



Facing The Deposits Challenge

by [Steve Brown](#) Topics: [funding](#), [deposits](#), [business customers](#)

Summary: A tough trend facing community banks in 2019 is the loan vs. deposit funding and NIM squeeze. Are you ready for this challenge?

Back in 2014, Zagat surveyed people about their pizza eating habits. They found the most popular topping was pepperoni at 37%, followed by sausage (33%), mushroom (32%) and cheese (28%). People said they eat pizza about 4x each month and average about 3 slices when doing so. We wonder what this survey might look like if it were updated today.

Making a pizza is pretty easy once you have done it a few times, and the same might be said about banking. After all, at its most basic, the bank business consists of two main tasks: taking money in through deposits at one rate and putting it back out as loans at a higher rate. Do that over time, and you make money.

This simple equation can be tricky, though. For example, a tough trend facing community banks in 2019 is the loan vs. deposit funding and NIM squeeze, when rapid loan growth outpaces deposits. According to one source, 90% of banks expect to see loans growing faster than deposits throughout this year.

Banks trying to navigate the current deposit environment face several challenges. Potential depositors can easily shop rates across the country through online services now, which has made it much easier to find and access the highest rates.

In addition, online-only banks seem to be springing up like weeds in the yard after a good spring shower, and they are very willing to pay high rates to capture deposit customers.

For community banks, the good news is that now that the top 5 banks control nearly 50% of all deposits, they have no interest in moving deposit rates higher. That means they are essentially serving as an anchor on the banking industry funding cost boat and that is good for everyone else. Unlike in the past, so much in deposits is in so few hands, and it is so deeply tied to direct deposit activity that it just is not leading to extreme upward pressure at this point, despite multiple Fed rate hikes.

One less positive change for community banks that bears watching is the technology upgrades that now easily allow customers to move deposits and open new accounts. It is no secret that online financial services have pioneered quick and easy ways for depositors to open accounts. Community banks that want to be competitive must make sure they have effective and user-friendly online and mobile deposit services.

While effective and efficient online and mobile deposit capabilities can be an advantage, keep in mind that not everyone likes digital. A sizeable portion of customers still prefer personal service over digital in fact. Many of those digital-averse customers are also the older, more affluent types with money to deposit.

When it comes to managing the loan vs. deposit funding and margin squeeze, community banks must focus intently on all competitors, what they are doing, how they are pricing and also every tool available to your team on the deposit side that you can leverage. No matter what the competition is cooking up across the street or through online channels, the secret sauce that makes your community bank special is what ultimately delivers success.

ECONOMY & RATES

Rates As Of: 02/21/2019 11:24AM (PST)

Treasury	Yields	MTD Chg	YTD Chg
3M	2.44	0.06	0.09
6M	2.51	0.06	0.03
1Y	2.54	-0.00	-0.05
2Y	2.53	0.07	0.04
5Y	2.51	0.08	0.00
10Y	2.69	0.06	0.01
30Y	3.05	0.05	0.03
FF Market	FF Target	Fed Disc	
2.40	2.50	3.00	
SOFR	Prime	Unemp	
2.39	5.50	4.00	

[More Market Rates](#)

BANK NEWS

New Fed

[In her first speech, new Fed Governor](#) Michelle Bowman (has community banking experience), stated that the community banking sector has "improved significantly" since the financial crisis and also noted that there were no community bank closures in 2018. She furthered that "our job is to ensure that community banks continue to remain strong." She has been traveling across the country and asks community bankers to express their worries about regulation to her and other regulators.

Credit Cards

According to the ABA, monthly credit card subprime and super-prime purchase volumes rose from Q2 to Q3 2018 while prime accounts were somewhat curbed. YoY purchase volumes increased by 10% for super-prime accounts, 3.9% for prime accounts and 7.9% for subprime accounts.

Elder Financial Abuse

US banks reported greater than 2x the amount of suspected elder financial abuse cases than 5Ys ago. This is important as people over 50 represent around 33% of the population, but account for 61% of bank accounts and 70% of bank deposits, according to 2017 research by the ABA.

DEPOSIT OPPORTUNITY YIELDING 2.55%

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 2.55%, subject to availability. Contact operations@pcbb.com.

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