

STATEMENT
ON
PROPOSAL TO PERMIT INTEREST ON BUSINESS CHECKING ACCOUNTS
SUBMITTED TO
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE
BY THE
U.S. CHAMBER OF COMMERCE

March 13, 2001

The U.S. Chamber of Commerce, the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region, strongly supports efforts to repeal the ban on banks paying interest on business checking accounts. This goal is of particular importance to America's smaller businesses, which is more than 96 percent of our members. We strongly urge passage of such legislation.

Last year, the U.S. Chamber worked with Congress to pass H.R. 4067, the Business Checking Modernization Act. This legislation would have lifted the sixty-five year prohibition against banks paying interest on business checking accounts. Although the bill was passed by the House of Representatives by a voice vote, the U.S. Senate failed to act on companion legislation prior to the adjournment of the 106th Congress. H.R. 4067 would have corrected the anomaly of present law by allowing banks to competitively price their products and services in an open market to business customers. Additionally, the legislation would have offered an important opportunity for small business owners to establish a more complete relationship with financial service providers.

The prohibition against paying interest on demand deposits for business is out-dated for today's marketplace and must be addressed. Since the prohibition was enacted in 1933,

legislative and regulatory opportunities have come and gone without action being taken on business checking accounts. In 1980, The Depository Institutions Deregulation and Monetary Control Act was enacted, where many provisions of the antiquated interest rate control system were abolished. Individual account holders were finally able to earn interest on their checking accounts.

Consumers are well aware of the financial benefits of interest bearing checking accounts. Unfortunately, the provision dealing with business checking accounts was left unchanged. In 1996, a joint report was issued by all federal banking regulators, including the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. Titled Streamlining of Regulatory Requirements, this report concluded that the statutory prohibition against paying interest on demand deposits no longer served a public purpose. Unfortunately, notwithstanding the conclusion of the report, nothing was done to rectify this problem and the prohibit remains in place.

Maintaining the current ban would continue to place small businesses at an unfair disadvantage without any rationale. This relegates small businesses to a competitive disadvantage with their inability to earn money in these idle accounts. Frankly, a basic sense of fairness would allow banks to pay interest on a business checking accounts as they do with personal checking accounts.

The U.S. Chamber believes strongly that small businesses must be provided with the financial management tool of interest bearing accounts. Adopting this provision will ensure entrepreneurs of all sizes the ability to compete more effectively in today's financial marketplace. By fostering open competition and allowing interest on business checking accounts, this provision offers an important opportunity to small business owners to establish a more complete relationship with their financial service provider.

Current alternatives to paying interest on business checking accounts are cumbersome and costly, both to the bank and its small business customer. Therefore, sophisticated and costly cash management techniques leave small businesses unable to earn market rates of interest on their transaction balances. Hence, this provides an environment that would allow banks a less costly approach of offering the option of interest bearing accounts. Additionally, authorizing Federal Reserve to pay interest on reserve balances at the Federal Reserve Banks will make it easier for banks to compete with other institutions that offer similar deposit instruments that are not subject to reserve requirements.

The U.S. Chamber of Commerce strongly supports the repeal of the prohibition on interest on demand accounts for businesses. This repeal is long overdue and it is time to provide a positive financial mechanism to thousands of hard working small business owners across America. The U.S. Chamber commends Chairman Bachus for his leadership, and stands ready to work with you and your colleagues to pass legislation in a timely manner that will allow banks to offer interest bearing checking accounts to their business customers.

Thank you.