

Dodd-Frank Reform Increases Bank Fees

The Dodd-Frank Wall Street Reform and Consumer Protection Act repeals Reg Q. The repeal of Reg Q (Title VI, Section 627 of the Act) becomes effective July 21, 2011. At that time, banks become free to pay interest on corporate demand accounts. Many corporate cash managers see this as a victory as it should simplify their daily money movement routine. The legislation also contains numerous provisions that will increase Federal Deposit Insurance Corporation (FDIC) fees for banks.

Phoenix-Hecht expects the banks will react to the increase in FDIC charges by passing the cost on to corporate customers, just as they have done with previous FDIC assessments. Many large banks have withdrawn from the Transaction Account Guarantee Program (TAGP) which provided unlimited insurance on non-interest transaction accounts. Effective December 31st, this unlimited coverage is now mandatory for all banks for the next two years. Interestingly, the FDIC is prohibited from charging the banks a separate premium so the premium costs will be buried as part of the FDIC charge on a corporation's account analysis statement until the end of 2012.

The option to pay interest on corporate demand accounts will impact corporations in numerous ways. Some banks may elect to pay interest to gain competitive advantage while others will continue compensating companies for excess balances using the Earnings Credit Rate (ECR) to offset fees. The most likely outcome is some combination of paid interest and the ECR where a company is paid interest on available balances above the level to compensate for service fees.

The concern for corporations should be how banks are going to recoup the lost revenue from demand deposit balances. In all probability, the banks will attempt to recapture the additional interest cost by a combination of increased transaction fees, tiering the paid interest rate and the ECR based on the size of the account relationship, and reducing funds availability on deposits. Of course, transaction costs are negotiable. The Phoenix-Hecht Blue Book of Bank Prices™ analysis shows that transaction volumes, total fees paid and the company's geographic region are the three main influences of a services price. The paid interest rate will also become part of this equation.

Reduced funds availability, should the bank go this route, becomes a hidden cost to the corporate depositor especially since it is a bank revenue source which is hard to detect. Companies should monitor their depository accounts monthly using simple calculations from an account analysis and bank statement. Over time a pattern of performance will emerge. A company should track average daily float, average collected balances or average float as a percentage of ledger balance (account being monitored should only contain deposit activity). Over time an acceptable level of float should be experienced. In a low interest rate environment, many companies believe the float is insignificant but when the bank can reduce funds availability across a large segment of customers it becomes a large revenue source to the bank.

The Dodd-Frank financial reform is likely to produce many unintended consequences in its effort to regulate the banks. Right now, it looks like corporations are going to get a significant portion of the bill.