# BUSINESS SAVINGS

by Steve Brown

In the pantheon of banking, the savings account reigns supreme. From the 1860's to the early 1970's, the savings account is why customers went to your bank. Since the 70's the checking account took over in popularity and by 1985, thanks the Merrill Lynch's CMA account, the money market account gained prominence. By 2005, banks had largely cannibalized their savings accounts, by paying a comparatively higher rate of interest on their money market accounts,

despite increasing cash access with a sweep feature. In 2007, retail savings made a resurgence with the rise of our favorite product, the goal-oriented savings account. Now, in 2011, the business savings account is attempting to make a comeback, as banks prepare for higher interest rates. Unlike the money market or checking account, the savings account was designed to capture long-term funds in a non-transactional manner. Not having a maturity like a time deposit, paradoxically gave the savings account one of the longest durations and most positive convexity profiles in banking. While the duration and average balance of the business savings account is less than retail savings, the business savings account has the advantage of actually being less interest rate sensitive and thus more positively convexed. As a result, the business savings account has the potential to be one of the most profitable in banking, if the

industry can just figure out how to market the product. While many banks have reintroduced business savings accounts over the last 6 months (including Bank of America, Chase and Bank of the West), no bank, in our humble opinion, has gotten the account right. The marketing message is that businesses should be setting aside money for emergencies and for capital investment. Long-term money (money not planned on being used for 3Ys or more) should most likely be returned to the shareholder, lest it sit ideal and earn a below market rate of interest. The business savings account should be marketed as an almost mandatory account to support sound practices. The reality is that most banks rarely think about including a business savings account into their business package and if they do, rarely advise the client on how best to use the account vis-a-vis

checking or time deposits. The business savings account shouldn't be transactional (like

Wells Fargo), as it shortens the duration of the balances. It also needs to strike the right balance between fees and rate. ING Direct is on one extreme with no fees and a 0.95% rate. While great for the customer, this rate wouldn't make sense for a bank that has a branch and a mobile network. On the other side of the equation is the highly profitable, but lightly used business savings account from Union Bank of CA. Here, the monthly fee is $5, the minimum balance to waive the fee is $1k and the interest rate is a paltry 0.01%. Right now, the average rate for business savings account in the nation is 0.05% and the average fee is $4.15, with a minimum balance to waive the fee of $500.

In today's market, we suggest doing away with paper statements for your business savings accounts and waiving fees with no minimum balance. We also strongly recommend a 0.20% APY (but dropping your money market rate to 0.125% or lower), roughly the optimized level for many areas of the country. This structure, coupled with additional marketing, sales training and customer education, is a great step to capture non-interest rate sensitive deposits (before rates go up and businesses start focusing on return). By putting resources into your business savings product, community banks can make serious inroads against larger banks. If done right, community banks should be able to capture more balances, help businesses prepare for the future and once again, have a very profitable product.

## BANK NEWS

**Bank Fees**

Bank of America announced it will start charging additional fees in the 2nd half of this year, but waive them for customers that keep a big enough balance in their checking account or use the Bank's credit card every month. The Bank is setting up 4 tiers of accounts for clients, compared to its current 3 tier system and will pilot the new approach in AZ, GA and MA. BofA is taking the action as it tries to recover fees lost under Dodd-Frank.

**Apartment Lending**

The WSJ is reporting that apartment vacancies dropped to a 2Y low in the 4Q and rents increased, according to property research firm Reis. Meanwhile, the national vacancy rate for the sector fell to 6.6% from 8.0% compared to the prior year.

**Financial Reporting**

FASB announced it has deferred changes to troubled debt restructuring disclosure requirements that were scheduled to go into effect on Jan. 1. A new effective date will be set as part of FASB's overhaul of TDRs, which would modify how troubled debt restructurings are defined.

**Housing**

S&P indicates it is taking longer than expected for the housing market to absorb foreclosed homes and now estimates it will take 44 months to clear the supply of distressed homes on the market.