

**Testimony of John Durrant, Managing Vice President, Small Business Banking  
Capital One Financial Corporation**

**House Committee on Financial Services  
Subcommittee on Financial Institutions and Consumer Credit**

**Hearing Entitled: “Understanding the Effects of the Repeal of Regulation Q  
on Financial Institutions and Small Businesses”**

**March 1, 2012**

Chairman Capito, Ranking Member Maloney and members of the Subcommittee, I greatly appreciate this opportunity to offer testimony for the record on the issue of Interest Checking for Small Business customers on behalf of Capital One Financial Corporation.

Capital One Financial Corporation ([www.capitalone.com](http://www.capitalone.com)) is a financial holding company whose subsidiaries, which include Capital One, N.A. and Capital One Bank (USA), N. A., had \$128.2 billion in deposits and \$206.0 billion in total assets outstanding as of December 31, 2011. Headquartered in McLean, Virginia, Capital One offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients. Capital One, N.A. has approximately 1,000 branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. A Fortune 500 company, Capital One trades on the New York Stock Exchange under the symbol "COF" and is included in the S&P 100 index.

Capital One applauds the Chair and the Subcommittee for holding this hearing on a topic of great importance to American small businesses, particularly in the face of challenging economic times.

**Background to Launch of the Clear Interest Business Checking product (CIBC)**

When Regulation Q was first promulgated in 1933, it prohibited Federal-Reserve-System-member banks from offering interest-bearing checking accounts to business customers in an effort to spur the flow of credit. Section 627 of the Dodd-Frank Act that was signed in to law in July 2010 repealed Section 19(i) of the Federal Reserve Act in its entirety, effective July 21, 2011, which made it possible for banks and credit unions to offer interest on demand deposit accounts (DDAs).

With the repeal of the legislation, Capital One recognized an opportunity to better serve the needs of many businesses (generally those with \$250K - \$2MM in annual sales revenue). Research and customer insights suggested these customers wanted more value out of their banking relationships. We found that their desire for simplicity and worry free banking products was not being well met by existing products in the marketplace. Specifically, there was a substantial gap in product offerings between high cost / high transaction “analysis” checking accounts that pay earnings credit on deposit balances and more basic low cost / low transaction DDA products which did not provide any specific monetary value back to the customer.

To help fill the gap, Capital One launched Clear Interest Business Checking (CIBC) in July of 2011. Capital One believed that the legislative change would enable us to provide incremental value to many small businesses for their primary checking deposits business. The product automatically pays interest on checking balances between \$10,000 and \$100,000 on a monthly basis. The offering design includes up to 300 free transactions per month, free online banking with bill pay, a free debit card and access to our team of small business specialists. This structure was intended to address our customers' desire for a simple checking account that provides great value without constant management of per transaction fees or the need to frequently transfer balances between accounts. We believed that this product would provide a compelling reason for small businesses to switch to Capital One as their primary bank as well as increase loyalty among existing customers.

### **Small Business Customer Response**

Capital One has been very pleased by the overall reaction to the CIBC product launch from customers, our bankers and industry experts. Small businesses and bankers have shown great enthusiasm for the CIBC product. We believe that the majority of checking accounts in the marketplace prior to the repeal forced a large segment of small businesses into products that either provided little value relative to their deposit levels or failed to deliver on the simplicity and ease desired. Qualitative feedback indicates that the CIBC product effectively delivers the intended combination of value and simplicity that is attractive to many customers.

We also believe that the current rate environment is likely to have muted the attractiveness of the CIBC product. While very competitive relative to other offerings, some small businesses have told us that the absolute value generated by the 1.10% introductory rate on the CIBC product is not compelling enough to dislodge them from their current banking provider. As macro economic factors improve and the value of deposits increases, we will continue to evaluate the rates we pay on this product. We expect competition among banks for deposits to increase and could see increased use of products like CIBC in the marketplace.

### **Future Plans for Interest Checking Products**

In this environment where many question the commitment of banks to serve the needs of their customers, we are pleased to offer the CIBC product to small business customers and intend to continue to do so. In addition, over time, we plan to evaluate the expansion for our interest bearing checking accounts across the small business spectrum. Our research suggests smaller businesses (those who keep less than \$10,000 in their DDA) would find an interest bearing DDA attractive and larger businesses (those who keep more than \$100,000 in their DDA) often seek simpler solution for their checking needs.

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Chairman Capito, Ranking Member Maloney, we thank you for this opportunity to provide testimony to your Subcommittee.