

## The Dodd-Frank Act

# History and Introduction of Business Interest Checking

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 represents some of the most significant change to financial regulation in the U.S. since the Great Depression. The Act enhances regulatory scrutiny of certain financial institutions, makes changes to the regulatory governance of publicly-traded companies, and includes oversight of executive compensation, among other measures. Through a seldom-discussed amendment, this legislation also introduces a notable change to the way that businesses do their banking – the introduction of business interest checking.

Such an offering has been restricted from the financial landscape for nearly 80 years: The Banking Act of 1933 imposed broad limitations on interest-bearing bank accounts, including savings accounts and consumer checking accounts. Many of these limitations were eased – or repealed – in the decades that followed, but the law prohibiting financial institutions from paying interest on business checking accounts, known as "Reg Q," remained on the books. As an alternative, banks attracted demand deposit accounts using an earnings credit rate (ECR) or other incentives.

### **Business Checking with Interest**

All this changes on July 21, 2011, when Section 627, "INTEREST-BEARING TRANSACTION ACCOUNTS AUTHORIZED," goes into effect. At that time, banks will be allowed – though not required – to pay interest on business checking accounts. This gives banks another tool to attract deposits that they can, in turn, lend to businesses, allowing those companies to grow and – ideally – add employees along the way. On the other side of the coin, the offering makes saving an easier option for some businesses, when that choice is preferable to investing.

On a grander scale, bringing more corporate deposits into the banking system would build on a surplus of cash reserves, and could also give the Federal Reserve greater ability to regulate the supply of credit.

#### A chance to redesign bank account structures

This new choice has the potential to simplify cash management for many companies. Most corporate banking clients with the opportunity to earn interest on the funds they have in their bank accounts will likely be prompted to do so, and those companies using an extensive networks of banks to maximize interest will have the opportunity to cut back considerably on the account shuffling that they might have previously relied on to see a net gain. Currently, treasurers with these firms often try to concentrate scattered deposits as quickly as possible in order to move them into an account that will earn interest.

The ability to get interest on a greater range of deposits should provide some buffer where it comes to consolidating accounts, and the change will help to level the playing field between bank accounts and other investment options, which will be seen as a positive by many.



### Earnings Credit vs. Interest - a new choice

At this point, it is uncertain how many banks will make interest-bearing accounts available to smaller businesses. Green Bank, though, is proud to lead the way in making this offering available – on the first day it's legally allowed – thereby giving our business clients a strategic choice regarding which sort of checking accounts they utilize. Depending on the size of the balance in their accounts, average monthly fees and comparable rates, some of our clients may still prefer to opt for the variety that offers an ECR, and now they have that choice.

In many cases, the choice will come down to the average balance in the account, and the business owner's need for treasury management services. If the account requires only a minimum of services, then an interest-bearing account will likely suit the business best. If the business requires more services for their checking accounts, those with higher balances will likely be best served with an ECR, but interest-bearing accounts will still be best for those with a comparatively small account balances. There are a number of variables to consider.

Business owners or CFOs seeking to determine which option is best for their company need first to see if their bank is, or will be, offering an interest-bearing business account and compare that rate to their bank's ECR. Then, they should decide if they require just a basic service package, or if they'll need additional services such as bill pay, or remote deposit. Based on the cost of these services at their bank, and their estimated monthly account balance and activity, they should be able to get a good sense of what will be best for them.

Green Bank wants to provide businesses with every smart choice possible to help them run at peak efficiency and profitability. For many, the ability to open a commercial account that can actually accrue interest will be a big step in the right direction.