

LEVERAGING DEPOSIT MARKETS

by [Steve Brown](#)

Funding is the predominate issue for many banks these days. As part of our Liability Coach service, we often help our client banks analyze the option of marketing deposit products outside of their geographical footprint. This strategy helps to limit the amount of potential cannibalization and arbitrages the difference in rates and competition between markets. Not all deposit markets are the same, as some pay higher rates, while others have less competition. Oftentimes it is a particular product that lacks competition in the marketplace, such as a high-tier money market account or low-tier checking. Some markets are less interest rate sensitive than others given that they have less volatility (slower reaction time to rate movements) and lower response (less of a change). Because we monitor some 5,400 different deposit markets in the U.S. and more than 20 separate products within those markets, we have a fair amount of data on how deposit rates react to changes in the marketplace. A market area is considered to be uniform if the price of deposits and the behavior of depositors are consistent throughout. Some markets are more harmonized than others. New York and Philadelphia hold the distinction of being 2 of the most uniform markets in the country. Deposit rates (and sensitivity) are virtually the same throughout the region (which also happens to be the 2 largest and most densely populated markets in the country) and depositors behave in only 11 discernable ways. Conversely, Kansas City is the most rate diverse major metropolitan deposit area, as there are almost 400 different observable behaviors. The more rate diversity, the less distance a client bank would have to go to issue a deposit promotion that would not cannibalize their current offering. Further, the greater diversity, the more inefficiency and the greater the arbitrage opportunity for reducing funding costs. On a state-wide basis, CA, TX, PA and FL have the most homogenous rates, while MO, KS, GA and IL hold the least. As a country, it is no surprise that rates are becoming more homogenous. 5Ys ago, the difference between the highest rate in the country and the lowest used to be an average of 2.7%. Now, this difference is less than 1%. This matters, as a common tactic for us is to have our client banks issue in the next contiguous county that has the lowest interest rate sensitivity. In 2000, the average difference in rates was 34bp, now that average savings is less than 13bp. Further, in the last 6 months, there were a near record number of high rate paying banks. Historically, except for a brief 3 month period in 2000, competition has never been greater in the deposit market. We measure the spread of the top 10% highest paying banks against the industry average. Currently, the spread between the average bank's deposit rate and the top 10% of the market now stands at 80bp, which usually runs closer to 60bp. On a deposit product basis, MMDAs are the least diverse, while checking products have the most pricing differentials. Just as with loan pricing, the essence of funding a financial institution has fundamentally changed. While taking advantage of geography used to be a very profitable deposit tactic, because of the rise of the Internet, greater advertising and better mobility, inefficiencies are being squeezed out to the determinant of bank profitability.

BANK NEWS

MBA Index

Mortgage applications increased 7%, the most since April, although still down 34% from last year. Refinancings were up 10.6% while purchases rose 4.8%. This weeks increases suggest that the decline in the housing market will be gradual.

Ratio Update

The Fed, FDIC and the OCC updated host state loan-to-deposit ratios used to determine compliance with Section 109 of Riegle-Neal. This section prohibits banks from establishing or acquiring branches outside of their home states primarily for the purpose of deposit production.

Email Alert

A recent email scam involves emails appearing to be from the FDIC saying that the Department of Homeland Security Director has advised deposit insurance on their bank accounts may be suspended due to Patriot Act violations.

Optimistic Stockholders

The top 1% of the wealthiest Americans are optimistic about their equity investments, according to a recent survey. Conversely, they are pessimistic about real estate prices and impartial to hedge funds and other investments.

Employees

A new survey finds the biggest employee pet peeves at work are condescending tones (44%), public reprimands (37%), micromanaging (34%), loud talkers (32%), cell phones ringing (30%), use of speakerphones in public areas (22%) and personal conversations (11%).

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