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For Immediate Release
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Repeal of Regulation Q Puts $21 Billion of Industry-wide Bank Profits at Risk According to Treasury Strategies

August 4, 2010 (Chicago, Illinois) – Following passage of the Dodd-Frank reform, Treasury Strategies surveyed 12 of the 24 largest U.S. banks about their strategies to address the repeal of Regulation Q, which makes it possible for banks to pay interest on demand deposits. Banks are concerned about profitability and competitive response in the wake of this repeal, according to Treasury Strategies.

"We found two compelling themes across all banks," says Chrystal Pozin, a Principal with Treasury Strategies. "First, banks are extremely concerned about commercial banking profits, since business deposits can drive up to 80% of profitability."

Business deposits account for 8% of industry-wide profits, or $21 billion, according to Treasury Strategies estimates.

"Secondly, banks are hungry for insights into competitor reactions. Their biggest question is how aggressively competitors will set interest rates on business checking accounts," continues Pozin.

While respondents have not yet formulated their strategies, they all agree that competing solely on interest rate would erode the value of demand deposit accounts. "These banks believe competition in operating services, not rate, is key to maintaining the value of the entire demand deposit business," Pozin explains.

Dave Robertson, a Partner at Treasury Strategies concurs. He says many banks are considering a hybrid product that, for example, offers an Earnings Credit Rate on balances until service fees are paid, then offers explicit interest on "excess" balances.

Respondents also recognize their Reg Q strategies cannot evolve in a vacuum. Changes in bank liquidity and capital requirements, unlimited FDIC insurance on noninterest-bearing accounts and other regulations must also be considered.

"The market is keenly aware of the need to quickly address the bill's measures. This urgency, combined with uncertainty about the bill's long term implications, has potential to create chaos in an already distressed market," adds Pozin.

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