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## Focus:

Competition heats up as banks race for deposits. **19**

# Race for deposits

Banks step up marketing, debut new products

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Banks and credit unions say they have seen a definite increase in the numbers of customers asking about the safety of their deposits.

The shift in consumer behavior to put more money in perceived "safe" – read insured – banking institutions is a welcome change for bankers, but is just one of the dynamics banks are dealing with when it comes to deposits.

Competition remains fierce, and the downturn in the economy coupled with countless homeowners who are having trouble paying their mortgages means that deposit accounts are being siphoned to pay bills.

Consumers are questioning the safety of their bank deposits in the wake of 10 bank failures so far this year – including the July 11 failure of \$32 billion IndyMac Bank.

Raising the anxiety level, the Federal Deposit Insurance Corp. announced last month that its list of "problem" banks had grown from 90 to 117 institutions, and assets on the list tripled to \$78.3 billion.

While the number of banks that have failed this year are nowhere close to the number that failed as a result of the savings and loan crisis in the 1980s, when about 1,300 savings banks went under, this year's bank failures are the most since 2002.

To reassure anxious customers that their money is safe, banks have stepped up their marketing and have debuted new products and special offers as a way to capture more deposits from those who might be nervous about their current bank's stability.

Wells Fargo Bank, the largest bank by deposits in the East Bay, recently ran a series of print ads in local papers and spent more money between late July and late August on television advertising than it has "in some time," said Michael Billeci, the bank's regional president, Greater San Francisco Bay Area.

Technology Credit Union also went the advertising route as one way to reassure customers, said CEO Ken Burns. In full-page ads in the San Jose Mercury News, TechCU laid out six key points it wanted its customers to know, from stating its excellent financial condition to the fact that it was not involved in subprime lending and its status as a nonprofit institution.

But in the race for deposits, it is not enough just to let customers know their



deposits will be safe. To attract new deposits, Wells Fargo is also running a promotion. Customers who open a new checking account with a minimum \$100 deposit by Sept. 15 receive a \$50 bonus certificate.

Although Wells does periodically run similar promotions throughout its banking system, "we feel there is a window of opportunity now, as customers read newspapers and continue to worry about the financial stability of their banks," Billeci said. Wells has boosted its media buys to tout the fact that it is rated Triple A by credit ratings agencies Moody's Investors Service and Standard & Poor's, he added.

Wells' big rival in California and the East Bay, Bank of America, in late July introduced one of its most aggressive certificate of deposit offers in the last

couple of years: Customers can open a seven-month CD with a 4 percent interest rate. The limited-time offer requires a minimum of \$5,000 to \$10,000 (depending on location) in new money for the bank. The rate to open a CD online is higher at 4.11 percent. That rate is higher than rates listed on rate comparison Web site Bankrate.com for six-month CDs. Bank of America unit Countrywide Bank advertised a rate of 4.10 on that site.

"We were seeing record deposit growth start to come in in July," said Brad Dinsmore, Bank of America's West Division executive for consumer and small-business banking. That growth has accelerated since the CD offer rolled out, he added. In California alone Bank of America saw \$6 billion more in deposits in the January through July time period compared with the same period last year,



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Michael Billeci, Regional president, Greater San Francisco Bay Area, Wells Fargo Bank



"A \$50 million office is an 'A' performer."

Raully Butler, Senior vice president of retail banking, Mechanics Bank



A worry is new deposits may leave once the teaser rate goes away.

Michael Natzic, Senior vice president, community bank group, Stone & Youngberg LLC.

Dinsmore said.

Bank of America is the largest bank by deposits in the state. According to Federal Deposit Insurance Corp. data, it had \$153.5 billion in deposits in California as of June 2007.

While banks, including Wells Fargo, Bank of America and Bank of the West, saw deposits increase in the June period compared with last year, some banks saw total deposits dip at the end of the second quarter compared with year-end figures. Bank of America, for example, posted total deposits of \$785 billion at the end of the second quarter, compared with deposits of \$805 billion at the end of 2007.

Dinsmore said Bank of America is much more focused on growing market share again, but won't know if the bank

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# DEPOSITS: Bank gets \$2 million in four days

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is actually taking market share until the FDIC releases deposit market share numbers in October.

What he has seen is a definite change in the market, with money flowing out of money market accounts to bank checking and saving accounts. Another change is that customers coming in from other banks are far less concerned about rates, he said. "That's a paradigm shift."

That has not stopped banks from trying to garner new money with competitive rates and offers.

At a new Mechanics Bank branch in

Lafayette, a special offer for new customers led to a record \$2 million in deposits in about four days, said president and CEO Steve Buster. Retail customers who opened new accounts in the wake of the branch's July 21 opening received \$100 in cash and a \$50 gas card, while business owners who opened new accounts earned as much as \$450 in cash from the special offer.

Raully Butler, Mechanic Bank's senior vice president of retail banking, said in July that he expects the branch to bring in \$10 million a year in new deposits and to hit \$50 million in five years.

"A \$50 million office is an 'A' performer," he said. Mechanics Bank branches in downtown Berkeley, North Berkeley and Walnut Creek all hit that target, Butler said, and he expects branches in Concord and Oakland to reach it on their fifth birthdays, he said.

Bank of the West and California Bank & Trust have recent offers of 3 percent and 3.04 percent money market interest rate offers, both of which are among the higher rates for money markets today.

With its offer, California Bank & Trust, a unit of Zions Bancorp, catered to Olympic fever. In addition to the competitive rate, new account holders received a special Olympic commemorative pin. The offer was geared to the Asian community in Los Angeles and Southern California, where the bank has a large presence.

The new money that flows in "is a funding source for the bank," said Steven Borg, senior vice president and marketing director. "Throughout the country, funding is an issue. Deposit growth is in direct correlation with the ability to lend."

When news broke in July that the FDIC

## 2008 failed bank list

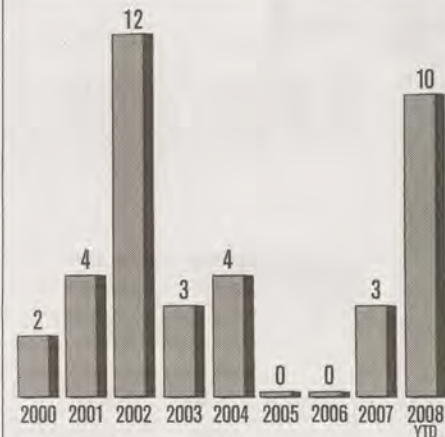
Consumers are nervous about retail bank deposits in the wake of this year's 10 bank failures, the most since 2002.

| Bank                          | Location           | Date closed | Total assets |
|-------------------------------|--------------------|-------------|--------------|
| Integrity Bank                | Alpharetta Ga.     | Aug. 29     | \$974M       |
| Columbian Bank and Trust Co.  | Topeka, Kan.       | Aug. 22     | \$752M       |
| First Priority Bank           | Bradenton Fla.     | Aug. 1      | \$259M       |
| First National Bank of Nevada | Reno, Nev.         | July 25     | \$3.4B       |
| First Heritage Bank NA        | Newport Beach      | July 25     | \$254M       |
| IndyMac Bank                  | Pasadena           | July 11     | \$32B        |
| First Integrity NA            | Staples, Minn.     | May 30      | \$54.7M      |
| ANB Financial NA              | Bentonville, Ark.  | May 9       | \$2.1B       |
| Hume Bank                     | Hume Mich.         | March 7     | \$18.7M      |
| Douglass National Bank        | Kansas City, Mich. | Jan. 25     | \$58.5M      |

Source: Federal Deposit Insurance Corp.

## Number of failed banks

From 2000 to 2008.



Source: Federal Deposit Insurance Corp.



Lazzarini

would take over IndyMac Bank, Bank of the West recognized customers would be asking about deposit safety and made sure employees had updated information on deposit insurance, deposit safety and the credit ratings of the bank, said Maria

Lazzarini, executive vice president, Northern California division executive for the regional banking group.

Since then the bank has seen an uptick in core savings, checking and money market accounts, she said. The bank's total deposits grew 3 percent in the second quarter compared with last year.

"People are very concerned with the safety of their deposits," Lazzarini said, "but then, of course, there is competition on rates." The 3 percent money market offer "was a way for us to get attention in the marketplace and bring customers to us."

The flip side of high-rate special offers is that they are expensive for the bank, as they reduce the margin between what the bank pays out in deposits and what it makes on loans. And the new money that came in may leave once the high rate goes away, to chase the next best deal in the market.

"We don't really like to see that," said Michael Natzic, senior vice president, community bank group, at Stone & Youngberg LLC. "That's something that's going to leave as soon as the CD matures."

At Bank of the West, once new money comes in through a special offer, the focus turns to keeping those new deposits in-house when the rate goes away by keeping in touch with the customer and making sure their banking needs are met, Lazzarini said.

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