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Of Interest

Repeal of Reg Q Generates Little Local Interest

Belmont Savings Embraces Interest-Bearing Business Accounts, Peers 'Wait And See'

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For the first time in 80 years, Belmont Savings Bank – and every other bank in America – is allowed to offer interest-bearing checking accounts to business customers. But at least locally, Belmont Savings seems to be one of the few banks actually going ahead and doing it.

The Dodd-Frank Act recently repealed a Depression-era rule called Regulation Q, which had prohibited banks from paying interest to commercial customers. But instead of immediately rolling out hot new products, the mantra of many Massachusetts banks appears to be “wait and see.”

Not everyone agrees with the wisdom of that plan, however; some are warning that banks might be missing an opportunity.

Jeff Reynolds, managing partner at Newburyport-based Darling Consulting, said banks' response to their new freedom has been surprisingly quiet. When banks were fighting hard to get new accounts four years ago, he noted, this kind of regulatory rollback would have sparked a flurry of competing products.

“This would have had a much more profound impact if rates were up and liquidity was not as abundant as it is today,” he said.

Different Strategies

But in the current environment, it's a different story.

For starters, offering interest increases the cost of funds for banks, he said. Reynolds added – and banks concurred – that today's low interest rates weren't likely to catch customers' eyes, especially when they already had other products to take advantage of.

Banks have spent decades maneuvering around the “no interest” rule by offering other perks to commercial customers. Banks commonly offer accounts that decrease or eliminate fees for customers that maintain a certain balance, said John Merrill, president of Leominster-based Fidelity Bank. Fidelity works with small- and mid-sized

Contributed photo



Jeff Reynolds

businesses, featuring accounts with relatively low fees. With rates so low, Merrill said, customers aren't keen to forfeit fee forgiveness in favor of an interest-bearing account that won't reward them very well.

Needham Bank already has interest-bearing accounts for nonprofits and sole proprietorships – which have long been permissible exceptions to the rule – and hasn't seen the kind of customer dissatisfaction that would lead to a change, said Spokesman Tom O'Brien. O'Brien and Merrill both said they were carefully listening to customers and would offer interest-bearing commercial accounts if they sensed a demand, but noted that demand was still lacking.

Belmont Savings, on the other hand, has come out guns a-blazin'.

The bank announced it was embracing the repeal of Regulation Q, and offered 2 percent interest on business checking accounts as of Aug. 1.

It's true that banks, including Belmont Savings, have come up with products that reward commercial customers or help them maximize their money, said Belmont Savings CEO Robert Mahoney. But small businesses in particular often don't maintain high enough balances to trigger some rewards, so they can't benefit from many types of alternative accounts.

With an interest-bearing account, Belmont Savings will be able to offer those businesses some reward, a move that will please current customers and ideally draw in a few new ones, Mahoney told Banker & Tradesman.

Time Is Now?

Susan Feinberg, senior research director with Needham-based TowerGroup, said that while other banks have good reasons for not launching interest-bearing products, a few aggressive banks – like Belmont Savings – might scoop up some customers that do want such an account.

At 2 percent interest, Belmont was making such a stand, she said, adding that Capital One – a national bank that will soon have Boston locations – also immediately began offering an interest-bearing account, at a 1.1 percent interest rate, as soon as the rule was repealed.

These banks will offer relatively attractive terms to win new commercial business, and they'll package them with other, more traditional services, Feinberg said, giving them instant credibility in the crowded commercial banking field.

"There's some risk for banks that don't offer these accounts," Feinberg said.

The logistics of implementing interest-bearing accounts aren't difficult, she noted. Besides, Dodd-Frank laid so many restrictions on retail and mortgage lending businesses, banks might want to use every freedom available to make up the difference on the commercial side.

Community banks initially fought the repeal of Regulation Q, Feinberg said. They argued that large competitors, which can better afford to pay interest, would siphon off customers from their more penny-pinching community bank

peers. But Feinberg said she disagrees: With larger banks dealing with enormous costs of compliance and capital requirements, they're less competitive than they used to be.

Still, Feinberg and Reynolds acknowledged that bankers had plenty of reasons to stick with what had been working for so many decades, and bankers themselves often agreed. Tony Nuzzo, CEO of Newton-based First Commons Bank, said customers were far more interested in customer service, low or no fees and easy access to their accounts – a few interest points one way or another were far less likely to sway them.

But, Nuzzo added, if business customers started asking for interest, he said the bank would oblige: "We'll certainly move with great haste to take advantage of the opportunity."