

Impacts of Financial Regulatory Reform – Banking Charges
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FEI Summary

Most have characterized the Dodd-Frank Act (HR 4173) as a comprehensive reform of the banking and financial services sector. While that is an accurate characterization, the significant new regulations enacted will actually affect all sectors of the economy, beyond financial services.

Many of the impacts to non-financial companies will not be fully understood for months or years until new regulations related to banking oversight, capital ratios and reporting requirements are implemented by federal agencies through rulemaking. Many banks have already begun announcing fee increases, and more announcements are expected.

The following are some known impacts of the new law which may affect financial executives in all industries.

Permanent FDIC Insurance Coverage Set at \$250,000

The bill permanently increases the level of federal deposit insurance coverage for banks, thrifts and credit unions to \$250,000, retroactive to Jan. 1, 2008. The bill also permanently extends the unlimited FDIC insurance for non-interest bearing transactional accounts.

Additional FDIC Assessments Borne By Consumers, Business

The law raises FDIC assessments on banks with over \$10 billion in assets, and the new assessments are expected to raise \$5.7 billion over 10 years. This is expected to increase the FDIC reserve ratio to 1.35% by 2020. FDIC assessments on banks have been rising steadily over the past two years, and the additional increases are expected to create a need for banks to charge additional fees on consumer and business customers.

Business Checking Allowed to Earn Interest

The bill repeals Regulation Q (originally imposed under the Glass-Steagall Act), and thus authorizes banks to pay interest on corporate checking accounts beginning in 2011. As a result, commercial banks will likely face higher cost of funds as they begin paying interest. These higher costs could be recouped in the form of higher bank fees on customers.

As a result of changes to these laws, companies should expect to evaluate an array new products, promotions, rate structures and fees offered by the various banks.

All Consumer Financial Products Will Be Reviewed

The new Consumer Financial Protection Bureau will be charged with writing rules and providing oversight and approval for all financial products before they can be used in the private sector. This oversight is not limited to banks, but also includes other entities such as merchants, retailers, etc. which provide credit or other financial products to their customers.

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