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Love Your Community Banker

By John Hamby

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There are many people — including customers — who *love* their community bankers, albeit not as many as in the past. Primarily that's because a number of banks — mostly the large national banks — have disappointed too many customers.

The passion community bankers have for their communities is real. They serve the small- and medium-sized businesses that are at the heart of our great free enterprise system and often serve as the base of employment growth and the cradle of ideas and innovation.

Despite their passion, they are losing the battle for business checking accounts and noninterest fee income — critical to their financial health and as indicators of their response to the needs of businesses. Large national banks have 25 percent of their deposits in noninterest accounts and derive 37 percent of their gross revenue from noninterest income. Community banks have 15 percent in noninterest accounts and derive 22 percent of their gross revenue from noninterest income.

Both the large national and community banks enjoy the checking account monopoly of all banks. The federal Regulation Q currently denies interest payment on business checking balances and other demand deposits, although the recently enacted financial regulation bill calls for interest payment options.

Most savvy community bankers want to build business checking balances and noninterest income. Their initiatives have centered on marketing programs, line of credit offerings, penalty fee increases and the addition of supplemental programs such as remote deposit and automated clearing house (ACH) origination services.

Business checking at most banks is unimaginative at best and has changed very little over the decades. Banks have developed sweep programs to move excess balances (balances beyond those required to offset checking related services) to overnight interest-bearing instruments. Sweeping provides little income to the bank and fails to capture the potential powerful synergy with business checking that's possible with a more dynamic integrated program. Some community bankers who are aware of possible enhancements have been constrained by technical limitations, prohibitive costs, reprogramming delays or just the traditional way of doing things.

Not surprisingly, more businesses today demand full value for all funds. Since interest on checking has not been permitted since the 1930s, banks provide imputed value in the form of earnings credits. The practice of erasing excess earnings credits at the end of the month does not fly. Banks that carry forward earnings credits until utilized offer an appealing business checking enhancement that is attractive, visible and effective in building customer loyalty.

Expanding earnings credit-eligible services helps justify balance growth. Common practice confines eligibility to a narrow band of direct checking-related activities. Expansion to include wires, payroll services, merchant services costs, trust services and loan interest are permissible. Expanded service eligibility for earnings credits is the fuel that builds required balances and, in turn, promotes larger business checking balances.

Formulating a full-value rate combining multi-year and current money market rates produces a result hovering around one percent. A current earnings credit rate of, say, 40 basis points — or more than double the current 90-day T-bill rate — can be justified. That approach is enlightened and fair to banks and business customers alike.

An enhanced business checking program will also empower banks to present business checking as their lead product in business customer relationship development. Simultaneously, we recommend a move away from emphasis on line-of-credit-led development solicitations.

Local financial executives must communicate their needs to community banks, offer new suggestions and make compelling cases to promote healthy and competitive industry changes. Such changes will encourage financial executives to love their community bankers.

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