STATEMENT OF

REX HAMMOCK

HAMMOCK PUBLISHING

Subject: Business Checking Freedom Act of 2003

Before: House Financial Services Subcommittee on Financial Institutions and Consumer Credit

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Good Morning. I'm Rex Hammock, president of Hammock Publishing Inc. in Nashville, Tennessee. Thank you, Mr. Chairman, 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.

I commend you Congressman Toomey, for introducing H.R. 859, the Business Checking Freedom Act of 2003. During both the 106th and 107th Congresses, the House passed by voice vote legislation overturning the archaic Depression-era law that prohibits interest on business checking accounts, only to see these efforts stall in the Senate. The big banks have consistently opposed repealing the ban on interest checking, and have proposed compromise legislation that would delay implementation of the repeal by three or more years. These efforts to insulate the industry from the costs of free-market competition have hurt small businesses, and NFIB is adamantly opposed to delaying implementation of the repeal. The bill, as currently written with a one-year delay, is already a compromise, and NFIB strongly urges the Committee to resist efforts to lengthen the phase-in period. Clearly, we have already delayed long enough.

Hammock Publishing, which I founded in 1991, today employs 25 full-time employees and several part time staff, along with utilizing the services of numerous independent writers and photographers from around the country. We are a custom publisher of magazines, newsletters and website content for corporate and non-profit clients. For instance, we publish the magazine American Spirit for the well-known organization, the Daughters of the American Revolution.

When we started Hammock Publishing, we had a total of six employees. At that time, we did not have a bookkeeper on staff, so I, with the help of an accountant who checked in once a month, did the day-to-day bookkeeping. While there's a fog of excitement through which I recall the activities of setting up the business, I can still vividly remember going through the process of applying for a business line-of-credit and setting up a checking account through the small business banking department of the local branch of a large regional banking company.

That was when I first learned that a business couldn't earn interest on a checking account. I remember thinking it was odd and asking my banker, "Why not?" He said simply that it was against the law. But as a way around the restriction, he suggested that I set up what a bank called a "liquid investment account" -- which was similar, he told me, to a money market account. And so, that's what we did. We had three accounts with the bank: a checking account, a liquid investment account and a line-of-credit.

During those first two or three years, I personally would call the banker each day or so and shift funds around from account to account in order to ensure that I was neither paying interest on the line-of-credit nor losing interest that could be in the liquid investment account.

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

Even after our company grew larger and we were able to hire a bookkeeper, we continued to use this method of calling the bank to move funds to get around the restrictions on business checking account interest. I can remember waking up many nights trying to recall if I had transferred the intended funds from one account to another. The next morning it would not seem like a big deal, but when you are running a small business, even little nuisance problems can grow large at about 2:30 in the morning.

After some good-natured complaints to my banker regarding this stone-aged approach to banking, he suggested that I set up a sweep account to automate what we were doing manually each day.

While a sweep account may make sense for a larger company with an in-house accounting and financial staff to keep up with the flow of money from account-to-account, it can be a paperwork nightmare for a small business owner. 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 received a reconciliation statement letting 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.

Don't get me wrong. I am not arguing against sweep accounts. But they are a bookkeeping hassle for a small business that would rather have their bookkeeping and accounting staff focused on managing payables and receivables than in keeping up with a flood of paperwork pouring out of the bank. For instance, in 2002, we received over 250 statements from our bank regarding our sweep account.

Ironically, we did not earn a significant amount of interest (or save interest on our line-of- credit) from this mountain of paperwork. And if you consider the allocation of bookkeeping 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 many small business owners do - a fact that restricts much needed capital from those who need it most.

About four years ago, I had the privilege of providing similar testimony about my experience with non-interest checking to another congressional committee exploring this issue. A national business magazine mentioned my name in a follow-up story and identified me as someone who parks their company's money in a non-interest-bearing checking account (which, as I explained earlier, is not accurate). After that story appeared, I was contacted by financial advisors from all over the country with suggestions for how I could set up accounts in non-banking financial institutions in order to get around the interest checking issue. And so, while I have continued to work with a traditional banking institution, I've discovered through this issue that there are so many ways around this regulation, and people continue to come up with new ideas to get around the law, that it makes little sense to me why it should be continued. It would appear to me that even the banks who, on the surface, may seem to benefit from not paying interest, are running off some of their small business customers by continuing to defend this archaic practice.

I urge this Committee to lend its support to ensuring the expeditious adoption of the Business Checking Freedom Act, and to resist efforts to lengthen the phase-in period. Small businesses have waited long enough for this important measure. Again, I thank you for your time and attention this afternoon.