



STATEMENT OF
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Subject: Interest on Business Checking

Before: U.S. Senate Committee on Banking, Housing, and Urban Affairs

Date: June 21, 2005

Good Morning. I'm Ed Pinto, president of Courtesy Settlement Services LLC in

Sarasota, FL. Thank you, Chairman Shelby and Ranking Member Sarbanes, for giving me the opportunity to testify on behalf of the National Federation of Independent Business (NFIB) regarding interest bearing checking accounts for small businesses. Eighty-six percent of NFIB members support allowing business owners to earn interest on their business checking account balances.

I commend the Committee for conducting this hearing on Regulatory Relief. I am also pleased that the House has overwhelmingly voted in favor of H.R. 1224 by a vote of 424-1, to overturn this archaic law that prohibits interest on business checking accounts.

The big banks have consistently opposed repealing the ban on interest checking, and have proposed compromise legislation, a compromise that would delay the implementation of the repeal by 3 or more years. Their efforts to insulate themselves from free-market competition have hurt small businesses, the acknowledged job creation engines of this country. This bill is necessary consumer protection legislation, and every day it is delayed is an injustice to the more than 25 million taxpayers filing business income tax returns with the IRS!

Let me repeat that number - there are over 25 million business income taxpayers!¹ This issue may seem like small potatoes – perhaps only an average of \$100 or \$200 per year per small business – but multiply it by 25 million and consider the job creation power of our nation’s small businesses, and the impact will be large. The House-passed bill, as currently written with a two-year delay, is already a compromise, and NFIB strongly urges the Committee to resist efforts to further lengthen the phase-in period. I urge you not to deny this much needed legislation to these millions of taxpayers.

While it has been 16 years since I started my first business, I can still vividly recall my astonishment at being told that a business could not earn interest on a checking account. I was further astonished to find that my business account not only didn’t pay interest, it came with a

¹ “The Small Business Economy- A Report to the President,” U.S. Small Business Administration, Office of Advocacy, (2004).

plethora of fees! My banker said not to worry, and introduced me to the spellbinding concept of compensating balances. Boy, was I in for an education, and one that had nothing to do with growing my business. I remember thinking that all of this seemed quite foreign and not exactly consumer-friendly. I had been earning interest for years on my personal checking account, which had a much smaller balance. I recall asking my banker, “Why no interest?” I was told simply that it was against the law.

Later, as the business prospered, my banker suggested that I set up what she called a “sweep account” – which, she told me, did not have the benefit of FDIC insurance, but did pay interest. And so, that’s what we did. Boy, was it complicated. First, we analyzed my account history to determine how much to keep in my regular account so as to “earn” enough to avoid incurring fees on my regular checking account, my second encounter with compensating balances. Next we had to project what would be earned in interest and compare that to the additional fees incurred to administer my new sweep account. Then I had to authorize an amount to be swept each night. Here I had a choice: I could either call each afternoon to authorize the transfer or I could set a floor amount and automatically sweep all funds in excess of that amount. Not being a glutton for punishment, I selected the automatic option. After this exercise, I barely remembered what business I was in. But that was just the beginning.

As any new business owner will tell you, there are better ways to spend your time than calling your banker everyday. But small-business owners, by our nature, break out in hives at the thought of money sitting in a banking account not earning interest.

What I didn’t know was that a sweep account is really designed for a larger company, one with an in-house accounting and financial staff to keep up with the flow of money from account-to-account. For the small-business owner with a business to run, it can be a paperwork nightmare. We soon found that the sweep account, while addressing the non-interest bearing account issue, resulted in a flood of paper from the bank. Each day we would receive a

reconciliation statement to let us know how the money had been shifted around in the past 24 hours. And because this is done via the mail, there was always a two-to-three day delay in the information flow so we never had an accurate, up-to-the minute view of the flow of funds among our banking accounts. Of course, the mail piled up unopened at the rate of 250 letters per year. To add insult to injury, my sweep account fees were paying for all of this paperwork.

Don't get me wrong. I am not arguing against sweep accounts. But they are a bookkeeping hassle for a small business. Wouldn't these misguided resources be better spent on tasks that help grow the business, rather than keeping up with a flood of paperwork?

For obvious reasons, the make-work nature of the sweep account ended up significantly reducing our interest earnings. And if you consider the allocation of staff time to handling the paperwork and the lack of oversight caused by the sweep solution, I could argue that we would have been much better off leaving the funds in a non-interest-bearing account - which is what all too many small-business owners do - a fact that restricts much-needed job creation capital from those who need it most.

I know that there are many simpler non-bank alternatives to this crazy system, but is that Congress' intent? And so, while I have continued to work with a traditional banking institution (without a sweep account I might add), it makes even less sense today why this prohibition is continued. I don't even believe that it makes sense for banks. Creating by legal fiat a restriction that can be sidestepped with sweep accounts (even if in an inefficient manner) or does not apply to competitors of banks, in the long run will only hurt the banks themselves. I challenge anyone to present a justification for a result that can only be cited as a textbook example of the law of unintended consequences run amok.

The Senate has an opportunity to eliminate an archaic law that has run headlong into the creativity of the free-market. The current law saddles America's small businesses with an inefficient alternative that costs small businesses billions in annual revenue that could be used to

grow these businesses and the jobs that go along with them.

I support giving banks at least the choice to offer interest-bearing accounts to small-business owners. I urge this Committee to consider this bipartisan effort and to resist efforts to further lengthen the phase-in period of this important legislation. The time is now for the Senate to act. Thank you for allowing me to express my views before the committee.