INTEREST BUSINESS CHECKING

by Steve Brown

Is it us or does it feel like the 80's again? We have President Obama trying to channel Reagan; Lady Gaga imitating Madonna; a slate of bad 80's movie remakes such as MacGruber, the A-Team, Karate Kid and Wall Street. We even have "The Expendables" in which a bunch of

over-the-hill 80's stars play over-the-hill action heroes. We have similar unemployment, deficits and the same sense of hopelessness. To top off this deja vu experience, it was 1980 when the depression prohibition lifted, allowing banks to pay interest on personal checking. Now, in 2010, it appears that the 2001 Banking Modernization Act will be sped up by the latest Dodd-Frank Reg Reform bill so banks can pay interest on business checking.

Ever since the Great Depression, it's been illegal for banks to pay interest on business checking accounts. Back then, it was naively thought that interest on checking would hurt bank margins and make an unstable banking system even frailer. Unfortunately, our industry has many other ways to compete on rate and still further ways to make our banking system unstable. Assuming Fin Reg gets passed; banks should be able to pay interest on business checking in the next year without resorting to the current "work around" of a sweep. In short, being able to pay interest on business checking will be easier to do for commercial customers and more efficient for banks. While many aspects of the financial regulatory reform merit banks' attention, this one deserves a special mention.

About 60% of the banks we talked to already have plans to roll out an interest bearing business checking account and we predict 95% will have the product in the next several years, as it will be a "must have" defensive product.

The beauty of being able to pay interest on business checking accounts is that this product allows banks to compete with brokerage firms, money market mutual funds and trust accounts for investment dollars. While costs could increase and liability duration is likely to shorten, marketed the right way; banks should be able to reduce their interest rate sensitivity on their money market accounts and CDs. Customers should be able to be acquired from brokerage firms and mutual fund companies, making for an overall cheaper and less interest rate sensitive liability structure. The key, of course, will be to do this and not cannibalize existing non-interest bearing commercial accounts.

Are sweeps dead then? Probably not, since paying interest on business checking accounts may well increase the cost to banks that don't utilize a more efficient sweep structure. If you already have a sweep, product management gets more complicated, but it is still a plus. Post reg reform, banks will decide if they are going to keep their sweep in order to better manage TAG assessment charges, their balance sheet and FDIC insurance. Pricing and marketing will be critical, as banks must walk the delicate line between creating enough value for the customer, but not driving up the cost of their liability structure by increasing interest sensitivity across the board.

For those that were in banking in the 80's and saw how personal checking reacted when banks started to pay interest, commercial accounts will react in similar fashion although with less interest sensitivity. Contrary to popular belief, despite their higher balances, business accounts are less interest rate sensitive, so take care not to change this tendency.

If you need help with product development, we will be talking about this topic at our upcoming Tactical Workshops and working with clients with our Relationship Profitability and Liability Coach products. Until then, we will be hoping that those shoulder pads for men and bad 80's haircuts remain scarce.

Related Links:
[Tactical Workshops]
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BANK NEWS

6 Banks Closed (99 YTD)

These banks were closed: 1) Woodlands Bank ($376mm, SC) and sold to the Bank of the Ozarks ($3B, AR). Ozarks will receive all deposits (no premium) and $289mm under a loss share. 2, 3, 4) First National Bank of the South ($682mm, FL), Metro Bank of Dade County ($553mm, FL) and Turnberry Bank ($264mm, FL) were closed and sold to shelf charter bank NAFH National Bank (newly chartered, NC). NAFH gets 23 branches in total, all deposits (no premium) and essentially all assets ($1.006B under a loss share). 5) Olde Cypress Community Bank ($169mm, FL) was sold to CenterState Bank of Florida ($899mm, FL). Centerstate gets all deposits (no premium) and $128mm under loss share. 6) Mainstreet Savings Bank, ($97mm, MI) was sold to Commercial Bank ($361mm, MI). Commercial assumes all deposits (1.13% premium) and $77mm under loss share. For more information, follow the "BIG Analytics" link below and look under "Failed Banks" in the bottom right.

M&A

1) TowneBank ($3.6B, VA) has entered a deal to purchase The Bank of Currituck ($173mm, NC) for $10mm, or 0.93x book. 2) Florida Bank Group ($843mm, FL), will acquire Anderen Financial ($150mm, FL) for an all stock deal at a 1.32 common stock exchange. 3) Grandpoint Capital ($95mm, CA), has struck a deal to purchase First Commerce Bancorp ($336mm, CA) for an estimated $42mm, or 1.17x book.