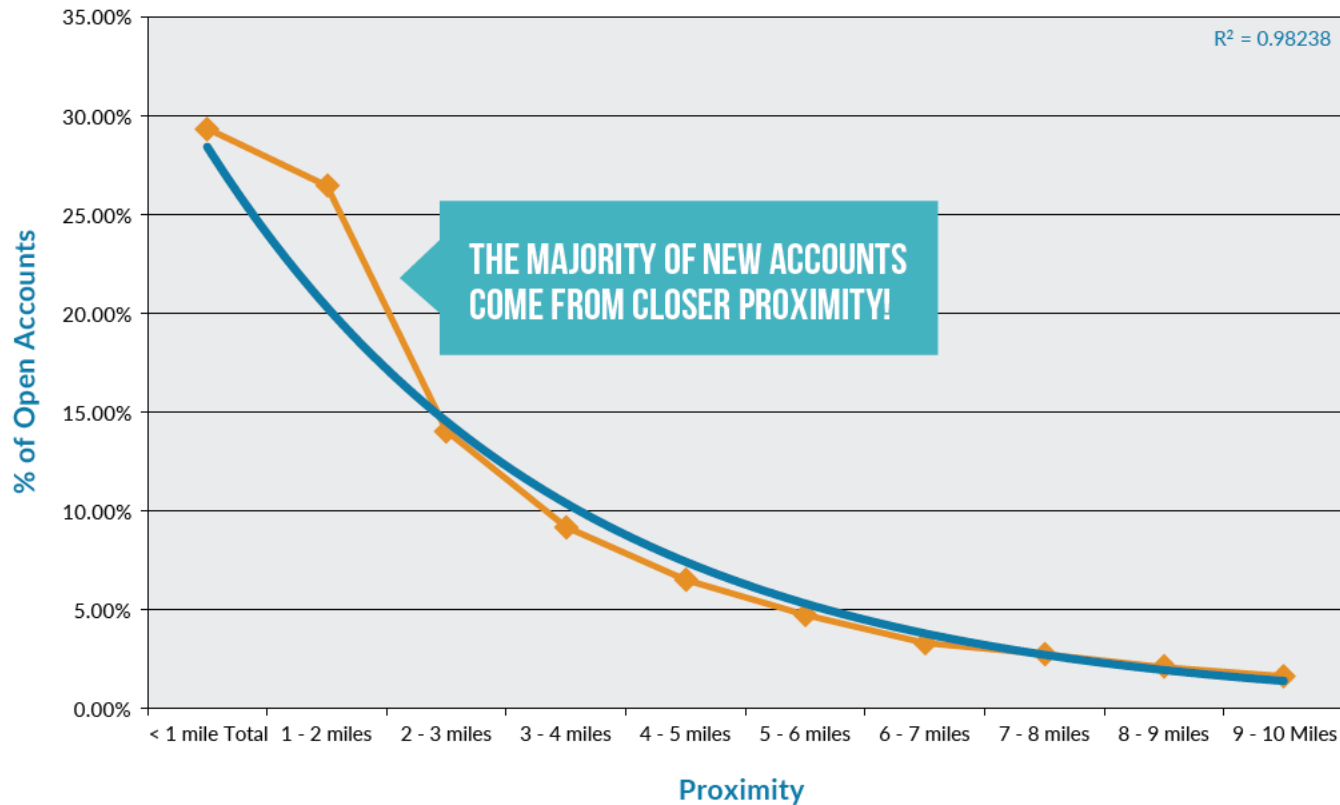


## More “At Bats”

- Effective marketing can bring in many more prospects
  - Can’t convince anyone to switch
  - The right message at the right time to the right prospect
  - TARGETING is key
  - Leverage referrals

# Convenience is still #1

## CONVENIENCE - OPEN ACCOUNTS BY PROXIMITY





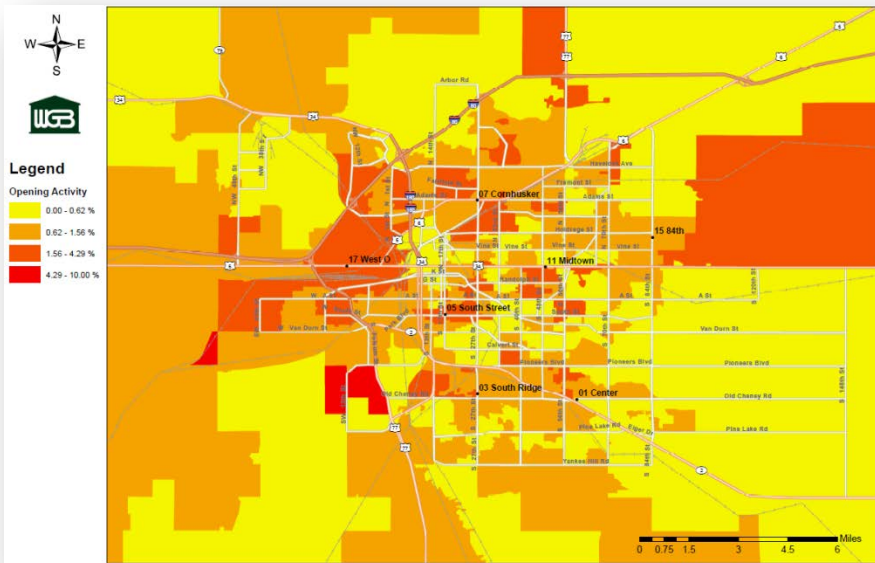
## How do we find prospects that find you convenient?

- **Demonstrated Convenience**
  - They are the neighbors of the customers you already have
  - They live around your branches
- **Predicted Convenience**
  - They work around your branches
  - They walk, shop or eat nearby your branches with regularity
  - They drive by your branches

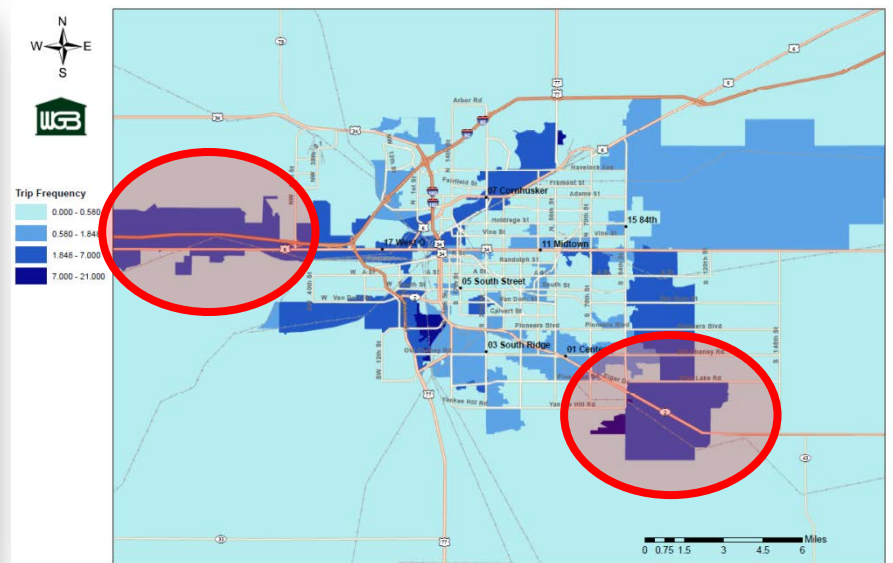
# Targeted Marketing



Demonstrated Convenience



Predicted Convenience





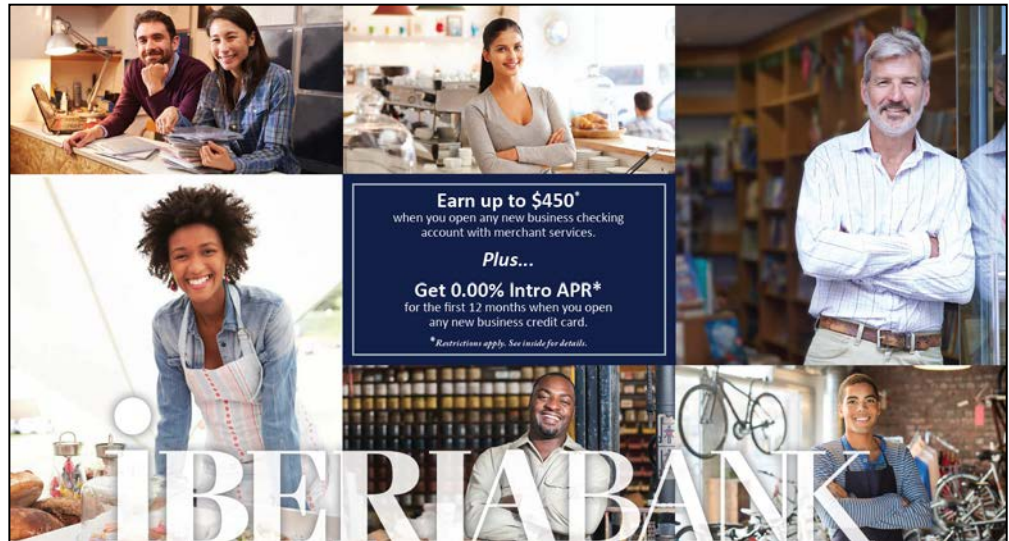
# Targeted Marketing

## Get the Job Done! Simply **FREE** Checking and The Building Box<sup>®</sup> Tool Set

- FREE** Online Banking and Bill Pay
- FREE** Mobile Banking
- FREE** Debit Card
- FREE** The Building Box<sup>®</sup> Tool Set when you open any new checking account



[www.citysavingsbank.com](http://www.citysavingsbank.com)



**Earn up to \$450\***  
when you open any new business checking  
account with merchant services.

*Plus...*

**Get 0.00% Intro APR\***  
for the first 12 months when you open  
any new business credit card.

\*Restrictions apply. See inside for details.

# IBERIA BANK



## Digital Targeting is getting better

- Always be Testing
- In the past, many community banks have tried digital marketing, but the cost of acquisition was not optimal
- But, that is potentially changing:
  - 68% of all electronic ads served today have location-based data associated with them
  - No longer “spraying”
- Geo-fencing
- IP Matching

# Leverage Referrals



## Tell-A-Friend

about Simply FREE Checking and you'll both get this FREE gift!



**We Connect  
with you.**



CalPak® Duffel

Refer your friends and family at [www.refermetairiebank.com](http://www.refermetairiebank.com)



## **Increasing your “Batting Average”**

- Have great products
- Ask for the business
- Quit saying “No” so much



## Ways we say “No”

- Bad/Complex product
  - Designed to never have an unprofitable customer
  - If it isn't easy to understand, the consumer automatically assumes there is a “gotcha”
  - How complex is the disclosure in advertising - if you have to use a lot of \* it's too complex





## Ways we say “No”

- Policy
  - What type of ID do I need?
  - Does my spouse need to be here?



## Ways we say “No”

Category	ChexSystems Users	ChexSystems Non-Users
NSF Frequency	3.64	4.62
Principal Losses	\$3.24	\$4.69
Net Fee Revenue (after losses)		+ \$28.29
Accounts Opened (per branch/yr)		+ 43





## But can all this really make a difference?

- You get, on average, 3 to 5 shots per week per office.
- With effective marketing, you can make that 6-10 shots per week per office.
- Have great product, ask for the business, and say “Yes” more and over time you can **DOUBLE** the total number of customers per office!



## Who are these new customers?

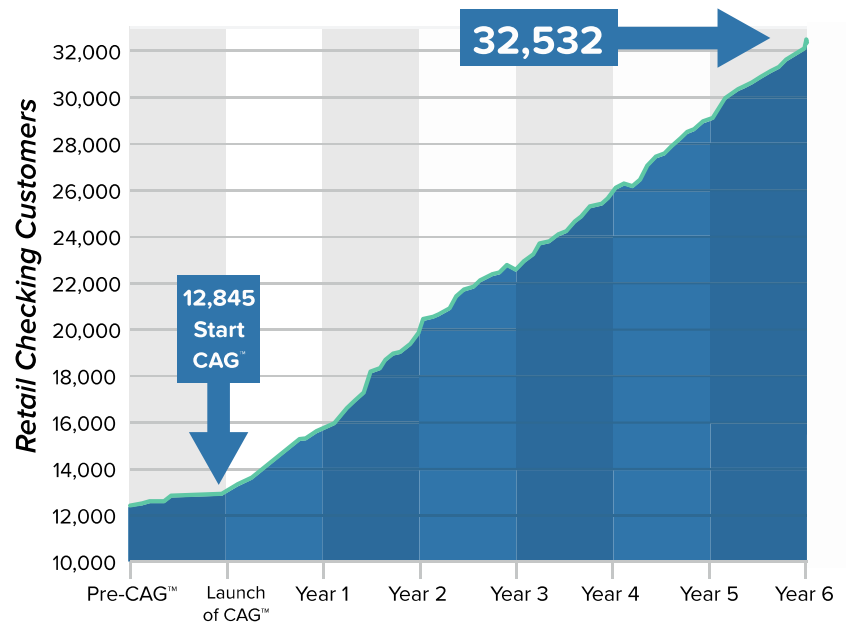
- the new customers you will get will look pretty much like the customers you are already getting. If you want different looking customers, move your branches.

## Case Study – 15 Office Community Bank

**CAG™ Strategy Result since Kickoff:  
19,687 Additional New Retail Checking Accounts;  
1,312 per Office**

**\$179.6** million in new deposits  
and

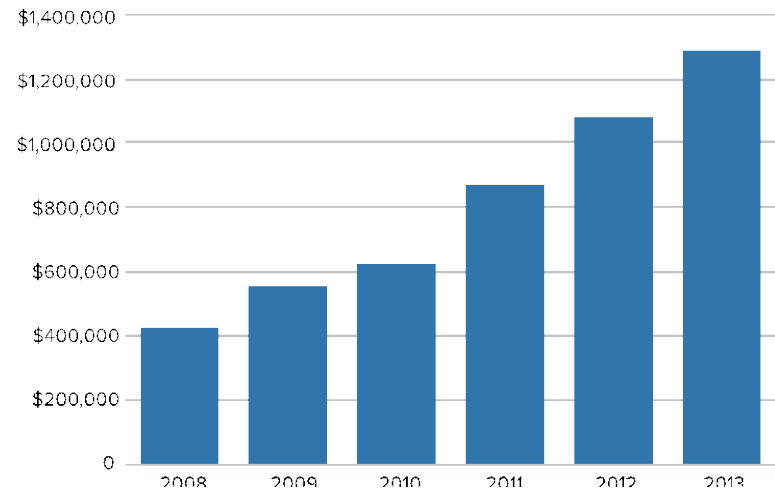
**\$82.8** million in new loans in six  
years of partnership  
(retail and business)



## Case Study – 15 Office Community Bank

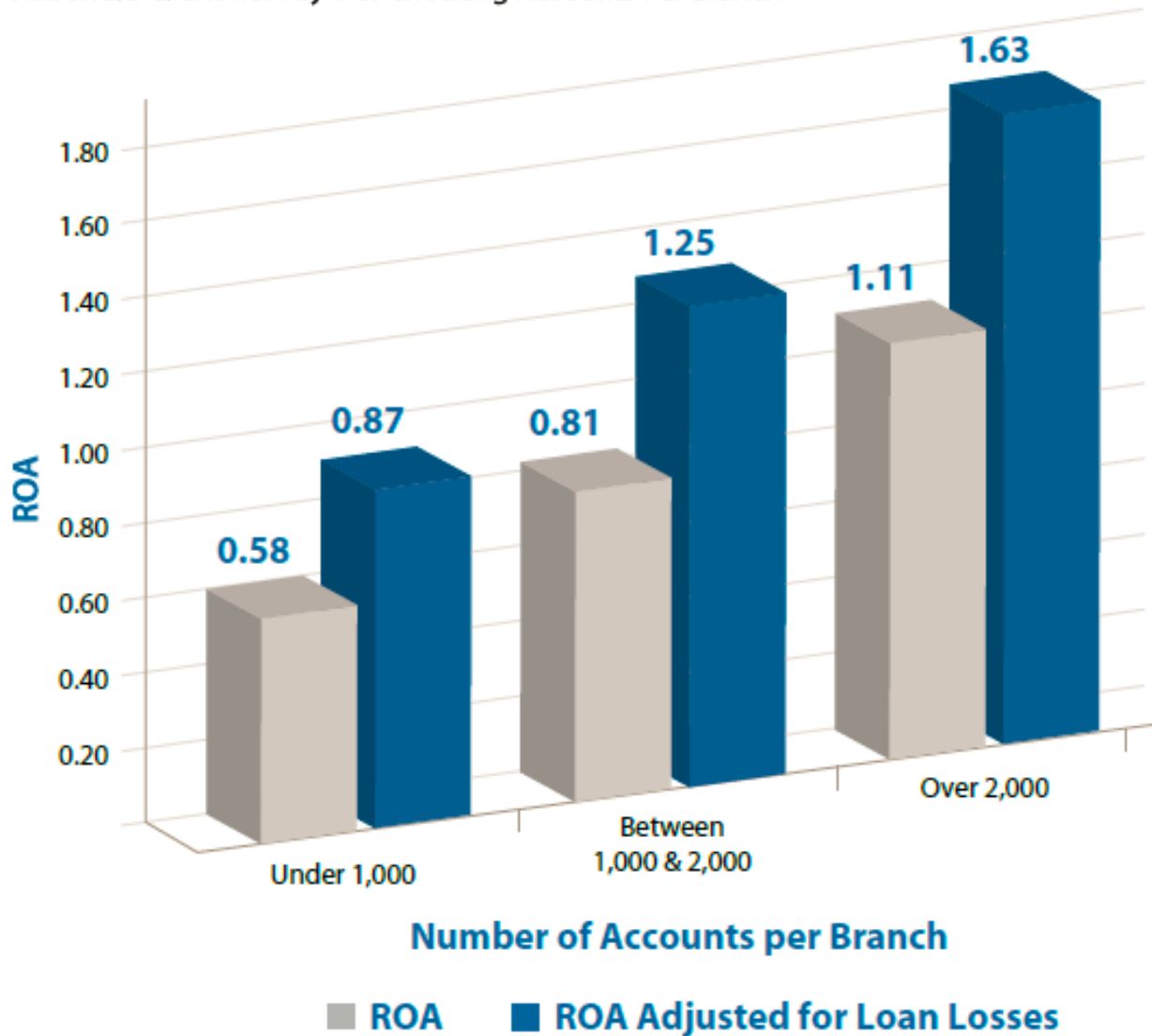
**CAG™ Strategy Result:**  
**\$1.3 Million in Annual Interchange Income in Year 6**

This bank has  
**Tripled**  
it's annual Interchange Income  
in six years



# More Customers = Better ROA

Haberfeld Client ROA by # of Checking Accounts Per Branch



**Opportunities to grow Fee Income**  
***without raising fees***

## The Debit Card

- Continues to be a key “fulcrum” of profitability

Historical Focus

Client Case Study Average	% Accounts	Avg Bal	NSF Freq	Debit Card Activity		Revenue Streams			
				Avg Swipes	Avg Spend	NSF	Card	Spread	Contrib
1-Non-Taker	35.73%	\$ 12,381	0.89	-	\$ -	\$ 24	\$ -	\$ 279	\$ 303
2-Non-User	18.45%	\$ 6,302	1.43	-	\$ -	\$ 39	\$ -	\$ 142	\$ 180
3-Light-User (1-5 Swipes)	10.00%	\$ 4,418	2.57	2.62	\$ 174	\$ 69	\$ 21	\$ 99	\$ 190
4-Moderate-User (6-20 Swipes)	14.08%	\$ 3,302	3.81	12.20	\$ 593	\$ 103	\$ 71	\$ 74	\$ 248
5-Heavy-Users (Over 20 Swipes)	21.74%	\$ 2,495	4.60	49.35	\$ 1,885	\$ 124	\$ 226	\$ 56	\$ 407
<b>Totals</b>	<b>100.00%</b>	<b>\$ 7,036</b>	<b>2.38</b>	<b>12.71</b>	<b>\$ 511</b>	<b>\$ 64</b>	<b>\$ 61</b>	<b>\$ 155</b>	<b>\$ 284</b>

Today's World

## The Debit Card: Historical Profitability

Debit card users provide more fee revenue than non-users

Item	2000 Average	2015 Average	2015 Active DC Users
NSF Fees	\$ 117	\$ 90	\$ 126
Other Fees	\$ 9	\$ 9	\$ 6
Card Revenue	\$ 12	\$ 50	\$ 82





## The Debit Card: Activation & Usage Campaigns

You can impact customer's debit card usage by asking (and **rewarding**) them for a behavioral change

### Up the Engagement Ladder...

- **Non-Taker/Non User:** take the card, use it once during the offer
- **Low-User T10** (1-9 swipes/month over 90 days): use the card 10 times/month during offer
- **Moderate-User T20** (10-19 times/month over 90 days): use the card 20 times/month during offer.



## The Debit Card: Activation & Usage Campaigns

- We recommend marketing 2x-3x times per year
  - Spring
  - Back-to-school time
  - Ahead of the Christmas shopping season
- We recommend a simple offer:
  - \$5 / \$10 cash or gift card for increased usage
  - Grand Prize/Sweepstakes
- Move users up the engagement ladder:
  - Non-Takers become users
  - Low users become heavy users

**PremierBank Texas**  
Member FDIC  
A Branch of Providence Bank

This **SPRING** one card  
will get you **MORE!**

Get **\$10** FREE when you use  
your debit card this spring!



## Use Your FREE TFB Personal or Business Debit Card in April And You Could Win 1 of 3 Apple® iPad® Air 2s!

Simply use your TFB debit card in April for your chance to win 1 of 3 Apple® iPad® Air 2s! The more you use your TFB debit card, the more times you are entered to win. So start using your card today!

(No purchase necessary. See back side for details)

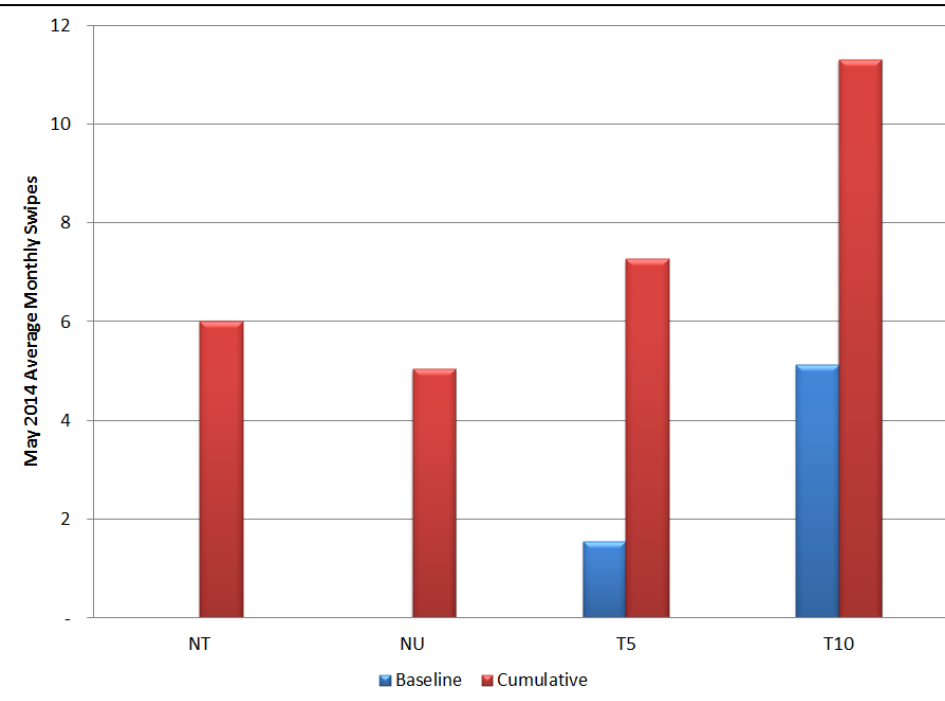
[www.TFB.bank](http://www.TFB.bank)  [Fauquierbank](https://www.facebook.com/Fauquierbank)

**TFB** The Fauquier Bank  
Banking and Wealth Management Services

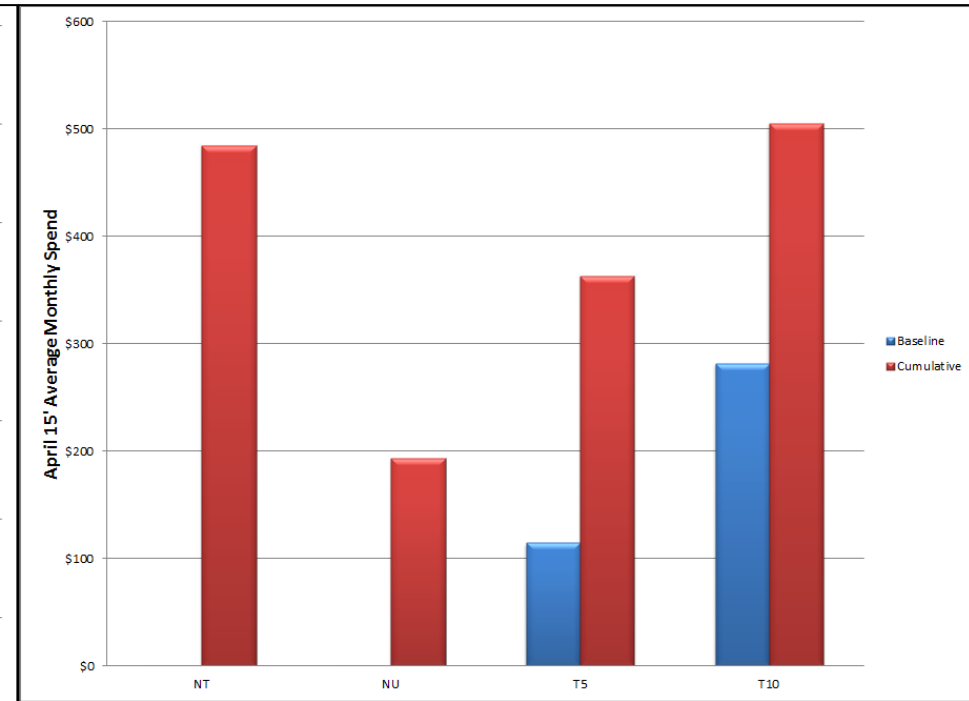


# The Debit Card: Activation & Usage Campaigns

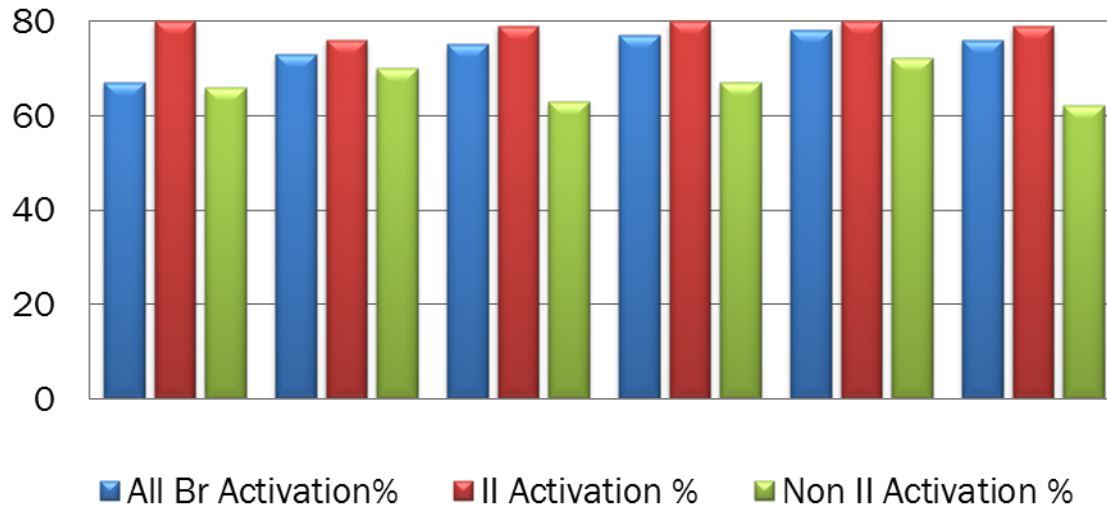
## Average Monthly Swipes



## Average Monthly Spend



## The Debit Card: Value of Instant Issue



New customers at branches offering instant issue:

- Debit Card activation is 15% higher
- Swipes per card is 20% higher
- Spend per card is 20% higher

# Reg - E

What is your banks Philosophy?

# Reg-E

**FIRST STATE BANK**  
 Get the service you deserve.  
 660 Central Avenue, P.O. Box 295  
 Barboursville, WV 25504  
 Date

<Name 1>  
 <Name 2>  
 <Address 1>  
 <Address 2>  
 <City State Zip>

ACTION IS BEING REQUESTED for your checking account ending in <XXXX>.

Your banking relationship is important to us; and as a valued customer, we want to keep you informed of all your OVERDRAFT options.

We now offer debit card overdraft services that can be used as a back-up plan to cover an unexpected expense and prevent a debit card or ATM transaction from being declined.

**Debit Card Overdraft Service**  
 When you add this service, ATM and everyday debit card transactions may be approved at the bank's discretion when you do not have enough money in your checking account to cover your transactions. If you add this service, the following will apply:

- \$27.87 overdraft fee each time we pay an overdraft. Maximum of 6 per day.
- No fee if you transfer or deposit funds to cover the overdraft on the same business day.

If you do not add this service, your account will remain the same.

**Other Overdraft Services**  
 If you are looking for other overdraft services, we also offer automatic transfer of funds from another savings, checking account, or line of credit (for qualified applicants).

To sign up for the Debit Card Overdraft Service, simply complete the enclosed form and return it to us in the postage paid envelope. Or, you may call or stop by any branch location to give us your authorization.


Thank you for banking with us.

Sincerely,

*Sam Vallandingham*

Sam Vallandingham  
 President/CEO

**CALL** 1-800-482-7640  
**CLICK** www.fsb-wv.com  
**VISIT** Stop by your nearest banking center today!

 1 1547010R4

**FIRST STATE BANK**  
 Get the service you deserve.

### What You Need to Know about Overdrafts and Overdraft Fees

An overdraft occurs when you do not have enough money in your account to cover a transaction, but we pay it anyway. We can cover your overdrafts in two different ways.

- We have standard overdraft practices that come with your account.
- We also offer overdraft protection plans, such as a link to another account or a line of credit for qualified applicants, which may be less expensive than our standard overdraft practices. To learn more, ask us about these plans.

This notice explains our standard overdraft practices.

➤ **What are the standard overdraft practices that come with my account?**

We do authorize and pay overdrafts for the following types of transactions:

- Checks and other transactions made using your checking account number
- Automatic bill payments

We do not authorize and pay overdrafts for the following types of transactions unless you ask us to:

- ATM transactions
- Everyday debit card transactions

We pay overdrafts at our discretion, which means we do not guarantee that we will always authorize and pay any type of transaction.

If we do not authorize and pay an overdraft, your transaction will be declined.

➤ **What fees will I be charged if First State Bank pays my overdrafts?**  
 Under our standard overdraft practices:

- We will charge you a fee of up to **\$27.87** each time we pay an overdraft.
- The maximum number of overdraft fees that we can assess is limited to 6 per day.

➤ **What if I want First State Bank to authorize and pay overdrafts on my ATM and everyday debit card transactions?**

If you also want us to authorize and pay overdrafts on ATM and everyday debit card transactions, call any banking center or complete the form below and present it at any banking center or mail it to: The First State Bank, 660 Central Avenue, P.O. Box 295, Barboursville, WV 25504.

**You may revoke your consent at any time.**

\_\_\_\_\_

I want First State Bank to authorize and pay overdrafts on my ATM and everyday debit card transactions.


Last 4 Digits of Account Number: \_\_\_\_\_  
 (Regulations require a separate form for each of your checking accounts)

Printed Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Phone: \_\_\_\_\_

Date: \_\_\_\_\_

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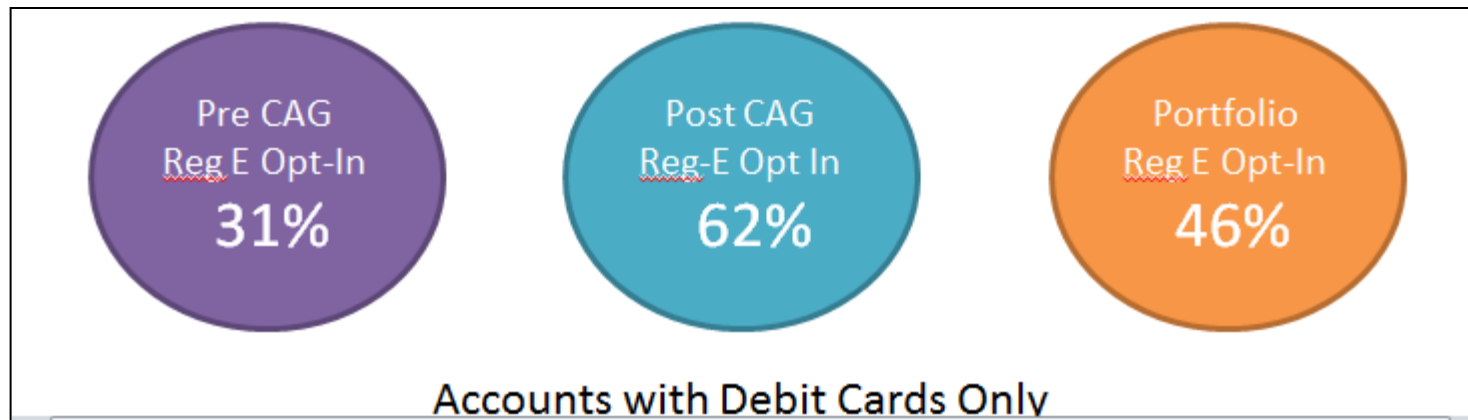
## Reg E

- The goal is not to maximize Opt-In
- We want to increase response rate
  - Opt in, Opt Out, **No Response**
    - Do you track these?
    - Make it easier to target for future campaigns
- Educate your customers
- What can you do
  - Reg-E “Campaigns”
  - Customer focused *Debit Denial Calls*



## Reg E

- Client A



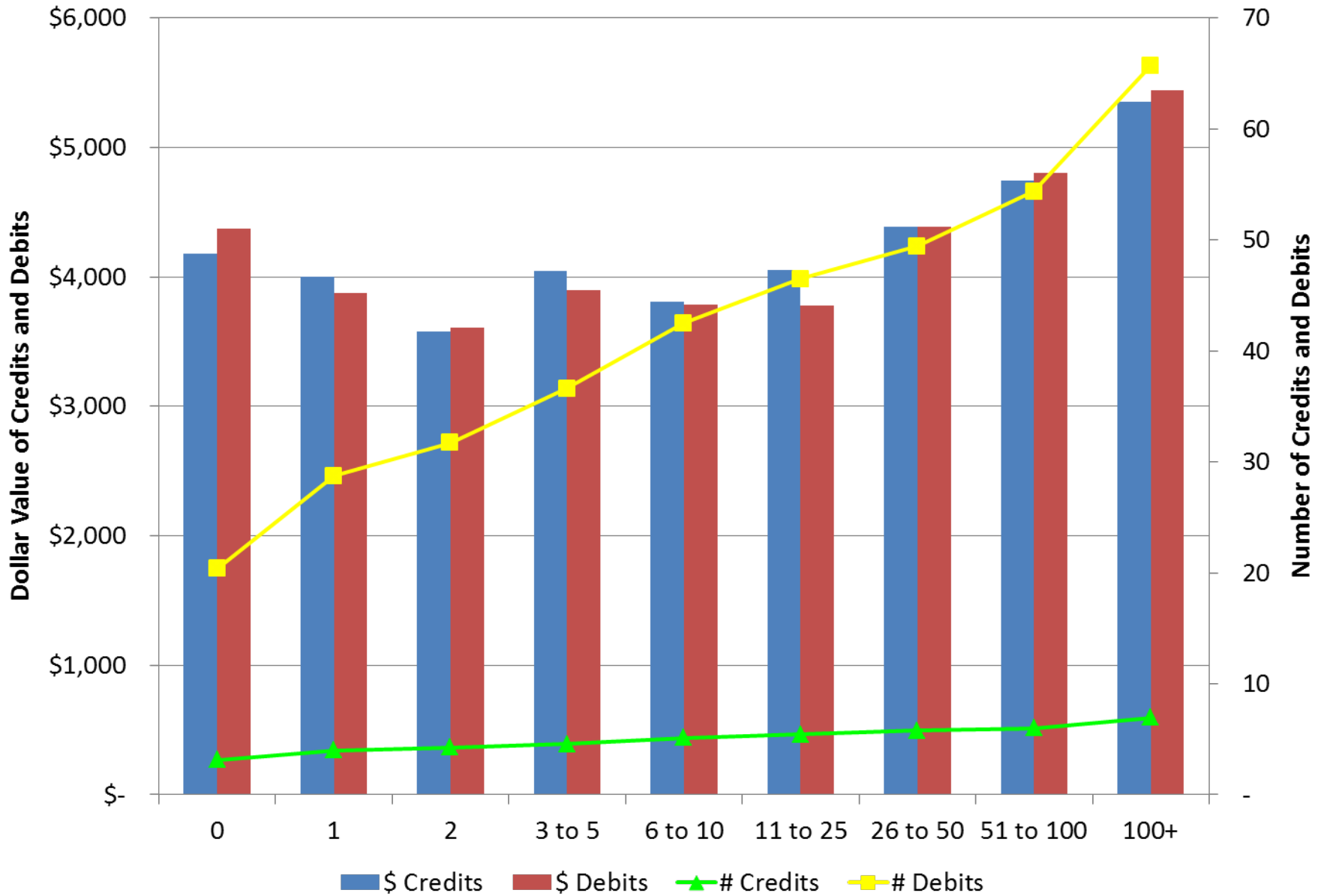
- Client B – Traditional Opt Out Client
  - Started with 3.3% Opt in Rate
  - Did one campaign dedicated to Reg E
  - Increased to 10% Opt In Rate

## Overdraft Bucket Case Study

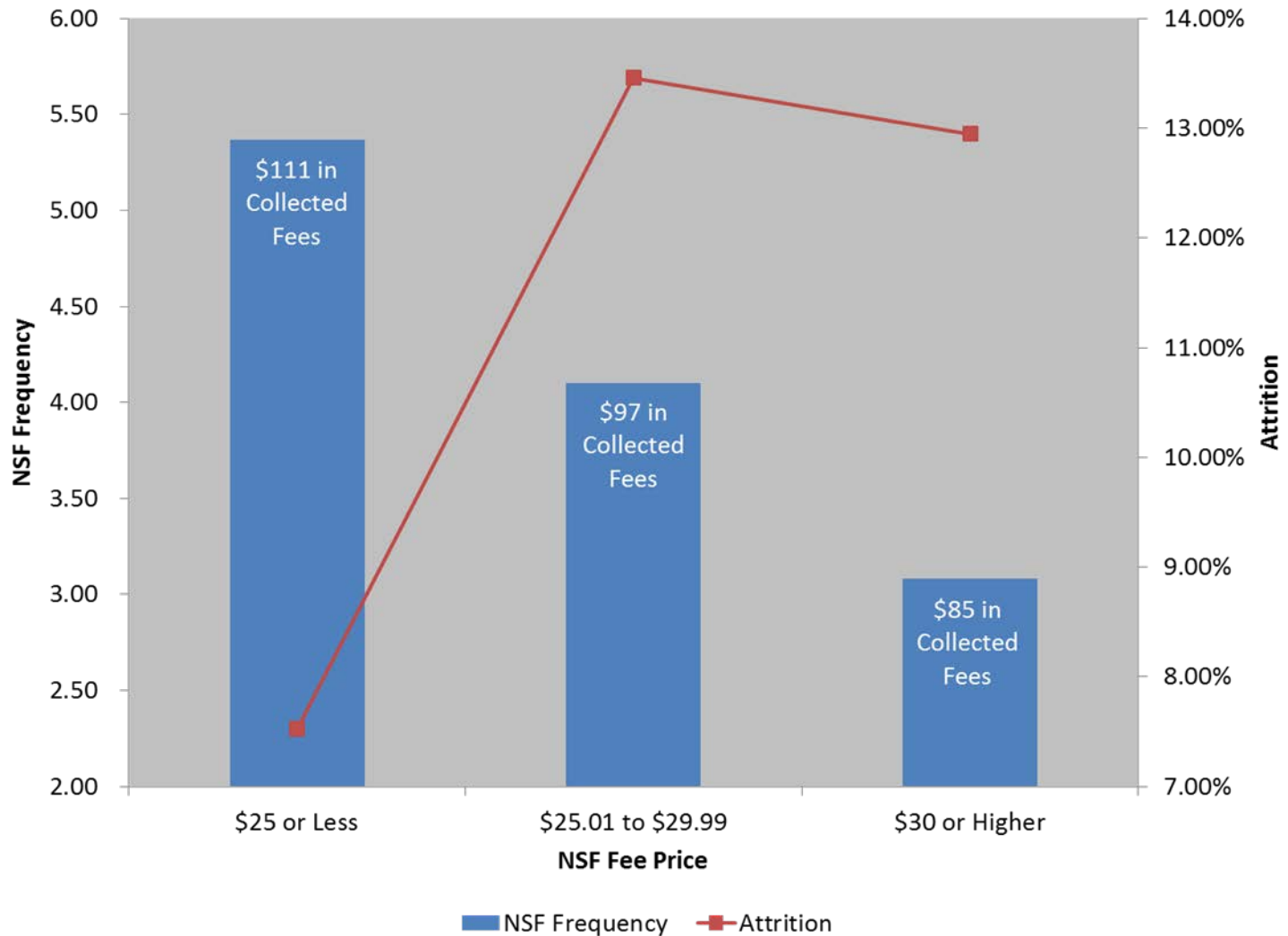
Bucket	PercentAccts	AvgBal	NSFFreq	% Items	\$ Credits	\$ Debits	# Credits	# Debits
0	70.33%	\$7,966.83	-	0.00%	\$ 4,180.46	\$ 4,372.66	3.13	20.38
1	7.53%	\$1,668.32	1.02	2.30%	\$ 3,999.29	\$ 3,875.18	3.99	28.75
2	4.34%	\$1,393.09	2.01	2.61%	\$ 3,577.91	\$ 3,610.95	4.24	31.74
3 to 5	6.08%	\$1,404.71	3.82	6.95%	\$ 4,044.23	\$ 3,898.27	4.58	36.61
6 to 10	4.27%	\$1,079.13	7.68	9.82%	\$ 3,805.28	\$ 3,788.00	5.12	42.51
11 to 25	4.16%	\$ 836.81	16.35	20.37%	\$ 4,051.79	\$ 3,775.84	5.44	46.48
26 to 50	1.91%	\$ 651.53	35.47	20.31%	\$ 4,386.74	\$ 4,386.93	5.76	49.44
51 to 100	1.01%	\$ 445.91	68.99	20.91%	\$ 4,742.93	\$ 4,806.19	5.99	54.38
100+	0.38%	\$ 213.34	146.42	16.71%	\$ 5,349.16	\$ 5,442.31	6.95	65.71
Overall	100.00%	\$5,972.80	3.34	100.00%	\$ 4,125.11	\$ 4,232.28	3.61	25.59

12% of Accounts write 88% of  
OD/NSF items

# Credits and Debits by NSF Bucket



# Attrition, NSF's, and Fee Revenue





## In Summary

- You can raise fees and probably make more money this year, but that may be short term gain at the sacrifice of the long term opportunity
- An Opportunity - Make up for the lost fee income by:
  - Doubling new customer acquisition (this is a great time to pick them off)
  - Enhancing fee income without raising fees

**THANK YOU!**

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