

## Flying Along with a la Carte Services

by [Steve Brown](#)

We travel on the road frequently to visit with community bankers nationwide, so it also means we spend plenty of time in airports. That isn't so bad when you consider the time one must spend on airplanes when traveling. It's not news to anyone who travels that the quality of life on planes is pretty shabby. The seats move ever closer together, the bag of peanuts is smaller, sneezing is more rampant and service is less friendly. Add to that checked baggage fees and passengers bringing an increasing amount of stuff onboard that often won't fit so that the whole boarding process grinds to a halt. As airlines struggle, fees have surfaced to pick up the slack, so if you want an extra peanut, it's going to cost you, buddy!

There is a move afoot, however, to begin charging fees for services designed to enhance the flying experience, rather than just adding expense to what is necessary and was previously included in the overall price. Delta has given flight attendants wireless devices to sell passengers on-the-spot upgrades, such as offering seats with extra legroom to big-and-tall types who cram themselves into small middle seats. We think there are numerous other possibilities, so here are some suggestions bankers might also be able to leverage: sit next to an empty seat for \$25; sit in the quiet, sleepy adult section of the plane with no blasting ear buds, loud talking or crying children for \$50; choose to stay where you are for a mere \$25. We think this approach could be quite successful because these options give the traveler the ability to improve their travel experience on the spot. It's a la carte, just like a restaurant where you don't pay for the potato if you don't want one.

Bankers should consider this idea, since every community bank we know needs to generate more non-interest income. Imposing fees on basic normal banking services generates about as much love as when the airlines charge for checked luggage. What if you switched things around and charged for shorter teller lines, the cookies at the front desk or private banking with a personal banker familiar with total lending and deposit relationships for each and every customer that signs up.

Statistically, one of the most profitable products for banks is the Premium Business Checking account. There are a number of reasons why. These accounts typically have significant balances and often tie in with commercial lending relationships. There is likely a business line of credit and perhaps treasury services associated with the account as well. Merchant services and remote deposit capture may also be involved. These are good accounts to target, and if you can generate fees for access points or extra special things along the way, all the better.

The most important reason to experiment with this approach, however, is that the customer most interested in these kinds of services is different from other bank customers. This customer segment is more sophisticated and less price sensitive, something that is typically true of both fee sensitivity and interest rate sensitivity. If the data holds, relationships with these customers could be of a longer duration because the customer has multiple products and has been sold a choice rather than negative penalties.

In the end, the banking industry is looking for the same customer segment as an airline- someone less price sensitive than the person who buys a ticket based on a \$10 price difference. The customer who is willing to spend a bit more to make their day a little more comfortable is also likely to be a more loyal customer - regardless of whether they are paying for airline tickets, food or banking services.

# ECONOMY & RATES

## Yesterday

Yields saw less than a 1bp drop as the market seems to be settling into a new trading range in the aftermath of disappointing economic data and the government shutdown.

## Today

Yields continue to drop, currently down 1bp with the 10Y hitting 2.49% as investors gear up for the \$7B Treasury auction.

Rates As Of: 10/24/2013 09:08AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.04	0.00	0.00
6M	0.07	0.00	0.00
1Y	0.10	0.00	0.00
2Y	0.31	0.00	0.00
5Y	1.29	0.00	0.00
10Y	2.50	0.00	0.00
30Y	3.60	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	0.25	0.00	
Prime	Unemployment	Oil	
3.25	0.00	\$0	

[More Market Rates](#)

## BANK NEWS

### M&A

Home Federal Savings and Loan (\$300, KY) will buy Town Square Bank (\$155mm, KY) for \$14.7mm in cash (45%) and stock (55%) or about 1.04x tangible book.

### M&A

Northrim Bank (\$1.2B, AK) will buy Alaska Pacific Bank (\$177mm, AK) for \$14.3mm in cash (45%) and stock (55%) or about 0.87x adjusted book.

### M&A

The Department of Justice has cleared the merger of BATS and Direct Edge, moving the process along now to the SEC. If they give approval and the deal moves through as planned, it would create the 2nd largest equities exchange in the world.

### More Money

JPMorgan is reportedly in talks with a group of investors including BlackRock and Pimco for perhaps as much as \$6B, as it seeks to settle open litigation around MBS sold prior to the crisis.

### Capital Raising

The SEC released its long awaited rules that would allow businesses to raise up to \$1mm a year from unaccredited investors (less than \$1mm in liquid assets and less than \$200k in annual income). The rules now go through a lengthy comment period before becoming final, but when that happens would allow companies to raise capital through crowdfunding portals from smaller investors without having to register their securities with the SEC. Unaccredited investors with a net worth or income under \$100k would be limited to investing no more than \$2k or 5% of their income this way.

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