INTEREST BUSINESS CHECKING - SO NOW WHAT?

by Steve Brown

A little more than a month after Reg Q went by way of the tail fin, we are starting to see the introduction and adoption of interest business checking. Unfortunately, we are not seeing a whole lot of naming creativity, as most banks have decided to go with the descriptive, but boring name of you guessed it - "Interest Business Checking." While Capital One was the first to launch the product (under our favorite "Clear Checking" name), others have followed suit, including Wells Fargo, BB&T, PNC, Key, Suntrust, M&T, TD, Bank of the West and others. Most of these banks have rolled out 1-3 tier structures, paying in the range of 10bp to 20bp, with about 13bp being the average. Some banks, like Capital One, have launched aggressive marketing and decided to play the game on rate. Capital One offers above a 1% rate for specific balance minimums and maximums. Others, like Northern Trust, have decided to pay a minimal amount of interest and seem to be offering the product as a defensive measure. For them, about half of accounts require around a $3k minimum balance to waive fees, while the rest require nothing. On the other hand, some banks that require no minimum balance, have instituted a fee of around $14 per month. One interesting aspect of business interest checking are the number of banks that are offering a hybrid product that pays an earnings credit up to a given balance and then pays interest thereafter. Usually under the equally succinct name of "Analyzed Business Checking with Interest," this is a true service product and is likely to catch on the most. To date, banks such as Wells Fargo, PNC, Suntrust, TD and Webster all offer this product. Given this information, the real question is what are you going to do about it? Many community banks put off this decision in order to see what others are doing. Does the above list make you now want to move or are you going to wait for other major banks to do something? How many banks do you need to enter your market before you offer a business interest checking account? These questions are difficult, as there are no right answers. Offer the product too early and you risk increasing your deposit costs and possibly attracting even more liquidity that you can't invest. Offer the product too late and you end up playing catch up, most likely competing on rate to keep customers. While every bank is different, it is certainly hard to say you are about service if you fail to offer what looks to be the core of cash management platforms in the next several years. At a minimum, we recommend taking a look at the bank products mentioned above and seeing how they package and market business interest checking. We have yet to see a bank get aggressive and go after the money market funds and brokerage accounts of small and mid-sized business, but we know it is coming. While bringing on more liquidity right now hurts margins in the short run, the very act of having money in a money market mutual fund or a brokerage account is a marker for an account with above average profitability. Getting these accounts in early (while it is easier, given current market volatility) and cross-selling the customers into profitable products should be worth the effort in the long run. In the coming months, we will have a chance to run our relationship profitability analysis on business interest checking and will report back on the profitability range for variations of this product. Until then, if you are still choosing to wait, at least give the product additional thought, including a catchy name.

BANK NEWS

Make Sure You Read This

Yesterday, we ran an article on bill pay promotions asking banks that had tried sweepstakes to share their data so we could review it (to determine profitability for banks that have run such promotions). To be clear, we DID NOT intend to indicate we agree with such programs and banks should know that regulations prohibit banks from announcing, advertising or publicizing the existence of any lottery (these could be construed as such). If you are contemplating such an idea, make sure your compliance people review everything, because collecting fees tied to certain structures can be a violation and get you into potential trouble. Our advice is to do your own research, hire experts, act prudently and make sure you are aware of and following all rules and regulations to avoid trouble in this area.

Exiting Correspondence Biz

The WSJ indicates Bank of America will sell its correspondent mortgage business. The company decided to get out roughly four to six weeks ago, saying the business no longer fits its long-term strategy. More than 1,000 employees are impacted.

Longer & More

Chicago Fed President Evans (FOMC voting member) said that unless the economy shows significant improvement, the FOMC may need to be even more aggressive in easing policies than it has been so far and that "strong accommodation needs to be in place for a substantial period of time." He also indicated that in his view, quantitative easing should stay in place until unemployment drops to 7% (currently 9.1%) or inflation pushes past 3% (currently 1.8%).

Subpression

Billionaire Wilbur Ross, chair of private equity firm WL Ross said in a Bloomberg interview that he thinks the US will avoid recession, but see a "subpression" marked by little economic growth and few new jobs.

Less Consumer Borrowing

Fed analysis finds consumer household debt (credit cards, mortgages, student and auto loans) has fallen $1T since 3Q 2008 and is now down 8.6%.

Obamaconomy

A new Gallup poll finds only 26% of Americans approve of President Obama's handling of the economy (down 11 points since last measured in May).