Banking & Finance

Ushering in a Laser-Focused, Client-Centric Banking Environment

By TAMARA GURNEY

Businesses operate in a 24/7, highly-connected world where relevance, engagement and content are key characteristics everyone is searching to find. In a perfect world that requires today's banker to be techno-savvy, client-focused, community-minded, and relationship-driven. It's a tall order.

Increasingly, today's business owners and managers are looking for a banking relationship that provides them with expertise in their specific area and is willing to work with them as a Trusted Advisor to help achieve greater success.

Any street corner bank – big or small – can handle the transactional side of banking, but it takes a team of Trusted Advisors who understand a client's business to develop programs to meet their exact needs. It is that aspect that gives community banks a distinct advantage over the larger institutional banks that often gain new customers with teaser rates and short-lived promotions but don't deliver long term results.

There is also the presence of non-traditional financial service providers entering the banking space and offering traditional banking products. These alternative financial service providers compete on price, and while low-cost providers and special one-off promotions may seem appealing initially and save some quick cash, there is truly no long-term value generated for the client business.

When looking to enter into a banking relationship, businesses should seek out banks that have shifted from the traditional product focus to a more client-centric strategy, which tends to be more relevant and engaging while delivering solutions. In return, banks should be willing to cultivate an even deeper knowledge and understanding of their customers so they can tailor offers and services based on a customer's account activity, needs and preferences.

It is that laser-focus on creating the most value for clients by being relevant, engaging and delivering solutions that sets community banks apart in today's competitive marketplace.

When selecting a bank, a simple truth to remember is that banks cannot be all things to all people. By the same token, not all banks are created equal nor do they focus on the same core competencies. Businesses need to be sure their bank is a good fit for what is needed to grow and operate their business. While some banks may focus the lion's share of their resources on digital space applications, others may focus on creating value for their clients through relationship building.

Another consideration is that in today's intensely competitive, low-growth, low-margin environment, banks continue to operate with an eye toward trimming expenses and enhancing the client experience. With the ever-increasing popularity of online and mobile banking, what customers need from their bank has changed. No longer is it necessary to have a bank location on every corner. In fact, bank branch consolidation is happening throughout the nation in response to customer preferences, changing behaviors and new systems in place for delivering banking services. Brick-and-mortar branch footprints are declining as banks reinvest the dollars saved into remote digital services, development of digital channels, and expansion of core financial products and services.

In addition to understanding a business's operations, needs and preferences to help that business grow, a relationship banker can also be on the front line of defense in protecting the business.

Cybercriminals target small businesses with ever-increasingly sophisticated attacks. Spoofed emails, malicious software and online social networks to obtain login credentials to businesses' accounts, transfer funds from the accounts and steal private information are on the rise. Corporate account takeovers – a type of fraud where thieves gain access to a business' finances to make unauthorized transactions – creates havoc and loss as funds may be transferred from the company, new fake employees created and added to payroll, and sensitive customer information that may not be recoverable stolen.

While no bank or business is immune from cyber-attacks, combating account takeover is a shared responsibility between businesses and financial institutions. Taking the threat of cyber-crime very seriously and helping educate clients to ensure that fund transfers, payroll requests and withdrawals are legitimate and accurate, Trusted Advisors often work with clients to establish and explain safeguards small businesses need to protect themselves with online activity.

Overall, there is tremendous value in working with a client-focused, relationship-driven banker that will invest the time necessary to truly get to know a business and understand its unique needs. The path to long-term success is for businesses to develop long-term banking relationships with bankers who demonstrate expertise, experience and dedication to their success. Even with the changing physical landscape and technological advances within the banking industry, it still comes down to having a banker who is willing to partner to help a business achieve success.

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BANKING & FINANCE

The Four Components of an Effective Business Plan

By MARLA CLEMOW

Having a well-thought-out business plan can help a business owner stay focused on company goals and objectives, yet according to a recent Wells Fargo survey, only 33 percent of small business owners said they have a formal, written business plan.

Even though many business owners have ideas for plans in their heads, those who put plans in writing are more optimistic about the coming year. In the survey, business owners with formal plans were more likely to say that in the next 12 months they planned to add jobs at their companies, expected revenues to increase, anticipated increasing their capital spending and intended to apply for new credit.

Why do business owners with written plans have more optimism? While there may be many reasons, from our experience working with small businesses, business owners in general benefit from creating a formal plan because it serves as the foundation for long-term success. It can help you prioritize how to spend your time and money, and set effective business goals.

The challenge for many business owners is getting started. To help, we've identified four critical components that should be in any business plan. Here are the key areas we recommend for every plan:

Company overview – The overview should provide a description of the business, including what products or services you sell. It should outline your professional or industry experience, the history of your business, and your business structure, including staffing and management roles and responsibilities. In addition, the overview should house a detailed marketing plan.

Analysis – Competitive intelligence and customer insights are a key part of developing your business plan. In this section, you should include data on competitors within your industry. It's also a good place to explore prospective customers that might be a fit for your products and services, and define how you intend to reach them. Building this information into your business plan is intended to provide you with a competitive advantage, and helps you to fine-tune your marketing efforts and maximize sales.

Financial Data – A business plan should include a financial data section. It's the place to outline your starting balances, how you plan to make money and sales forecasts. Keeping financial information updated and organized can be a challenge for many business owners, yet an essential process to more easily plan for growth, manage cash flow and prepare for unexpected expenses.

Executive Summary – This part of the plan is often considered the most important when seeking financing. This section provides a high-level summary of the business, and recaps the key features of your business plan in one page or less, including who you are, what you sell, and who you sell to, and a financial summary.

To help simplify the business planning process, Wells Fargo recently introduced a new, comprehensive resource on WellsFargoWorks.com: The Business Plan Center. This new, complimentary offering includes two new tools:

• The Business Plan Tool is step-by-step guide for creating your own written business plan;

• The Competitive Intelligence Tool provides business owners with up-to-date insight on competitors in the market.

The Business Plan Center delivers an integrated learning experience, and is available to all business owners – both customers and non-customers. It is a natural extension of the support we currently offer through Wells Fargo Works *for Small Business*.

Developing your business plan isn't a one-time process. It requires regular maintenance as your business evolves and your needs change. Every business owner will experience successes and challenges on their entrepreneurship journey, and revising your business plan during these times will help you celebrate accomplishments, establish new goals, and plan for the future based on lessons learned.

As a business owner, your focus is on running the business, and time away from day-to-day tasks is limited. Yet we've learned from business owners we serve that taking time to develop and maintain a streamlined business plan can save you time and better manage your money in the long run.

Marla Clemow is Region President for Wells Fargo's Los Angeles Metro Region. She can be reached at marla.clemow@wellsfargo.com. To help more small businesses achieve financial success, Wells Fargo introduced Wells Fargo Works for Small Business – a broad initiative to deliver resources, guidance and services for business owners. For more information about Wells Fargo Works for Small Business, visit: WellsFargoWorks.com or follow them on Twitter via @WellsFargoWorks.

Reward Cards Rising in Popularity, Valued Among Consumers

An overwhelming majority of credit card users — 83 percent — have rewards programs associated with their cards according to a new survey released by the American Bankers Association. This figure is an increase from the 77 percent who said they had rewards programs on at least one of their cards in November of 2012. ABA has released this and other data in the latest issue of The Credit Line, which examined the marketplace for rewards and how consumers use them.

According to the survey, nine in 10 cardholders (93 percent) find their rewards programs easy to understand. A majority (57 percent) said they were "very easy to understand," while 36 percent said they were "somewhat easy to understand."

"The increased prevalence of rewards cards speaks to their importance among consumers who appreciate being rewarded for their loyalty," said Molly Wilkinson, executive director of ABA's Card Policy Council.

"Cardholders find it easy to take advantage of the best deals based on the type of rewards they value the most. The wide variety of rewards programs and the fact that they're user-friendly are just two of the many reasons they are so popular in today's marketplace."

Cash-Back is King Among Consumers?

The survey found that cash-back is not only the most common reward (utilized by 51 percent of card holders) – it is also the most appealing to consumers. A majority of cardholders (55 percent) identified cash-back cards as the credit card reward program that appeals to them the most.

General points cards that allow points collected to be redeemed for things like gift cards and electronics rank second in cardholder preference (23 percent), followed by airline miles (13 percent), hotel points cards (5 percent) and other types of rewards programs (1 percent). Only 2 percent of credit card holders say that nothing appeals to them when it comes to reward programs offered by credit card issuers.

The primary motivation for cardholders when choosing a credit card varied, but most indicate three factors that come into play: a low APR (35 percent), a valuable rewards program (29 percent) and the absence of a specific type of fee (25 percent).

Consumer Satisfaction: More Than 90 Percent Happy with Their Cards?

The survey found that 78 percent of U.S. adults have at least one credit card, including 33 percent who have three cards or more. Among respondents who have a credit card, nine in 10 (91 percent) say that they are satisfied with their credit cards, including nearly half (46 percent) who say they are very satisfied.

"Providing excellent customer service is of paramount importance to card issuers," Wilkinson said. "Valuable rewards programs and rapid response to customer concerns are just two ways issuers are meeting consumer needs day in and day out."

About the Survey

These are findings from an Ipsos poll conducted March 11 to 13, 2015. For the survey, a sample of 1,006 U.S. adults age 18 and over was interviewed online, including 774 respondents who say that they have at least one credit card. The precision of Ipsos online polls is measured using a credibility interval. In this case, the poll has a credibility interval of plus or minus 3.5 percentage points for all respondents.

Information for this article was provided by the American Bankers Association.

The Average Americans' Monetary Situation Has Improved So Far in 2015

Decreases in inflation, personal taxes, and underemployment have lifted Americans' overall financial satisfaction further into positive territory, according to the Q1 2015 *PFSi* (Personal Financial Satisfaction Index) released today by the American Institute of CPAs (AICPA).

The *PFSi*—which weighs a variety of economic factors to calculate the financial standing of a typical American —measured at 13.1 for the first quarter of 2015. This reflects a 6.5 point increase from the prior quarter and an 18.4 point increase from one year ago.

While the Pleasure Index score—driven by improvements in job openings (up 2.6 percent) and real home equity (up 1.7 percent)—advanced slightly (up .2 points) from the last quarter, the vast majority of the overall gain of the *PFSi* is attributed to the 10.5 decline in the Pain Index. Much of this gain can be attributed to a decrease in inflation—the most volatile pain factor—which was driven by a dramatic decline in oil prices in the last quarter.

"The increase in the *PFSi* signifies that the average Americans' financial situation should be in better shape now than it was prior to the start of the year," said Susan Tillery, CPA/PFS and member of the AICPA's PFP Executive Committee. "As inflation has decreased and more people are finding full time work, this is an opportune time to analyze your personal financial plan and take steps to build up reserves and refinance high interest debt."

The largest contributing factors to the reduction in the Pain index score this quarter were inflation (which declined 20 points), loan delinquencies (which declined 5 points), and underemployment (which declined 2 points). Personal taxes declined by two points from last quarter.

"Despite slight advances and declines within the financial pleasure and pain factors in the last quarter, the continued improvement in the *PFSi* score indicates that Americans' financial opportunities have continued to expand faster than their potential loss in financial well-being," added Tillery. "Now is an excellent time for Americans to be reviewing their own financial situation with a CPA financial planner. This relationship will help them feel more confident in their decisions and financial strategies going forward."

The *PFSi*, calculated as the Personal Financial Pleasure Index minus the Personal Financial Pain Index represents the financial standing of a typical American, uses both proprietary and normalized official U.S. Government data.

Pleasure factors include the proprietary PFS 750 Market Index, comprised of the 750 largest companies by market capitalization trading on the U.S. markets, excluding ADRs, mutual funds and ETFs. The other components are the AICPA's CPA Outlook Index, Real Home Equity Per Capita and Job Openings Per Capita. Pain factors include inflation, personal taxes, loan delinquencies and underemployment.

Additional information on the PFSi can be found at: www.aicpa.org/PFSI

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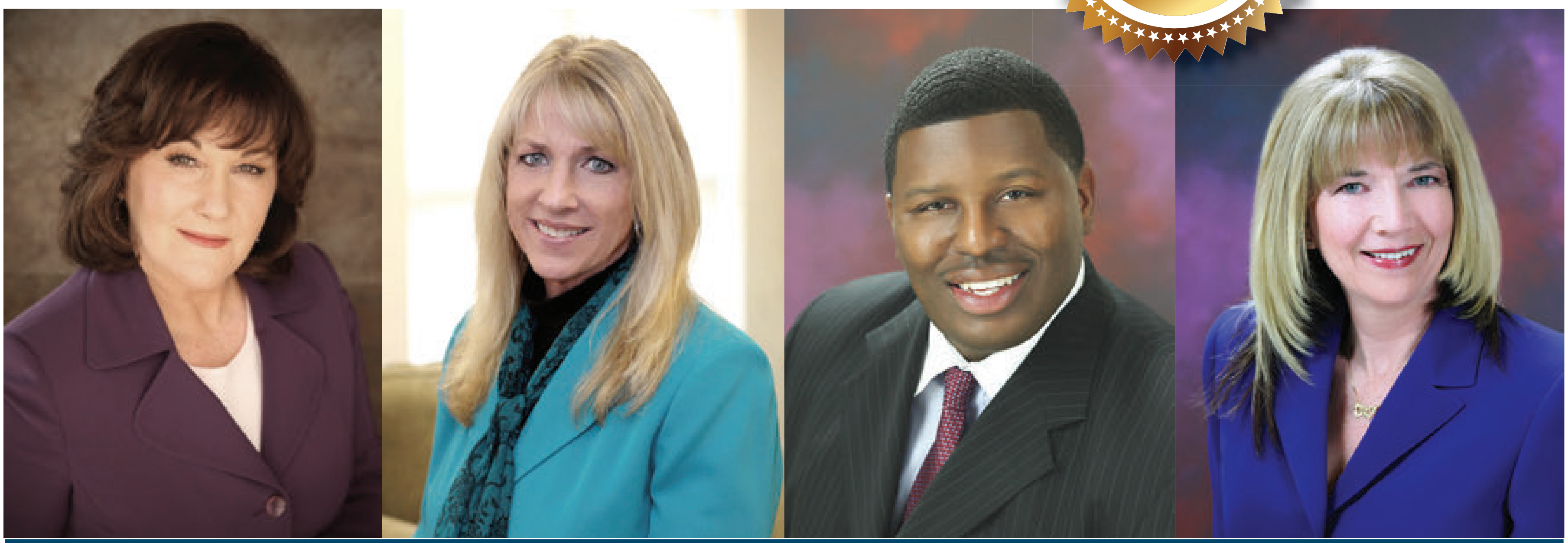

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How to Make the Most Out of Your Company's Cash Flow

By LUKE BARWELL

Most managers think a lot about cash flow. We forecast it, worry about it, discuss it with bankers, and constantly search for ways to improve it. The reason we do these things is that growing businesses need cash—for next week's payroll, for overdue bills, for C.O.D.s, for the Internal Revenue Service, for loan payments.

There are, however, significant differences between cash and cash flow. One of these differences is that we all know what cash is, but people seem unable to agree about cash flow.

What's going on here? Many top ranking business owners are presumably intelligent, well educated, and experienced in business analysis. They all agree that positive cash flow is vital to a company, but they can't agree on what cash flow actually is. If they don't know, how are you supposed to know what you're doing when you try to calculate and manage your own flow?

My advice is this: don't get bogged down in these conflicting interpretations. Your concern is cash, not cash flow. You can't spend cash flow. In fact, no single measure of cash flow has any meaning; it doesn't exist. (Neither does "cash flow per share," for that matter—it's a number with all the precision and significance of, say, "moderately happy customers per share.")

Now I realize that most bankers and accountants have a standard definition for cash flow. The last time I applied for a business loan, for example, the cash-flow calculation was about halfway down the application form: profits plus depreciation plus other non-cash charges equals cash flow. The calculation on this form looked very official—typeset and all. And maybe it was useful to the bank. But it was worth zilch to me as a manager.

Granted, with everything else being equal, you'll tend to have more cash if accounting profits are high than if they're low. And, at least for awhile, you'll tend to have more cash if many of your expenses are for non-cash items, such as depreciation. But these accounting numbers only partially help to explain the amount of cash you have available each day to meet your financial obligations. And they're not much help at all if you want to figure out where you should do some fine-tuning to cut down on your cash outflow.

To understand what's really happening with your cash, you should forget about a single cash-flow number. Instead, think about the various reasons that cash flows in and out of your business. Most people agree there are three general categories: cash flow from operations, from investments, and from financing.

Cash flow from financing is pretty straightforward. It details all your cash transactions involving equity and interest-bearing debt. Your net cash provided by financing activities will be the proceeds from any loans, less loan payments, and the proceeds from issuing common stock, less dividends paid. And that's it.

In most private companies, cash flow from investments deals primarily with the purchase and sale of fixed assets. As such, it is a category that generally uses cash, rather than supplies it. At times, however, this category can provide cash. A couple of years ago, for example, I was working with a manufacturer of lawn and garden supplies. Since freight was a significant cost for us, we had started to subcontract manufacturing near our major markets. When a recession hit our industry, we decided to sell our manufacturing plant and simply hire more subcontractors to take over the production. The net effect was that we raised the cash we needed and were still able to satisfy our customers. That's not the first time I've generated desperately needed cash by liquidating underused assets.

Cash flow from operations—the third category—is what most people are talking about when they look at cash flow. It's the most difficult of the three categories to get a handle on, though in theory it's simple enough. You want to measure the cash coming in from customers against payments going out. One reason for the conflicts that arise over this number is that outside analysts must back into the calculation because they don't have access to detailed company records and must rely instead on income statements and balance sheets. They begin with operating profits, add such non-cash expenses as depreciation and amortization, then adjust for changes in the balances of the assets and liabilities associated with company operations.

The problem is, you, too, may lack the information you need to report cash flows from operations the way you'd want to. Ideally, you'd get net cash from operating activities by taking the cash received from customers and deducting from it cash paid for merchandise, administrative and selling expenses, and income taxes. (Since in many ways, the payment of income taxes is a separate issue from day-to-day operations, I occasionally show income taxes as a fourth major category.) This allows you to analyze where your cash is going and to plug leaks if need be.

But if your accounting system is like most, it probably doesn't detail the amount of cash spent each month for inventory, for example, or for individual operating expenses. Instead, your system merely reports the cash you spent on accounts payable. That will give you a total cash figure, but not in the detail that will be useful to you in managing your operating cash flow.

Still, there is hope for the future. Since the accounting profession has begun to place more emphasis on cash-flow reporting, the chances are good that in the next few years accounting software will become available that will report actual operating cash flows. Until then, you too may be stuck with backing into the numbers.

Even if that is the case, there are a number of ways you might want to modify your cash-flow reports. I sometimes calculate a subtotal of cash flows from operations and investments, often called the free cash flow. Free cash flow is the amount of cash that is available to pay lenders and owners their due. Of course, most businesses, when they're growing quickly, will experience negative free cash flows. Keeping this subtotal in front of you, however, emphasizes that for long-term viability a business must be able to generate positive free cash flows.

If you are lucky enough to have a business with excess cash, you probably have a portfolio of marketable securities, which is the equivalent of cash. If so, your statement of cash flow probably would be clearer if you made this a category in its own right, separate from the investments category.

To people who, up until now, always thought cash flow meant net income plus depreciation, these methods of reporting cash flow may come as a shock. But they will help you get a better understanding of where your cash went, why it went there, and what you can do to improve those flows in the future.

When I worked with the manufacturer of lawn and garden supplies, for instance, by categorizing the sources of cash by operations, financing, and investment, we clearly understood how selling the plant affected cash flow. In the operations section, we had recorded that by eliminating an underused plant, we had reduced operating expenses and had thus saved cash. The investment category showed the cash we had generated by selling the plant. And, according to the finance section, we'd also reduced debt by paying off some of the liabilities.

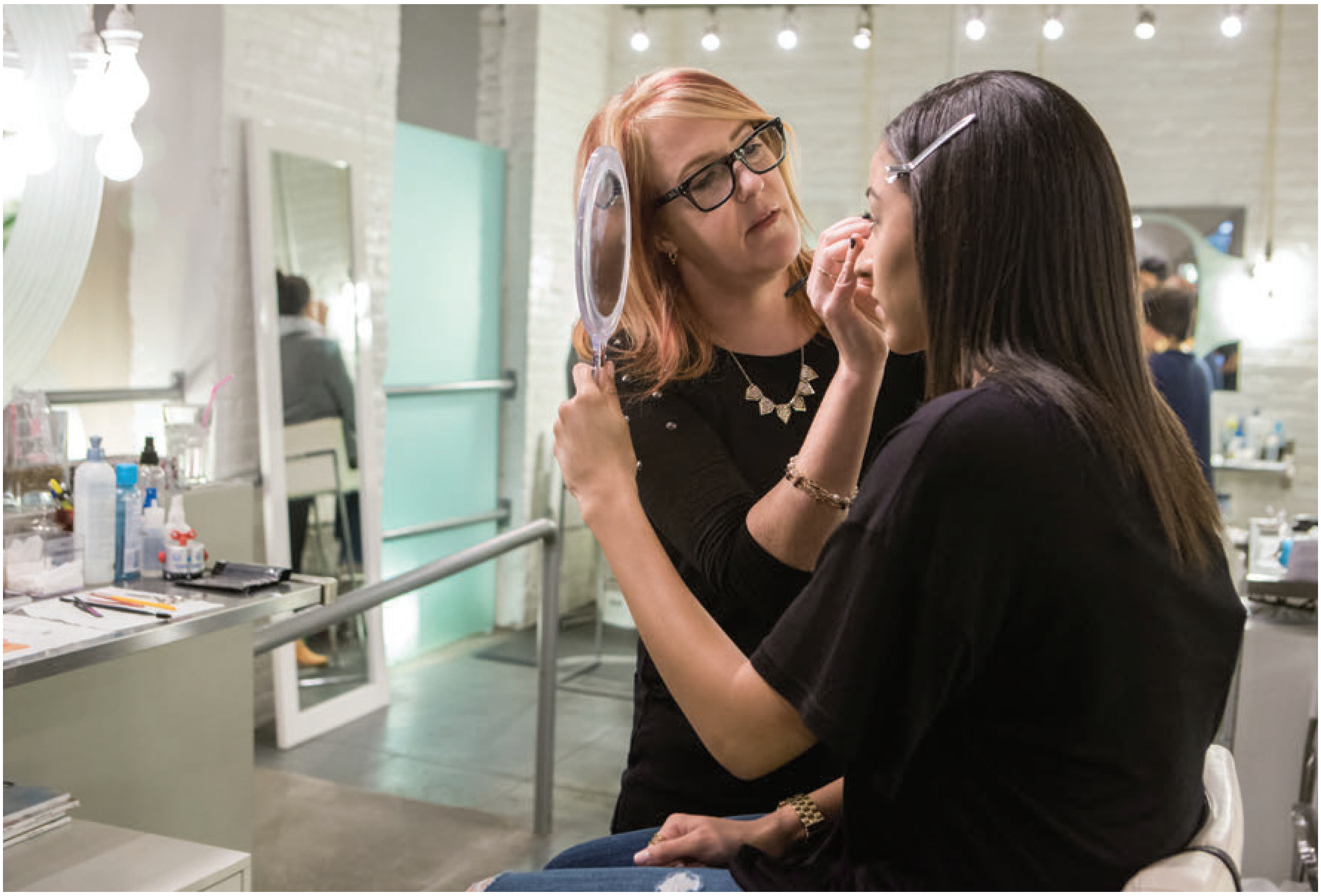
By categorizing the cash flow this way, it demonstrated in a lot more detail where our cash came from. And, perhaps most important, we couldn't deceive ourselves that any more came from operations than actually showed up in the operations section.

Luke Barwell is an independent business data training specialist and management consultant.

Outliving Money is Top Retirement Concern

Americans' are fearful of outliving their money in retirement and feeling stressed about healthcare costs, according to a new survey from the American Institute of CPAs. The AICPA PFP Trends Survey of CPA financial planners—many of whom work with high-net worth individuals—found that more than half (57 percent) of CPA financial planners cited running out of money as the top retirement concern for their clients. This was followed by uncertainty on how much to withdraw from retirement accounts (14 percent) and healthcare costs (11 percent). The survey, which includes responses from 548 CPA financial planners, was fielded from February 3 to February 26.When asked about the top three sources of clients' financial and emotional stress about outliving their money, planners cited healthcare costs (76 percent), market fluctuations (62 percent) and lifestyle expenses (52 percent) as the primary issues. Additional causes for financial stress were unexpected costs (47 percent), the possibility of being a financial burden on their loved ones (24 percent) and the desire to leave inheritance for children (22 percent)."With all of the financial uncertainty surrounding retirement, running out of money is directly tied to a number of issues that high-net worth clients are juggling simultaneously," said Lyle K. Benson, CPA/PFS, and chair of the AICPA's PFP Executive Committee. "To help alleviate their clients' longevity concerns, CPA financial planners integrate tax planning strategies to maximize income in retirement. This approach considers a client's current situation and anticipates their lifestyle spending in retirement to ensure they stay on track in the event of an unexpected life event."The survey results showed that unexpected events are not abstract concerns; they are having an impact on retirement planning for a large number of clients. These issues include long-term healthcare concerns (impacting 42 percent of clients), caring for aging relatives (28 percent), diminished capacity (26 percent), divorce (18 percent), job loss (18 percent) and adult children returning home (18 percent).Some of these concerns are becoming prevalent. When asked to compare to client experiences five years ago, respondents reported increases in clients being unexpectedly impacted by long term health care concerns (59 percent), taking care of aging relatives (43 percent) and diminished capacity (39 percent). Taken together, these issues demonstrate the competing challenges individuals face when planning for their retirement and the need for sophisticated planning advice to meet their goals."The PFP Trends Survey found that the issues impacting retirement planning are constantly evolving, underscoring the need for a sophisticated financial plan that changes with a client's situation," said Jeannette Koger, CPA, CGMA, AICPA vice president of Member Specialization and Credentialing. "The AICPA's Personal Financial Planning Division is dedicated to offering our members tools and up-to-date guidance and resources so they can continue to meet the complex retirement needs of their clients."CPA financial planners recognize that dealing with these concerns requires a combination of behavioral changes and technical advice. By understanding clients' fears about running out of money in retirement, planners can provide a more realistic perspective on their financial situations and help alleviate the associated stress. Following are some of the strategies planners are currently using with their high-net worth clients:

- **Lifestyle** – helping clients understand the impact of their lifestyle spending and implementing a plan that balances their current income level and asset base with their retirement goals.
- **Healthcare** – working with clients to understand their Medicare and insurance options so they can better plan for potential healthcare costs they might need to cover.
- **Living situations** – identifying strategies, such as the use of continuing care retirement communities, to both control costs and save on taxes.
- **Tax savings** – coordinating Roth conversions with IRA required minimum distributions, investing in assets with a lower tax rate, and maximizing Social Security income.
- **Diversity** – mitigating the effect of market fluctuations with proper asset allocation, bucket strategies, and use of single premium annuities.



BANKING & FINANCE

One-in-Four Americans Victimized by Information Security Breaches

One-in-four Americans (25 percent) fell victim to information security breaches in the past year, according to a new survey from the American Institute of CPAs (AICPA) conducted by Harris Poll. This represents more than double the number of people (11 percent) who reported being victimized in a similar survey taken just over a year ago. These widespread incidents, which can have dire consequences on the victims' finances and credit scores, are shifting Americans purchasing decisions and shopping habits, both online and off. The telephone phone survey of over 1,000 U.S. adults was conducted in March as part of the AICPA's education outreach for National Financial Capability Month.No age group is safe from personal information security breaches—regardless of their online activity. The survey showed that 34 percent of adults aged 55-64 fell victim to information security breaches in the last year, compared to the 22 percent of Millennials who are typically seen as being the most active age group on digital communications platforms among adults.

Cyber attacks not only put Americans' information at risk; these breaches can have an adverse effect on consumers' personal finances. According to the survey, one-in-five Americans (20 percent) said identity theft has negatively affected their credit score. In addition, one-in-four Americans (26 percent) reported that their credit score prevented them from doing at least one thing in the past year, including obtaining a personal loan, a credit card, or a mortgage. Eight percent reported they were prevented from renting an apartment and five percent were unable to land a job because of their credit score. These numbers underscore the importance of the issue.

The survey also found that 86 percent of adults reported some concern in businesses' ability to safeguard customers' financial and other personal information, with a majority (51 percent) saying they are "extremely concerned" or "very concerned." The latter figure is up from 39 percent a year ago. Perhaps because digital communication and online payments are so ingrained in their daily life, fewer Millennials (42 percent) reported being extremely concerned or very concerned about businesses' abilities to protect their data, less than any other age group surveyed.

"The increase in data breaches affecting personal information has given consumers significant cause to be cautious about their activities, both online and off," said Ernie Almonte, chair of the AICPA's National CPA Financial Literacy Commission. "Data breaches have the potential to seriously affect consumers' finances and wreak havoc on their credit scores. The good news is that we are seeing Americans taking steps to safeguard their information and reduce their susceptibility to these attacks."

The survey found that more than four-in-five (82 percent) Americans are shifting their purchasing behavior in the wake of increased cyber-attacks, a 13 percentage point increase (69 percent) from a year ago. Fifty-six percent said they are now using more cash and/or checks for purchases, and 40 percent have reduced their online presence—including turning off social media accounts or visiting fewer websites. In comparison, only 34 percent of Millennials have reduced their online presence in the wake of increase information security breaches, the least of any age group.

Protecting personal information has become a major concern. The AICPA's National CPA Financial Literacy Commission offers the following useful tips for keeping your financial information safe and protecting yourself against personal information security breaches:

Be Proactive: Reach out to your bank and credit card companies and ask what safeguards they have available, including fraud alerts and purchase limits. Many companies have these features available, but you may have to opt in.

Avoid Shopping Using a Public Wi-Fi Connection: It's generally a bad idea to transmit any personal data on a connection that isn't secure – including those in coffee shops and public places. An unsecure connection means hackers may be able to gain access to any personal information you share with the retailer and use it to make unauthorized purchases.

Secure Your Credit Cards: Make a list of all of your credit cards (including account numbers and emergency phone numbers of each issuer). Secure this information in a safe place. When you use your credit card in a restaurant or store, don't let it leave your sight.

Avoid Clicking on Unknown Email Links: Don't click on links in unsolicited emails or social media sites, even if they purport to be from trustworthy retailers, because they may take you to sites that are trying to collect information for identity theft. Instead, type the organization's website address into your browser's address bar or find it through a search.

Follow up Quickly: If your financial information has been compromised in any way, ask each credit bureau to place a fraud alert on your credit report. If your wallet or personal identification is stolen, immediately notify the police, your credit card providers, your bank and the three major credit reporting bureaus.

You can find more financial tips on the AICPA's newly refreshed 360 Degrees of Financial Literacy website at 360Financialliteracy.org, as well as the AICPA's Feed the Pig website, which is designed for Americans aged 18-34.

Economic Gains Boost Lender Confidence and Increase Credit Availability

The credit card market continued to gain strength last year, with more new accounts and higher monthly purchase volumes across all risk categories, according to the American Bankers Association's latest Credit Card Market Monitor. These improvements come as the broader economy grew 5.0 percent in the third quarter of 2014 and 4.6 percent in the second quarter — the strongest six-month period of economic growth in over a decade.

The March 2015 Monitor, reflecting data from the third quarter of 2014, found that monthly purchase volumes increased across all risk categories, including a 5.2 percent uptick for sub-prime accounts, a 2.6 percent increase for prime accounts and 1.2 percent growth for super-prime accounts. This rebound is consistent with the broader consumer picture at that time, with personal consumption expenditures growing 3.2 percent (nearly three times faster than in the first quarter of 2014) and retail sales continuing to improve. In addition, both the number of new accounts and the average line of credit extended to those accounts increased across all risk groups.

"These findings reaffirm the important relationship between credit markets and the broader U.S. economy," said Molly Wilkinson, executive director of ABA's Card Policy Council. "The market trends we're seeing go hand in hand with a healthy economy as consumers continue to do a good job of managing their credit even as access to credit increases."

Average Credit Lines Picking Up Steam?

Among new accounts opened within the last 24 months, average credit lines increased across the board. This is particularly true for new prime accounts, which grew 2.3 percent — the fastest rate in over six years. Similarly, average credit lines for all accounts increased for both prime and super-prime accounts — the first time both have increased simultaneously in four years. While average credit lines for all sub-prime accounts fell by 0.6 percent in the third quarter, average credit lines increased for sub-prime accounts opened in the last 24 months — the fourth such increase in the last five quarters.

"Both banks and consumers are feeling better about the state of the economy, and many lenders are gaining confidence in consumers' ability to meet their financial obligations," Wilkinson said.

Consumers Continue to Open New Accounts?

New account volumes have steadily expanded across all risk categories over the last four years, including a 12.8 percent year-over-year expansion in the third quarter of 2014, and are now at their highest levels since the recession ended. This growth has been fueled primarily by prime and super-prime accounts over the past five years, but growth in new sub-prime accounts is up 21 percent compared to the same period a year ago.

"Access to credit is important for both consumers and the broader economy," said Wilkinson. "These findings provide strong evidence that the market is growing in a healthy and sustainable way."

The American Bankers Association Credit Card Market Monitor is a quarterly report that provides key statistics on industry trends and relevant economic factors affecting the industry.The credit card data used in the report is taken from a nationally representative sample provided by Argus Information Services LLC. Credit card data are presented as national averages for all accounts based on actual credit card account information. Results of this and all previous reports can be found at www.aba.com.

Five Smart Uses for Your Tax Refund

Nearly eight out of 10 U.S. tax filers will receive a federal tax refund this year. As millions of Americans await reimbursement from Uncle Sam, the American Bankers Association has highlighted five tips for making the most of their tax refund.

"Smart use of your tax refund can start you on the path to long-term financial security," said Frank Keating, ABA president and CEO. "Instead of going on a spending spree, take a moment to evaluate your financial situation and decide on where those dollars will make the most difference."

ABA recommends the following tips for consumers looking to put their tax refund to good use:

Save for emergencies. Open or add to a high-yield savings account that serves as an "emergency fund." Ideally, it should hold about three-to-six months of living expenses in case of sudden financial hardships like losing your job or having to replace your car.

Pay off debt. Pay down existing balances either by chipping away at loans with the highest interest rates or eliminating smaller debt first.

Save for retirement. Open or increase contributions to a tax-deferred savings plan like a 401(k) or an IRA. Where can you get one? Your bank can help set up an IRA, while a 401(k) is employer-sponsored.

Put it toward a down payment. The biggest challenge that most first-time home buyers face is coming up with enough money for a down payment. If you intend to buy a new home in the near future, putting your tax refund toward the down payment is a smart move.

Invest in your current home. Use your refund to invest in home improvements that will pay you back in the long run by increasing the value of your home. This can include small, cost-effective upgrades like energy-efficient appliances that will pay off in both the short and long term. If you have more substantial renovations in mind, your bank can help with a home equity line of credit.

For more tips and resources on a variety of personal finance topics such as mortgages, credit cards, protecting your identity and saving for college, visit aba.com/Consumers.

The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $14 trillion banking industry and its two million employees. Learn more at aba.com.

BANKING & FINANCE

The California Bankers Association and Beacon Economics Release California Banking Industry Intelligence Report

The California Bankers Association (CBA) and Beacon Economics have released a sixth California banking report that examines important issues currently affecting California's banks and the overall economy. The report is authored by Chris Thornberg, Ph.D., founding partner, and Jordan Levine, economist and director of economic research, at Beacon Economics. This report begins with an economic overview of the nation and of California, and then takes a closer look at the state of consumer finances and bank lending trends. Among the report's key findings:

Beacon forecasts that the California economy will continue to lead the national economic recovery, with growth picking up in 2015 and 2016, before settling into "normal" rates of growth thereafter.

California's residential (and to a lesser extent) commercial real estate markets have again become a source of economic strength – through September 2014, California averaged a 14.9% annual growth rate in home prices.

Consumer finances in the U.S. have shown relative improvement since the end of the Great Recession. From 2010 to 2013, consumer leverage ratios – total household debt to disposable income – declined nearly 11% to 14.6%. Overall median family debt levels have fallen more than 20% since 2010.

Significantly low interest rates over the last few years have also improved the consumer's financial obligation standing. As of the second quarter of 2014, the Federal Reserve reported a total debt service ratio of 9.9, meaning it takes less than 10% of a household's disposable income to service its debt obligations. That number was 13% in 2009.

Despite overall reductions in the cost of consumer debt, families have an increased appetite for debt associated with installment loans, particularly education loans. From 2010 to 2013, the median family debt related to installment loans increased 8.1% to $14,600. In addition, the proportion of total family debt associated with installment loans now comprises 13.1%, compared to only 11.1% in 2010. This is in contrast to the decreased proportion of debt associated with secured residential property and credit card balances.

The number of distressed mortgages continue to plummet across California, with double-digit reductions in both defaults and foreclosures through the first nine months of 2014.

The report also notes that the pace of bank lending in California has outpaced that of the U. S. in a variety of loan categories. In particular, construction and land development loans in California, which grew by 22.4% from the first two quarters of 2013 to the first two quarters of 2014, easily outpaced the national growth rate of 6.9% over that same time. California bank lending is also outpacing the nation in a variety of real property loans including commercial real estate loans, multifamily residential, and 1–4 family residential loans.

"We are very pleased to see California's banks continue to increase their lending, and support our state's impressive economic recovery, which continues to outpace the nation's recovery," said Rodney Brown, president and CEO of the CBA.

The report concludes with observations from the authors about the recent announcement from Fannie Mae and Freddie Mac to purchase mortgages with down payments as low as 3%. According to the new rules, these loans would be allowed only for fixed-rate mortgages on single-family homes that would be the borrower's primary residence and would require full documentation of the ability to repay the mortgage. A low down payment coupled with fairly strict lending standards is targeted specifically at potential homeowners with proven credit worthiness but who are in the lower to middle-end of the income spectrum.

"This is a calculated move by Fannie Mae and Freddie Mac to move towards slightly looser standards without being perceived as moving the needle too quickly or recklessly. Thus, the move will provide some modest boost to the housing market, but because of its limited reach, is far from a panacea," concluded the report's authors.

About the California Bankers Association (CBA): Established 124 years ago, the California Bankers Association (CBA) is one of the largest state banking trade associations in the country. CBA leads the way in developing relevant legislative and educational solutions to some of California's more pressing financial and banking issues, including financial empowerment, identity theft, financial privacy, and financial elder abuse. CBA's membership includes the majority of California's commercial, industrial and community banks and savings associations. For more information, visit www.calbankers.com.

About Beacon Economics, LLC: Beacon Economics, LLC is an independent economic research and consulting firm with offices in Los Angeles and the San Francisco Bay Area. The firm delivers economic analysis and data sites that help their clients make informed, strategic decisions about investment, growth, revenue, policy, and other critical economic and financial issues. Their nationally recognized forecasters were among the first to predict the collapse of the housing market and foretell the onset and depth of the economic downturn that followed. Core areas of expertise include economic and revenue forecasting, market and industry analysis, economic impact studies, economic policy analysis, and international trade analysis.