STERLING NATIONAL BANK

# 5 Ways Property Management Companies
## SHOULD THINK ABOUT EARNINGS CREDIT RATE PROGRAMS

**The earnings credit rate allowance is not a new banking tool, but it can have a major impact on profitability for Property Management Companies.**

Earnings credit rates, or ECR for short are attractive because they offset service charges by generating a credit on non-interest bearing accounts. That credit can be applied against Treasury Management services that typically incur fees.

Sterling's Property Management Banking division is a national practice area for the bank, and frequently consults with clients on ECR programs. "Our team works with Property Management Companies operating in 20-plus states. We find that most CFOs and Owners of Property Management Companies are well aware of ECR but are not taking full advantage of it as a tool to operate more efficiently and profitably," says Ray Guanlao, Property Management Banking Segment Leader at Sterling National Bank.

Most banks either offer a high ECR to offset a high fee structure, or offer a low ECR and a low fee structure. "At Sterling we prefer to take a consultative and holistic approach, first understanding what matters most to our clients and then building a customized ECR proposal based on that information," Guanlao says. "Handled strategically, ECR can go beyond offsetting bank fees to being the basis for creating a more targeted approach to banking services and potentially a significant contributor to profitability for a Property Management Company."

**RAY GUANLAO**
Segment Leader, Property Management Banking,
Sterling National Bank

To learn more about how ECR programs may help benefit your bottom-line, contact Ray at (212) 661-0790 or visit https://www.snb.com/property-management-banking.

## ECR and Bank Regulation

Tracking the earnings credit rate on deposited funds goes back all the way to the 1930s, when Regulation Q from the Federal Reserve Board prohibited banks from paying interest on commercial demand deposit accounts. Banks responded by offering an "earnings credit," which could only be used to offset bank fees.

ECR has since evolved in response to new regulations and laws, including the FDIC Transaction Account Guarantee (TAG) program and the Basel III international regulatory accord. In 2010, the Dodd-Frank Act removed the prohibition on "hard interest," allowing banks to offer both credits to offset fees and hard interest.

**Here are five strategies Guanlao recommends to Property Management Company owners and CFOs to "think differently" and use ECR to enhance efficiency and profitability.**

### 1. COMPARE GROSS AND NET ECR

- Understanding how ECR can be used to improve profitability begins by comparing gross ECR and net ECR. Most Property Management Companies receive a monthly account analysis statement that consolidates deposit balances for all properties under management. That statement begins with an earnings credit rate at the top of the statement, which you can think of as gross ECR. At the bottom of the statement is net ECR, a number, either an excess amount by which ECR allowance exceeds that month's banking fees or a deficit amount, meaning the fees exceed the ECR allowance. Between the top and the bottom are often hundreds of pages of itemized transactions and fees for all the properties—that's why most clients don't analyze their net ECR.

- A thorough discussion of ECR based on the Property Management Company's statement should be as much a consultation as a cost analysis. For example:
  - **IS** the gross ECR above or below the market, based on their deposit balances?
  - **HOW** is the company collecting and paying out funds? Are they using a higher cost method that could be replaced by a less expensive bank service? If they are heavy check users, that may point to a need to shift to paperless receivables or payables. If they are receiving checks, do they use a lockbox service?
  - **IS** the company using all the services they are paying for? If so, does an underutilized service mean they have an opportunity to save money by dropping or replacing that service or should they figure out ways to implement the service more fully and create efficiency?

- With technology changing constantly and business being so data-driven, Property Management Companies should consult with their bank regularly about the treasury management services they are using and how their ECR is being used to fund them. The picture of gross and net ECR may change rapidly. Companies need to stay on top of it to make company operations as efficient as possible.

### 2. KNOW WHAT TYPES OF ACCOUNTS RECEIVE ECR

- Many banks do not include all account balances in the ECR calculation. It's not unusual for reserve accounts to be excluded. If the banking services used with those accounts have fees associated, the accounts should be included in your earnings credit rate program. Be sure that both operating accounts and reserve accounts are included.

- It's also essential to know which fees for bank services are hard charged and which are soft charged. A soft charge is one that can potentially be absorbed by the earnings credit rate. A hard charge will be deducted from the property management company's account, with no option for being offset by the earnings credit rate.

### 3 . UNDERSTAND HOW ECR WORKS IN A VOLATILE RATE ENVIRONMENT

- We advise all clients to analyze periodically what net ECR looks like in both rising and falling rate environments. Right now we're in a very low-interest rate environment. There is even talk about negative interest rates, and banks are lowering earnings credit rates along with interest rates. At some point in the future, rates will inevitably rise again.

- Property Management Companies need to do a thorough analysis of how changes to their earnings credit rate will affect profitability.
  - **WHAT** happens if gross ECR goes down 10 basis points? How much money would that take off the bottom line?
  - **HOW** much is the company now paying in fees?
  - **IF** ECR reimbursement funds are being used to pay for third party technology, such as accounting software or lockbox platforms, can other funds be used to pick up the slack if ECR reimbursements decline?
  - **ON** the other hand, what happens when underlying rates go up? How quickly will rate changes be reflected in ECR?

- If you own a company, you always want to know how a future event could impact your business. Even a modest reduction in the top line could have a very significant impact on the bottom line.

### 4. TAKE ADVANTAGE OF ECR REIMBURSEMENT

- Remember rollover minutes with cell phones? Users paid for a certain number of minutes per month, and some cell phone service providers would carry over unused minutes for future use, but some would not. Something similar is happening with ECR programs.

- Traditionally, banks have applied vendor credits only in the month in which they were earned. No matter how high the potential credit would rise, the benefit applied to the customer's account would not exceed the current month's charges, and any excess credit was lost.

- Going back to the "rollover minute" analogy, some banks have begun shifting their ECR programs to offer vendor credits for excess earnings in some form, either for the entire amount of the credit or for a partial amount. Many banks still do not extend earnings credits beyond the current month so it's important for Property Management Companies to understand how their bank's program works. Unused credits paid to the client through a reimbursement program could go straight to the bottom line, increasing profitability, or they could be invested in the business.

### 5. USE ECR TO FUND INNOVATION

- Like every industry, banking is experiencing a lot of technology-based disruption. Property Management Company owners and CFOs frequently find themselves on the receiving end of pitches from third-party technology companies that compete with traditional banking services.

- Banks are responding to this competition in a variety of ways, sometimes simply promoting traditional services as superior or creating new technology solutions in-house. While using one bank for all services can have some advantages, if a new technology could make your company more efficient, you don't want to rule it out and you don't want to be stuck doing everything with a bank that is trying — perhaps unsuccessfully — to be a one-size-fits-all solution.

- Sterling advises Property Management Companies to see their banking partner as a banking technology consultant. Your bank may indeed have the best technology solution for your situation. But a good bank partner should be willing to help clients find the best solution, wherever it may originate. Before going direct to a third-party service provider, find out if your bank has relationships with technology vendors that may allow them to offer more economical pricing. If the best solution is with a third-party company, see if funds from your ECR reimbursement programs can fund the new technology.

## The Future of ECR

Even beyond interest rate fluctuations, the ever-changing business climate means there will always be a need for a consultative approach to banking services, including ECR. Use the ideas we've presented here to make sure you're equipped with the right questions to ask, and make sure your banker has a deep understanding of how ECR can impact your business.