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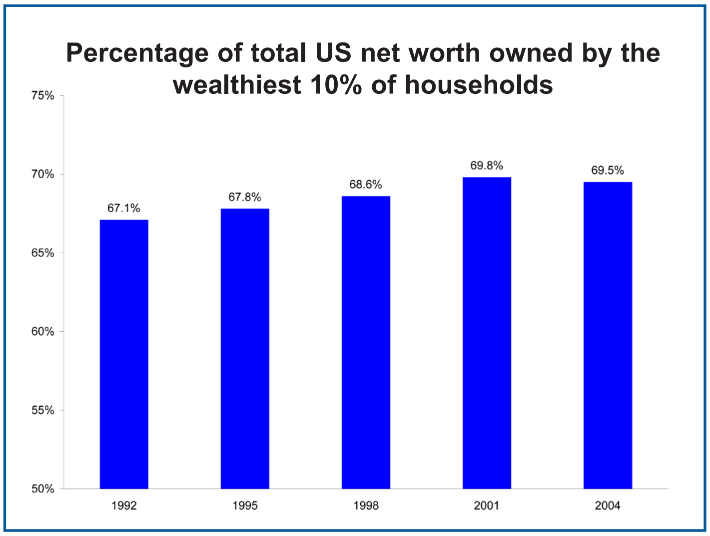
Findings from the Survey of Consumer Finances

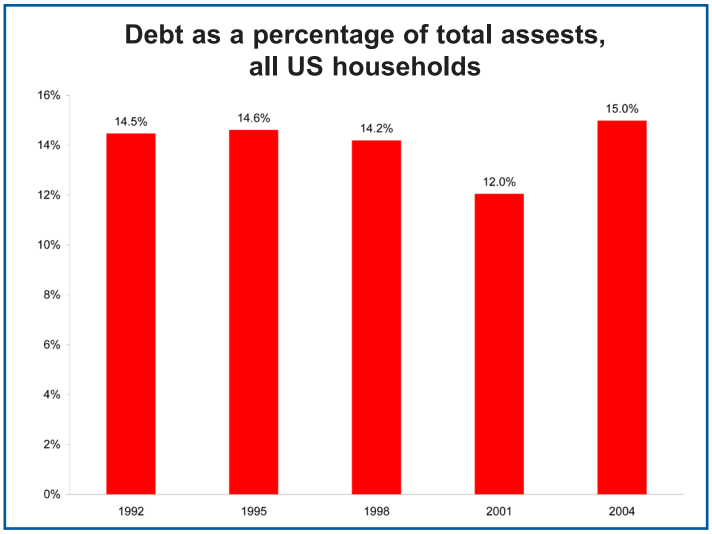
In the spring of 2006, the Federal Reserve Board released its 2004 Survey of Consumer Finances, a comprehensive survey of consumer financial behavior. The SCF is conducted triennially, with the latest edition conducted in late 2004. It addresses banking habits, savings, investments, borrowing, and wealth accumulation. In providing information on financial holdings cross-tabbed by demographic segment, the SCF forms the basis for many models we employ at Bancography, including those underlying the product demand model in our *Bancography Plan* software tool.

Because the SCF employs a standardized question set administered every three years, it is especially beneficial for examining broad trends in the financial behavior of American consumers. Several interesting trends emerged from the most recent survey.

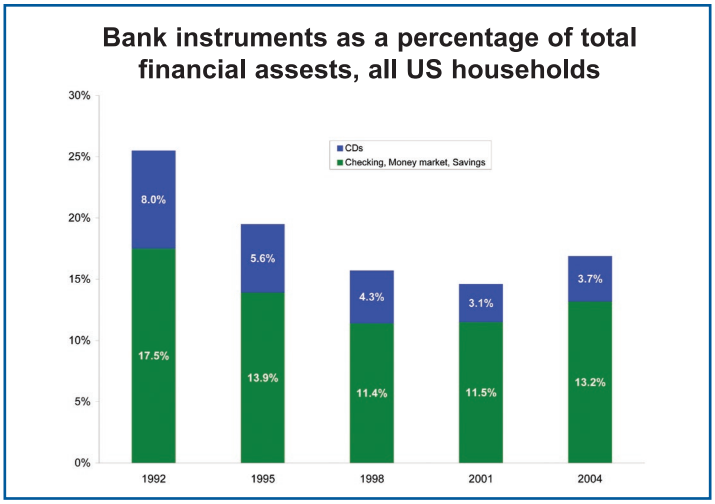
- After steadily increasing during the 1990's, the concentration of wealth in the US stabilized since the last survey. The wealthiest 10% of American households now control 69.5% of the nation's aggregate net worth, about the same proportion as in 2001 but two percentage points higher than in 1992.



- Total debt holdings of US households increased in 2004 after a decline in 2001. The 2001 decline resulted more from a drop in asset levels than from an increase in debt. Despite broad fluctuations in the stock market and housing markets, this ratio has remained remarkably constant, suggesting that consumers adjust debt levels Aggregate consumer debt now represents 15% of aggregate consumer assets and 42% of total financial assets. Residentially secured debt (first mortgages, second mortgages, and home equity loans and lines) account for 75% of total consumer debt.



- The share of financial assets in banking instruments increased to 17% after consistent declines over the prior ten years. Liquid accounts (checking, money market, and savings) account for 13% of consumer financial assets while CDs account for 4%. Liquid retirement accounts such as IRAs and 401k's represent 32% of consumer financial assets, the largest proportion of any instrument type.



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Small Business: Needs versus Reality

Small businesses are small in size, but not in number. The old Mom-and-Pop stores of yesteryear have given birth to a vast array of modest-sized companies and sole proprietorships that – in terms of sheer quantity – have come to dominate the business landscape. And these small businesses have special financial needs that banks too often ignore.

Small Business: Needs versus Reality examines the identity, financial requirements and banking preferences of this profitable and often-loyal business segment. It also offers suggestions and tactics the financial-services industry should pursue to best serve small businesses.

In order to accommodate these businesses, bankers must first understand the traits and characteristics associated with the owners. This white paper gives updated statistical information on the diverse demographics of small businesses, as well as the goals and expectations of their owners. Citing numerous studies conducted by a variety of financial-oriented publications and organizations, ***Small Business: Needs versus Reality*** details what small businesses require to be successful, and what they are looking for in terms of financial assistance.

The white paper then offers a variety of ways for banks to meet the needs of these businesses. It examines such topics as Internet banking, cross-selling, credit-card usage, payroll-processing services and credit-scoring decision systems. Because of time and financial restraints, small-business owners often are in serious need of financial planning, and ***Small Business: Needs versus Reality*** provides suggestions for banks to capitalize on that opportunity.

For example, there was a time when customers who valued service often used small banks, while those who desired convenience used large ones. However, advances in technology have allowed financial institutions of all sizes to offer businesses a multi-channel approach. The accessibility of financial information, combined with the number of transaction options, has created an educated business owner who can compare competitive offerings quickly and easily. So one-to-one marketing must now be the goal of every financial institution.

Studies have shown that small businesses generate more than $200 billion in financial-services revenue per year and can be up to 10 times more profitable than the average retail customer. And with more than $2 trillion in assets and liabilities up for grabs, these businesses are an attractive customer for banks. The key is for banks to know how to attract small businesses to their institutions. ***Small Business: Needs versus Reality*** helps show the way.

For more information or to purchase ***Small Business: Needs versus Reality***, contact us at (205) 251-6227 or *research@bancography.com*. The cost of this white paper is $250.

Findings from the Survey of Consumer Finances

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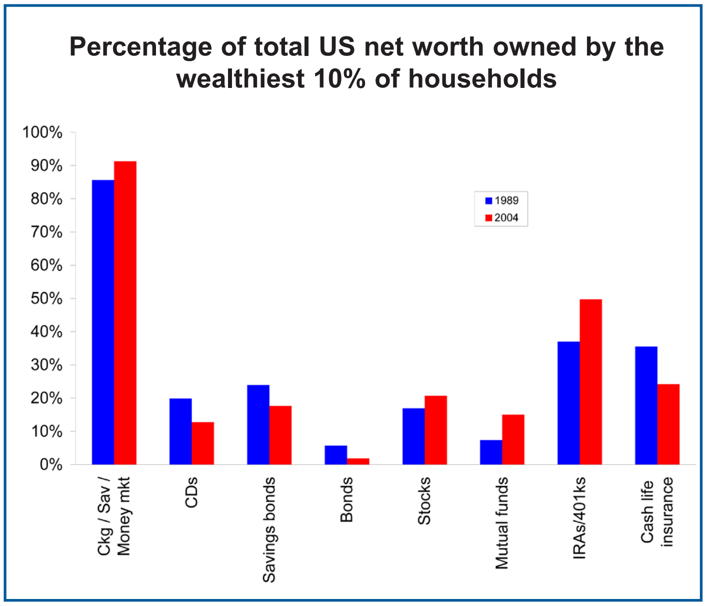
- Over the past fifteen years, the portfolios of American households have changed. A significantly larger percentage of households now own retirement accounts, mutual funds, and stocks than in 1989, but the proportion of households owning CDs and savings bonds has decreased in the past fifteen years.

The SCF offers an invaluable research tool that provides extensive data with which to examine product holdings and banking preferences across demographic segments. It also contains data about transaction behavior, institution selection criteria, and even the distance consumers travel to conduct their banking. This article presents a few high level findings. We will discuss additional findings in future issues of Bancology.

Sources for the statistics above: 2004 Federal Reserve Board Survey of Consumer Finances, Full Public Data Set; and Currents and Undercurrents: Changes in the Distribution of Wealth, 1989 – 2004, Federal Reserve Board



How To Conduct an Onboarding Study

The focus of an onboarding study is to understand what is valued by the customers from their experience opening a new account, loan or mortgage. As Bancography has discovered from extensive research on attrition motives, miscues in the onboarding process by the sales associate, whether through miscommunication or overselling, creates a no-win situation for the institution.

The associate opening the account must make sure that the new customer understands all of the account's rules and policies, i.e, when the debit card will arrive, what fees to expect. If the customer experiences a long wait time for the debit card or an unexpected charge on the statement, he will become dissatisfied with the institution and may move his account. However, if the consumer understands the account policies up front, he will not blame the institution for incurring a fee.

Results from an onboarding study highlight the gap in what sales management expects from the sales staff and what is delivered. Monitoring this gap is commonplace in sales environments. As financial institutions push for the front line to become more sales-oriented, studies like this become more important. A consistently-monitored onboarding process will lead to a higher rate of return on the institution's sales training investment.

Methods

Telephone surveying is the preferred method of data collection due to the control of the respondent; however, some institutions chose to utilize mail in attempt to manage costs.

Sampling

The research sample should consist of new households/ businesses and possibly existing customers who have opened a new product. The new customer sample should be from the past two to four months since the onboarding process may span two months. This time frame allows the household to receive the debit card and checks, initiate online bill pay, and possibly a follow-up phone call from the sales associate.

Instrument

The basic instrument should explore the following areas:

- Reason for selecting the institution
- Satisfaction of the onboarding process (multiple measures)
- Satisfaction of the products and services obtained (multiple measures)
- Likelihood to continue to use and recommend the institution
- Suggestions to improve the process or products obtained

Other questions that can be included explore the identification of the customer's last financial institution and the reason for their departure. Asking the customer for the number of total financial institution utilized to meet their banking needs is an excellent indicator of loyalty and cross-sell.

The Philanthropic Imperative

America's banks have historically served as leaders in their communities' philanthropic efforts. However, the wave of mergers that has transformed the industry over the past twenty years has also eliminated numerous corporate headquarters. Further, geographic expansion by surviving banks has divided scarce corporate resources across an increased number of market areas, and for some banks this has diluted contributions in any one market area. However, even in a period of margin compression, increased competition, and staunch earnings pressure, banks must redouble their philanthropic efforts.

We hope that the traditional altruistic motive for corporate philanthropy persists in the banking industry, but for those bankers seeking to justify charitable wishes with bottom line reality, we offer these arguments in favor of a robust corporate contributions budget.

- Event sponsorships, such as donations to local arts festivals, walkathons, business fairs, and little league teams boost brand awareness and community goodwill. While these may appear as intangible benefits, such donations can be quantified in terms of cost per attendee just as television ads are quantified in terms of cost per viewer. And banks that remain actively engaged in their communities can build perceptual differentiation in an increasingly commoditized industry.

- Rankings of top retirement destinations such as those regularly published by Money and Fortune magazines confirm that strong cultural institutions lure retirees. Contributions to museums, theaters, and other visual and performing arts organizations foster an environment attractive to retirees, a deposit-rich segment that many banks aggressively pursue. Such amenities also prove beneficial in recruiting professionals for positions in bank management. Banks in all but the largest metros often face difficulties in recruiting talented officers, and a vibrant cultural environment can sway a prospective employee's decision in favor of one community versus another.

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The Philanthropic Imperative

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- Contributions to colleges and universities also return benefits to banks. Endowed professorships and support of business school curricula ensure a steady supply of future management talent, and well funded university research centers attract additional grants that bring educated professionals to a community and that also beget entrepreneurial private sector spin-offs.
- Even prospective company relocations can be influenced by the cultural environment a city offers. While many companies select locations based on wage costs or municipal incentives, most still also demand an attractive cultural and educational infrastructure. And the economic growth fueled by both personal and corporate relocations spawns supporting service and retail sector businesses, creating new customer streams for local banks.
- Finally, community leadership by one leading company pressures others to behave similarly. No corporation wishes to be perceived as a laggard in its own community, and bold contributions by one company will challenge and inspire local peers. This helps create a thriving metro in which current and prospective employees and customers embrace their community – and reward the institutions that support it.

Bancography will exhibit at the **BAI Retail Delivery Conference & Expo** November 14 – 16 in Las Vegas. Our booth number is 2444. For more information, visit *www.bai.org/retaildelivery.*

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