CORE DEPOSITS

More Customers Equals More Profits
The Bank With the Most Customers Wins!

Do you believe certain checking customers are unprofitable or that the best core deposit strategy is to only court prospects who choose bundled services, maintain high balances, or only use electronic channels? Banks with these misconceptions lose market share to those who understand the true economics of customer profitability.

"A core deposit strategy that settles for anything less than capturing every prospect is bad strategy."

In speaking with bankers all over the country, it's clear that there are a lot of ideas on which customers are most profitable and which core deposit strategy will generate the most profits. But the majority of these ideas create misconceptions that sacrifice both short-and long-term profits.

The misconceptions stem from how the ideas are created. They start by visualizing the most profitable customer and then attempt to implement a corresponding product or strategy that targets this ideal customer. In reality, all customers are profitable and your own internal data can prove this. Let's look at some common misconceptions and the truths about customer profitability.

Misconception #1:

Free checking customers are not profitable.

Truth: Free checking still gets customers in the door because most prospects are–and will continue to be–adverse to fees and stipulations. And by free, I mean FREE! with no monthly service charges or minimum balance requirements. Today's free checking customers average 4.75 products and services. They are not a single service customer.

Misconception #2:

Bundling direct deposit, eStatements, or other products with a checking account produces the most profits.

Truth: Cross-selling is important to increase profits and reduce attrition. But the bundled products often require behavior changes, and prospects who aren't willing to change their lifestyle will be alienated before they even enter your branch. Proper sales training will let customers choose the services right for them without adding any obstacles.

Misconception #3:

You make the most money by only targeting certain market segments.

Truth: Are your branches at capacity? Branches are your biggest investment. As long as they are not at capacity, you increase profits with every customer you add. The net interest margin on a small balance, the fee income from just one NSF per year, or the interchange income produced by fewer than 10 debit card transactions per month generate enough profit to cover the marginal cost of a new customer. Your resulting strategy should be to take them ALL!

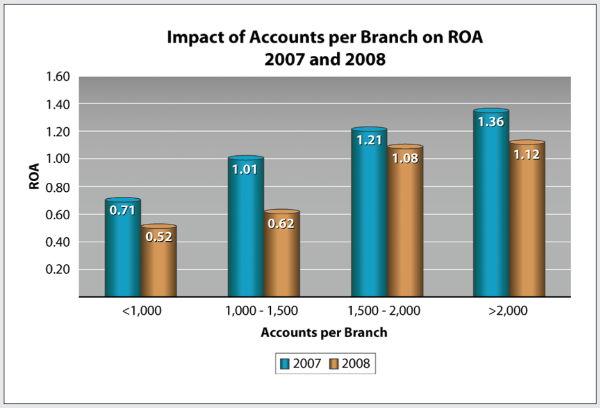
By adopting a strategy that targets all customers, you're going to increase your share of all customer segments around your branches. The demographics of those areas will dictate the makeup of your customers.

- Some have higher balances.
- Some generate more fee revenue.
- All of them buy other products from you.

Each customer contributes to the bottom line in a different way. The resulting average annual contribution will be more than $300 per customer.

Don't let misconceptions sway you into a flawed decision. A core deposit strategy that settles for anything less than capturing every prospect is bad strategy. Look at the accompanying chart to see how getting more customers translates directly into more profits.

The most successful banks both now and in the future won't say no to any profit at a time when profits are so hard to find.



Alan Friesen is the CEO of Haberfeld Associates, the country's premier checking account acquisition firm. He is an expert on customer profitability and has more than 24 years of public accounting experience, specializing in financial services. He can be reached at (402) 323-3781 or alan@haberfeld.com.