
THE BUSINESS SAVINGS ACCOUNT

by [Steve Brown](#)

The cell phone has come a long way. We can now get urgent poorly worded e-mail, text and Twitter messages about fake Rolex watches anytime and anywhere. Another advance is the camera. When the camera feature first came out, we were skeptical, because we are serious businesspeople. Over time, we have loved having the freedom to take pictures of cows, kids with stuff on their faces and funny signs. Our point is that until we started to use the cell phone as a camera, we never knew we needed it.

Cash management works in much the same way. Many businesses think of their bank largely in terms of a single account. In our focus groups, few small and even mid-sized business owners hire staff that have experience in the treasury function of running a business. This fact provides an excellent opportunity to educate business clients on how different accounts can help them better manage their cash.

In particular, one underutilized account is the premium business savings account. For some banks, this is the most profitable account on their balance sheet, because of the large, longer-duration nature of the balances. What a bank gives up in interest, they often gain in reduced cost because the business savings account is the lowest operating cost account a bank has. The result is a great sales opportunity.

The appeal of a premium business savings account is that it is the perfect account for businesses looking to put money away for the long-term. Some banks market these as accounts for capital investment, while others market these as self-insurance or other types of long-term escrowed funds.

A survey of bank's business savings accounts reveal that the most profitable use is to target businesses that have substantial long-term savings balances and want the safety of FDIC insurance. We examined a group of business savings accounts that produce over a 15% ROE and found the following characteristics as outlined below.

The average minimum is \$22,500 to open and they carry a monthly maintenance fee of \$16.50 (which can be waived with a minimum balance above \$20k or an average balance of \$50k). While minimum balances vary greatly, to get the most profitability out of this account, it helps to promote it as a long-term vehicle. Banks that require smaller minimums, often end up with a series of smaller accounts that have higher costs and cannibalize money market offerings. By having lower minimums on the money market account and higher minimums on savings, the two accounts work nicely together.

Other attributes of a profitable business savings account include deposits that are free. While some banks charge for items in this category, this never made sense to us, as it penalizes customers to build balances. Allowing unlimited transfers out and no check writing fees, unless account holders go over the 6 Reg. D limit (and then it is usually a \$10 per item penalty), are also common characteristics.

When it comes to rates, banks need to be careful. While we have seen some banks destroy the profitability of these accounts, by offering a "High Yield" version that have rates approaching 3%, the

most profitable have a tiered structure, with balances below \$20k earning 10bp and balances above \$20k earning 80bp. Some banks also include a "super high tier" in the \$100k range, but those are largely banks in affluent, metro areas.

Currently, many banks provide interest rates between the ranges of 50bp and 150bp. Average monthly fees range from \$12 to \$25.

Take another look at your business savings account to make sure it is fulfilling the role you need it play. Once set, successful banks have increased profitability by promoting this account through an educational-type program among business clients. After that, throw a staff incentive to sell and market the account and your bank should be in a position to add to its bottom line. In the meantime, if you see any funny signs, take a picture and send them in.

BANK NEWS

Less Small Biz Lending

The SBA reported lending for its 7(a) program fell 30% in the 2Q compared to the same period last year, despite a flood of government programs designed to spark lending. The SBA approved loans valued at \$2.5B in 2Q compared to \$3.4B last year.

Ugly Employment Situation

The Labor Department reported the unemployment rate rose in all 372 of the metropolitan areas it tracks for the 5th straight month in May. The 10 worst metro areas in order were El Centro, CA (26.8% unemployment); Yuma, AZ (23.3%); Kokomo, IN (18.8%); Yuba City, CA (17.7%); Elkhart-Goshen, IN (17.5%); Merced, CA (17.3%); Flint, MI (16.5%); Modesto, CA (16.3%); Monroe, MI (16.2%); and Muskegon-Norton Shores, MI (15.8%).

Loan to Deposit

A review of loan to deposit ratios by state for 2Q reveal that ND carried the highest loan to deposit ratio at 172%, followed by ME and WI at 111%. UT had the lowest ratio at 59% followed by NY at 70%. NV and DE saw the largest fluctuations, increasing 19% to 128% and dropping by 36% to 95%, respectively.

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