

INTEREST BUSINESS CHECKING UPDATE

by [Steve Brown](#)

No doubt this has happened to you. It is Sunday morning and you are making the family pancakes when you realize you are late for church. Not wanting to miss the sermon, you run out of the house, down the street and into the pews only to realize you are still holding the pan and pancake. Since this was a true story, the good people of Liberal, Kansas have turned it into an annual event. Contestants sprint a 415-yard, "S" shaped course, flipping their pancake 3 times while wearing a mandatory apron and scarf. The 63-year old race comes up next week on International Pancake Day and we bring it to your attention to illustrate the point that sometimes important information will never makes it to your desk. Take for instance business interest checking. If you didn't know better, banks have ignored offering interest on their business accounts since the demise of Reg Q. We have seen nary a story in banking trade publications, nor even heard about it at the last 15+ conferences we have attended over the past year. Despite a lack of press, we wanted to report that banks continue to introduce the product with approximately 19 of the top 50 banks offering the product, plus many more community banks. For example, last month Zions Bank joined BofA, Wells, Key, Comerica, PNC, TD Bank, Capital One and others and introduced an interest business account to their commercial customer base. This first new commercial checking product for 2012 also provides an opportunity for us to highlight the current market for the product. Including Zion's entry, the average monthly service charge for interest business checking is just shy of \$17 per month. The average amount of free transactions that the account can handle is 225 with a \$0.29 average for excess items. The minimum fee to waive balances has moved up and now stands at \$4,150. Of course, like the fastest pancake race time (63 seconds), what you really want to know is what rate banks are paying. The range is 0.00% to 0.90%. That said, Capital One is still distorting the market, as they did last year, at the top end. In terms of non- specialized credit card banks, Wells Fargo is the top at 0.18%, followed by Key at 0.15%. The median rate is about 0.08%, which is a good place we suggest you start with a 3 tier structure. Finally, we will add that about 75% of the banks offering interest business checking just tier their structure, so the bottom segments earn 0%. The average amount to earn interest is usually \$3,000, which happens to be slightly above where this product becomes profitable (usually in the \$2,700-range). As we have mentioned in the past, interest business checking is a double-edged sword and must be used correctly to drive value. On one hand, the product dramatically shortens the duration of your commercial checking accounts, making them more interest rate sensitive, which could increase your cost of funds as well. On the other hand, the interest business checking account is very service-friendly oriented and eliminates the cost and hassle of a sweep or Z-account. If done correctly, the impact to duration is muted and a bank can grow balances by delivering a highly valued account so the duration of the overall liability structure increases (as you supplement CD and MMDA balances). Like not thinking about flipping pancakes while running, we wanted to remind you that despite the lack of press, interest business checking is alive and well and balances are growing.

BANK NEWS

M&A

Encore Bancshares (\$1.1B, TX) will buy Whittington Insurance Agency (TX) for an undisclosed sum. Whittington handles personal insurance coverage.

M&A Approved

In an on-again-off-again process that took 9 months, the Fed officially approved Capital One Financial's \$9B acquisition of online bank ING Direct. The transaction pops Capital One to the 5th largest by deposit size.

Mortgages Changes

The CFPB has issued a new prototype for monthly mortgage statements and is seeking industry input. The prototype includes: a breakdown of how much of the monthly payment went to principal, interest and escrow; the outstanding principal, maturity date and prepayment penalty; and the phone number and email address of the company servicing the loan. For adjustable mortgages it also includes the time when the interest rate could change.

Examination Exam

Senate Banking Committee Chairman Tim Johnson has asked inspector's general of banking agencies to audit and report on their examination processes for small community banks and include examination timelines, how agencies ensure exam consistency and how regulated institutions can question exam results.

Dividends Coming

S&P analysts say dividend payouts by S&P 500 companies are already rising and could reach a record high this year (above the record \$247.9B paid out in 2008). Dividend payout ratios, meanwhile, are currently at 27%, but historically have averaged around 53%.

S&P

With more than 60% of S&P 500 reporting 4Q earnings, 77% of those reporting had positive earnings with 3.9% the average earnings increase. However, without Apple, that number drops to around 2.8% earnings growth. It should be noted that the rate is significantly lower than the 7% average over the past 2Ys.

Multifamily Lending

The Census Bureau reports the rental vacancy rate fell to 9.4% in the 4Q of 2011 from 9.8% in the prior quarter. The rate hit a 9Y low of 9.2% in 2Q of 2011. Meanwhile, rental payments jumped 2.5% in 2011, the largest increase since 2008.

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