



Performance Measurement



Strategic Management



Profit & Process Improvement



Board & Management Advisory Services



Financial Advisory

## TKG Perspective

### Watch for Us

#### Teaching/Speaking Engagements

##### Maine Bankers Association

**Bank Expo**  
 Holiday Inn by the Bay, Portland  
 Portland, ME **April 11**  
*How to Make Operating Efficiency a Part of Your DNA Enhancing the Efficiency Ratio and Positive Operating Leverage*

##### Louisiana Bankers Association

**Annual Convention**  
 JW Marriott Las Vegas Resort and Spa  
 Las Vegas, NV **May 8**  
*Retail Product Profitability Trends and Ideas*

##### Pennsylvania Bankers Association

**Annual Convention**  
 The Greenbrier  
 White Sulphur Springs, WV **May 19**  
*Who Has Mentored You?*

##### Pennsylvania Association of Community Bankers

**Directors Conference**  
 Hershey Lodge  
 Hershey, PA **June 4**  
*Overview of Strategic Planning for Directors*

##### Pennsylvania Bankers Association

**PBA School of Banking**  
 The Penn Stater Conference Center  
 State College, PA **June 6**  
*Strategic Decision Making and Organizational Structure*

##### American Bankers Association

**School of Bank Marketing and Management**  
 Emroy Conference Center Hotel  
 Atlanta, GA **June 23**  
*Product and Customer Management Profitability and Strategic Issues*

##### Pennsylvania Bankers Association

**PBA Advanced School of Banking**  
 The Penn Stater Conference Center  
 State College, PA **July 14-19**  
*How Do Banks Make Money?*

### Business Checking: Not Profitable?

By Jeffrey P. Marsico, Executive Vice President

Does it make sense for business bankers to seek core deposits from their customers? This question was posed to me by a senior lender at a Northeast bank that had a declining loan to deposit ratio which was putting pressure on the bank's net interest margin. This story is all too common in the current economic environment.

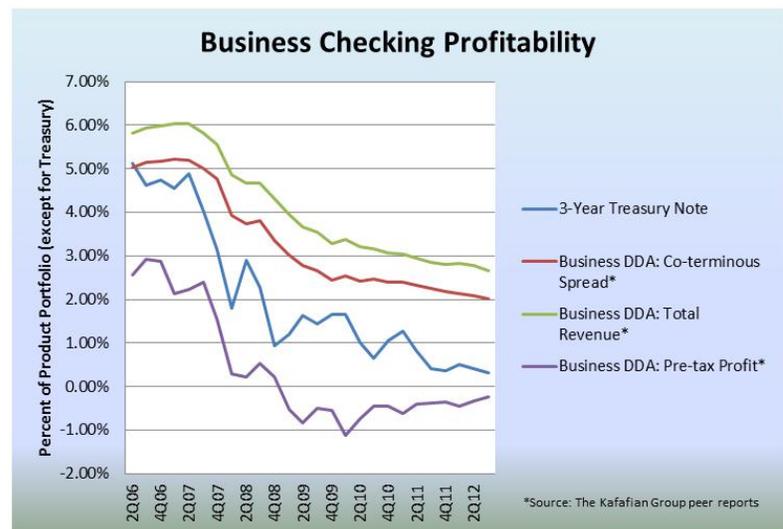
My answer, an unequivocal yes. Why? Because large financial institutions were being ornery to small businesses by tightening credit standards and generally being non responsive, creating an environment ripe for community bank plundering. I told the bank to hunt when the hunting was good, not when they were hungry.

The more technical answer is more complex. According to their product profitability reports, the Bank's business checking was unprofitable. That's right, unprofitable. See the chart below for TKG profitability peer group business checking trend charts. Regulators and the "free" everything mentality we perpetuated put heavy pressure

on checking fees. The interest rate environment is putting even heavier pressure on the spread.

The chart shows trends of four data points: the 3-year Treasury Note to provide context for the declining spread; business DDA total revenue that includes coterminous spread plus fees as a percent of business checking balances; coterminous spread; and pre-tax profit. Coterminous spread is defined as an interest credit of a similar duration market instrument (such as an FHLB borrowing) less interest expense. Which in the case of non-interest bearing checking, is zero.

Following the ski-slope progression of the Treasury, total revenue suffered a 314 basis points decline from the second quarter 2006 until the third quarter 2012. While revenue was declining, the operating expense per business checking account rose from \$680 to \$844 per account for the same period. The obvious result is that business checking turned unprofitable in the first quarter 2009 and has yet to recover.



## Teaching/Speaking Engagements, Cont.

**Pennsylvania Bankers Association**  
*PBA Advanced School of Banking*  
The Penn Stater Conference Center  
State College, PA **July 15**  
*Information Strategy*

**Maryland Bankers Association**  
*Banking School*  
University of Maryland Inn &  
Conference Center  
College Park, MD **July 29**  
*Financial Statements*

**Pennsylvania Association of Community Bankers**  
*Annual Convention*  
Boston Marriott Copley Place  
Boston, MA **September 23**  
*Things I Think Banks Should Do, But Generally Don't*

## Conferences & Conventions

**New Jersey Bankers Association**  
*Annual Convention*  
The Breakers  
Palm Beach, FL **May 15-19**

**Pennsylvania Bankers Association**  
*Annual Convention*  
The Greenbrier  
White Sulphur Springs, WV **May 19-22**

**Maryland Bankers Association**  
*Annual Convention*  
The Breakers  
Palm Beach, FL **June 2-5**

**North Carolina Bankers Association**  
*117<sup>th</sup> Annual Convention*  
The Homestead  
Hot Springs, VA **June 8-12**

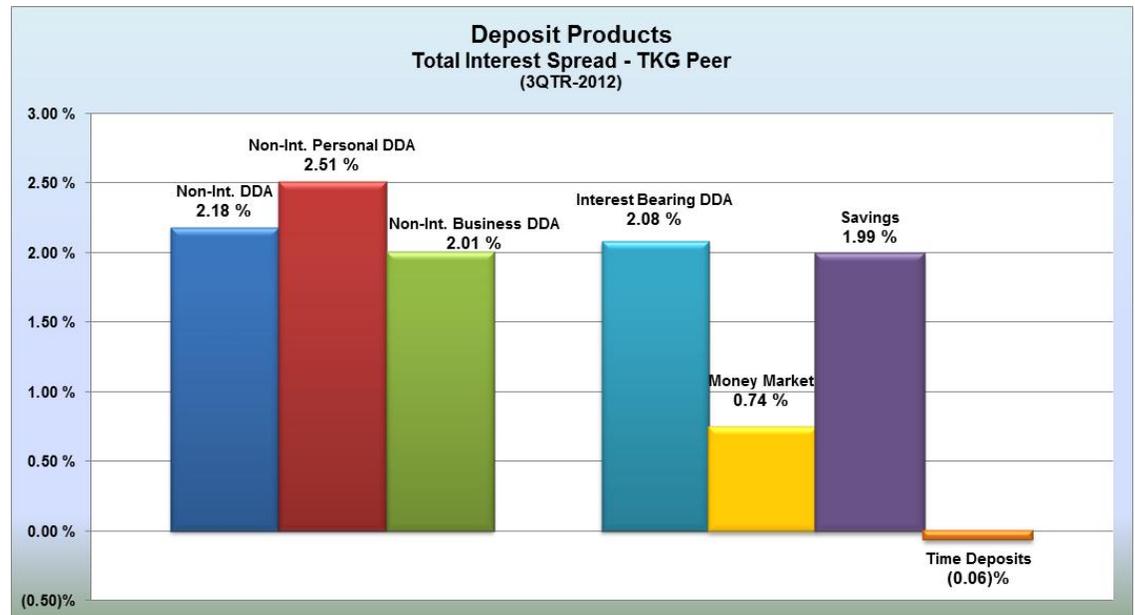
**Florida Bankers Association**  
*Annual Convention*  
The Boca Resort & Club  
Boca Raton, FL **June 10-13**

**New York Bankers Association**  
*Symposium for Senior Executives and Directors*  
The Breakers  
Palm Beach, FL **June 10-12**

**Virginia Bankers Association**  
*120<sup>th</sup> Annual Convention*  
The Homestead  
Hot Springs, VA **June 16-19**

**Pennsylvania Association of Community Bankers**  
*136<sup>th</sup> Annual Convention*  
Boston Marriott Copley Place  
Boston MA **September 20-23**

So why pursue business checking? The answer is because bank costs are mostly fixed. Sure bankers are evaluating their operating infrastructure and processes to reduce cost, as they should do periodically. But, absent cost reduction initiatives, costs don't shift much, if at all, on a per account basis unless account totals grow. Even in today's low-interest rate environment, interest checking has an interest spread of 2.08% (see chart below) and total revenue of 2.67% of its balances. Although non-interest personal checking has greater spread, business checking delivers greater revenue per account due to higher average balances.



Another reason to pursue business checking is because the sales cycle to win a core deposit business relationship is typically longer than the sales cycle to win a commercial loan. It would be convenient to fund loans with core deposits on an as-needed basis. But that simply does not reflect reality.

If you would like to fund a \$2.5 million commercial real estate transaction with core deposits, you need 100 business checking accounts, based on TKG's peer group average deposit size per account. How long does it take your institution to acquire 100 net new business checking accounts? Business deposit acquisition takes advanced planning.

In summary, on the face of it spending scarce resources on business checking makes little sense. Most financial institutions are awash in liquidity, there is little loan demand, qualified investments are at historically low yields, and business checking is currently unprofitable.

But those that forget the past are destined to repeat it. Time deposits and wholesale funding became prolific in the mid 2000's, when loan pipelines grew faster than our ability to fund them. The recession has given us the opportunity to right-size our funding sources. Why set us up to repeat our previous lack of planning? Now is the time to win relationships, increase business customer loyalty, and enhance the value of our franchise over the long term.

TKG, as part of our consulting and advisory engagements, frequently evaluates our industry, its trends, successes, and challenges. We are pleased to share our thoughts with you, our valued clients and friends, in the form of this periodic newsletter. If you would like to discuss anything further, or learn more about our performance measurement, strategic planning, regulatory assistance, profit/process improvement or financial advisory services, please call us at (973) 299-0300 or visit us at [www.kafafiangroup.com](http://www.kafafiangroup.com).

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