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THE ART OF POSITIONING
bancography
BRANCH | PRODUCT | RESEARCH | BRAND

THE TOP-RANKING BANK BRANDS:

ASSETS > $30 BILLION

1. The Northern Trust Company (IL)
2. U.S. Bank (MN)
3. Wells Fargo Bank (MN)
4. JPMorgan Chase Bank (NY)
5. Branch Banking and Trust Co. (NC)
6. Fifth Third Bank (OH)
7. Manufacturers and Traders Trust Co. (NY)
8. Comerica Bank (TX)
9. PNC Bank (PA)
10. Union Bank (CA)

ASSETS $2 BILLION - $30 BILLION

1. Intrust Bank (KS)
2. Woodforest National Bank (TX)
3. Amarillo National Bank (TX)
4. Westamerica Bank (CA)
5. Iberiabank (LA)
6. First United Bank and Trust Co. (OK)
7. American State Bank (TX)
8. Broadway National Bank (TX)
9. The Frost National Bank (TX)
10. BancFirst (OK)

ASSETS $500M - $2B

1. First National Bank Texas
2. FirstBank of Colorado
3. FirstBank of Tech Center (CO)
4. Citizens Security Bank & Trust Co. (OK)
5. Bank of the West (TX)
6. Emprise Bank (KS)
7. First Command Bank (TX)
8. Western National Bank (TX)
9. First State Bank and Trust Company of Valdosta (GA)
10. American Bank (TX)

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The Bancography Brand Value Index: Cost of Funds as the Essence of Brand Strength

Each year, Bancography calculates the Bancography Brand Value Index, a quantitative ranking of the brand strength of all U.S. banks and credit unions. This year's top ranking institutions are shown in the tables in the sidebars. The top banks and credit unions represent a diverse group in terms of geography and strategy. For example, top scoring institutions range from wealth management specialist Northern Trust to mass market oriented Woodforest Bank, which operates most of its branches in Walmart stores. However, one unifying trait held by almost all of the top ranking institutions is a low cost of funds, i.e., the ability to raise deposits without paying excessive rates.

A financial institution's brand is articulated through its name, logo, tagline, branch merchandising, service model and other observable elements. But its cost of funds represents the single best embodiment of the brand's success, in that funding cost literally depicts the consumer's tangible valuation of the institution's intangible benefits.

For a bank to realize a low cost of funds, consumers must be willing to select it even though they could earn higher yields elsewhere. Yet what could possibly lure a self-interested consumer into forgoing potential income? Unlike in the investment arena, there is no tradeoff between risk and reward, since all bank and credit union deposits are federally insured (at least up to the level held by the overwhelming majority of customers) and thus equally secure. The rational consumer would accept a lower yield only if he derives some non-monetary benefit from the institution; whether convenience, service quality, the ambience of the branches or the satisfaction of affiliating with an institution that responsibly serves and supports its community.

In an industry of near homogenous products, those non-monetary differentiators, which can be collectively labeled as the bank's value proposition or brand, are what entice customers to select an institution irrespective of its rates, rather than exclusively because of them. Creating rate-insensitive customers is critical, as every basis point decline in cost (continued on page two)

Findings from 2010 Branch Deposit Statistics

In October the FDIC released its annual branch deposit statistics. As always, the annual release revealed a number of interesting trends about the industry and garnered significant interest in the media. The trend that gained the most attention was the decline in the total number of bank branches, the first such decline in more than a decade. The total number of FDIC-supervised bank branches declined by about 850 offices, or slightly less than 1%. Some industry analysts cited this as the initial evidence of a long-term decline in the number of branches. (Note that this statistic includes bank and thrift branches only, since the NCUA does not report detailed branch level statistics for credit unions). However, the specifics behind the numbers reveal little evidence of a wholesale migration away from the branch network.

- Almost half the decline in the branch inventory was attributable to just two institutions, Wells Fargo and Bank of America, with Wells' actions largely comprised of overlaps with former Wachovia offices.
- Almost 80% of the decline occurred in just eight banks, with in-market overlaps driving most closures, e.g., PNC – National City; BB&T – Colonial; Compass – Guaranty; M&T – Provident.
- In stock market terms, gainers outnumbered losers; that is, more institutions added branches last year than shed branches, indicating no shortage of bank CEOs willing to invest on the premise that branch growth will drive long term profit growth.
- Many of the institutions that closed multiple branches faced severe (continued on page two)

The Bancography Brand Value Index (continued from page one)

of funds flows directly to the bottom line, and also provides a critical margin buffer in the event that credit quality issues unexpectedly emerge.

When entering a new market or promoting a new branch, many bankers instinctively turn to rate-based promotions. Scan any Sunday newspaper and you'll find rate-based appeals dominating financial advertising, too. But the next time you're seeking to attract new customers, before defaulting to a rate-based appeal, consider the following questions. What value does our institution offer beyond just an interest rate? What other factors would lead consumers to choose our institution? Does our institution maintain a value proposition such that customers would be willing to sacrifice a moderate amount of interest income in order to gain the other benefits of banking with us?

If you can not evoke attributes other than rate on which to promote your institution, chances are strong that the brand is weak. In this case, it is imperative to define a value proposition for the institution, a brand promise that lures customers to the institution and binds them to the institution even when a competitor presents a slightly better pricing option. Keep in mind, cost of funds does not cause strong brands; that is, lowering rates does not automatically create a strong brand. Rather, strong brands allow low rates, and building the attributes that create a strong brand will allow your institution to add customers and deposits without jeopardizing profitability.

For more information on Bancography's Brand Value Index and to view a list of the most valuable financial brands, visit *www.bancography.com/bbvi.html.*

THE TOP-RANKING CREDIT UNION BRANDS:

ASSETS > $1 BILLION

1. Austin TELCO (TX)
2. Chevron (CA)
3. EECU (TX)
4. Mountain America (UT)
5. Local Government (NC)
6. University (TX)
7. JSC (TX)
8. University of Wisconsin
9. State Employees' (NC)
10. Landmark (WI)

ASSETS < $1 BILLION

1. Intouch (formerly EDS) (TX)
2. Navy Army (TX)
3. First Community CU of Houston
4. Gwinnett (GA)
5. Complex Community (TX)
6. White Sands (NM)
7. Mennonite Financial (PA)
8. I.L.W.U. (CA)
9. America's Credit Union (WA)
10. AMERICU (NY)

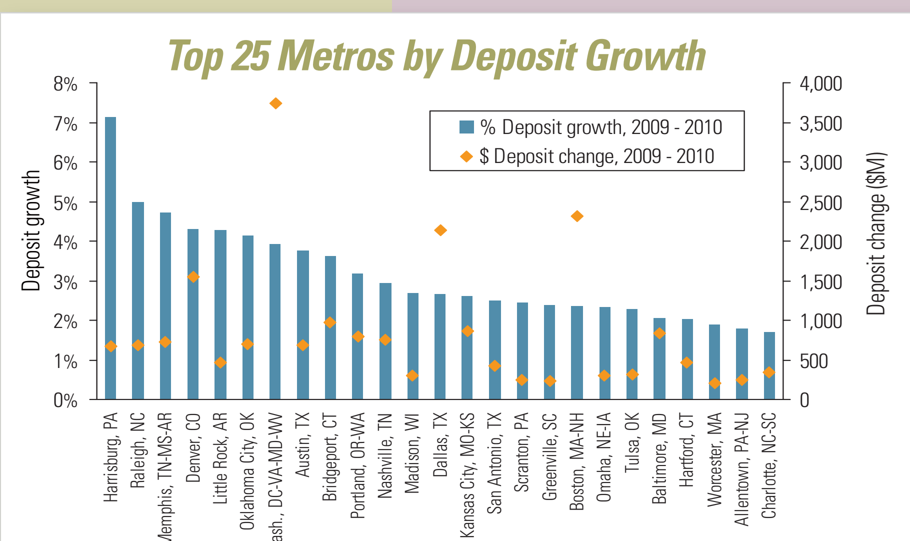
(continued from page one)

THE TOP-RANKING BANK BRANDS:

BANKS WITH ASSETS < $500M

1. The East Texas National Bank of Palestine (TX)
2. First National Bank of La Grange (IL)
3. Stockmens National Bank in Cotulla (TX)
4. FirstBank of Arvada (CO)
5. Centinel Bank of Taos (NM)
6. Valley Bank of Commerce (NM)
7. Oklahoma State Bank
8. American State Bank & Trust Company of Williston (ND)
9. First Financial Bank (TX)
10. The First National Bank of Trinity (TX)

Findings from 2010 Branch Deposit Statistics (continued from page one)



Source: FDIC, includes only MSAs with deposits >= $10B

financial peril – e.g., Flagstar, Anchor (WI) – implying that closures reflected fiscal imperatives rather than any strategic desire to abandon branching.

- Further, Bancography's field research indicates that the credit union sector of the industry continued to aggressively pursue branch expansion, again confirming consumers' desire for physical channel options.

Just as the branching trends were not uniform across institutions, they were not constant across markets, either. The New York metro added more than 40 branches, and Washington DC, Houston, Oklahoma City, New Orleans, Charlotte and Portland all added between eight and 20 branches.

Other significant trends include slowing deposit growth and an increase in credit unions' share of deposits:

How to Design a Checking Portfolio, Without Free Checking

Recent legislation has changed the environment supporting free checking products. Most such products relied on ancillary fee income to achieve profitability. Changes to 'opt-in' overdraft protection and pending legislation that will likely reduce debit card interchange fees have led numerous banks to eliminate their free checking offerings. While changes at large banks such as Citibank, Bank of America and Wells Fargo have captured much of the attention of the business press, numerous community banks have also eliminated or reconfigured their free checking products. Thus, it is a timely occasion to revisit not just your institution's free checking offering, but the overall checking portfolio.

In many institutions, the checking portfolio remains a crowded amalgam of overlapping products, the legacy of numerous mergers and product introductions. Institutions are often reticent to eliminate products even after introducing new ones, for fear of attrition from long term customers of the product. This leaves an array of grandfathered products, which can be costly to maintain and confusing for customer service representatives. Rather than immediately trying to rationalize those products, it can be beneficial to take a clean slate approach to design an effective consumer checking portfolio. In a clean slate product review, you first design the optimal product line, irrespective of current offerings. Then, once that optimal line is designed, you can map the current products into their nearest correspondent in the new lineup.

To design an effective checking portfolio, you should consider several critical principles:

- ***Keep the offerings streamlined and simple.*** The portfolio should contain only three to five products. Any more and the individual product features blur together, leaving consumers overwhelmed and customer service representatives confused. A basic non-interest bearing account; an interest-earning option; and a sweep account will sufficiently address the needs of most customers. Overlays (see below) can allow customers to add desired features to their selected base account.

- ***Start with a definition of target market segments.*** Examine the demographic composition of your institution's primary markets. Divide the market into autonomous demographic segments; for example, work entry; emerging affluent; mass market. Then design the appropriate base product for each segment's needs.

- ***Test the profitability implications of the product at the most extreme situations.*** If someone keeps only the minimum balance in the product, or in a given interest tier, will it still yield an acceptable revenue contribution? Are there activity levels that can negate margin contribution and if so, is the incidence of that behavior frequent enough to warrant fees above certain transaction levels?

- Instead of tying bundled features to specific accounts, ***create overlay packages that can be attached to any base account.*** For example, if you want to encourage electronic banking, don't design a specific electronic banking product. Rather, create an overlay of electronic banking features (for example, two direct deposits per month plus registering for online bill payment waives monthly fee) that can be added to any base product. Similar overlays can address the seniors segment, enabling seniors to overlay a package of discounts and benefits on whichever base product they find most appropriate for their needs, instead of ratcheting all seniors into a specific product.

(continued on page four)

- In the two previous years, banks benefited significantly from flight to quality behavior, as consumers migrated holdings from riskier stock market instruments to more secure banking system instruments. But with most consumers having already realigned their personal portfolios and with income growth stagnant, deposit growth stabilized, too. Total industry deposits increased by just 2% last year, after gains of 8% and 5% in the previous two years. Estimated retail and small business deposits increased by 1%, compared to a 5% gain the prior year.

- Deposit growth varied by region. Seven metros added at least $1B in balances in the last year: New York, Washington, Boston, Dallas, Philadelphia, Denver and Miami. Not surprisingly, the greatest deposit losses occurred in markets with significant economic troubles and/or numerous bank closures: Chicago, Atlanta, Detroit, Las Vegas, Riverside-San Bernardino, Seattle, Sarasota, Phoenix and San Diego. Most of New York's deposit growth occurred in the counties in the New Jersey portion of the metro; in fact, New Jersey trailed only Texas and Pennsylvania in terms of deposit gain.

- In percentage terms, mid-sized metros showed the greatest balance growth last year. Deposits increased by 7% in Harrisburg, PA and by 5% in Raleigh. Memphis, Denver, Little Rock, Oklahoma City, Washington and Austin also posted deposit growth in the 4% - 5% range. On a state level, Western states Montana, North Dakota, Idaho and Wyoming all showed growth in that same range, as did Mississippi.

- Credit unions now own 9.4% of all deposits, an increase of 3/10 of one percentage point over 2009 and the fourth consecutive year of increasing share. The increase in share in 2010 was the largest gain during that streak, perhaps reflecting consumer response to the much higher level of failures on the bank side of the industry and the benefits of increased branching in the credit union sector.

This article recaps some of the high-level findings from the branch deposit statistics. Contact us at *info@bancography.com* to request specific information about your institution's markets.

How To Design a Checking Portfolio (continued from page three)

- When migrating away from a portfolio oriented around free checking, ***identify specific value drivers to associate with the monthly fee.*** These can include rate premiums for cross-sold products, waiver of one foreign ATM fee per month, discount on check reorders and similar offerings.

After designing the new product line, review each product in the current line and create a map to convert each product into its nearest corresponding type. The conversion process can be difficult and risky. You may wish to offer a migration period, but keep such periods brief to avoid the grandfathered product issue. In communicating the changes, be sure to present the entire product portfolio, and give customers the chance to switch from their assigned product to a different option in the new product line.

The recent and pending legislative changes will leave a different environment for checking accounts, but not one that precludes profitability from that portfolio. The environment may dictate changes, but it also presents a justification for widespread overhaul of your institution's checking product line.

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