

CYCLONIC DEPOSIT ACTIVITY

by [Steve Brown](#)

Nearly every day our community bank clients tell us they are having a hard time raising deposits. That isn't surprising when you consider the share of U.S. banking deposits held by the 10 largest banks has soared from 17% in 1985 to 44% in 2006. These large banks have been gobbling up deposits from community bankers like the Dyson cyclonic vacuum cleaner sucks up dirt. Aggressive branching and significant technological changes have driven much of this shift. In fact, as of the end of 2006, the number of banking offices had climbed 67% over the prior 20Ys. While good for customers, by and large, community banks have suffered. After the FOMC cut rates in 2001, deposits flooded in and loan demand jumped. Unfortunately, this deposit growth, largely fueled by low interest rates and weakness in the equity markets has begun to reverse itself. Competition is fierce and unexpected funding pressure is everywhere. In short, many deposit customers have shifted some of their money back into other investment vehicles as the stock market has recovered. Non interest bearing deposits are as scarce as finding gold nuggets these days and bankers are clearly worried. More and more we see community banks continuing to set very aggressive asset growth targets without much consideration to the deposit side of the ledger. In short, we see many cases where rapidly growing banks are facing significant liquidity pressures as they have become more and more reliant on non-core or volatile funding sources. In a recent speech, even Ben Bernanke acknowledged how hard it is for community banks by stating "community banks also face serious challenges. Expansion of the geographic scope of banking activities, rapid technological change in the production of financial services, the increasing importance of non-bank providers, and evolving patterns of economic growth are among the factors that are changing the banking marketplace." We don't have to tell our readers that finding deposits is difficult. So, what can be done on this front to assist such extremely talented asset-generators? To begin, community bankers can do what they have always done - build and maintain quality relationships. By focusing in on personal interactions of bankers and customers, we stand a good chance of getting new customers. Relationships matter and community bankers are good relationship builders. Next, community bankers can continue to customize offerings. By bundling services together, pricing is maintained longer and profitability is supported. Try tying a deposit to a loan transaction and offering a gift if certain balances are maintained for 90-days. Some bankers have told us they are having success doing this and many are reporting increased customer satisfaction as a result. The dilemma for community bankers is that research shows large banks are here to stay. Technological improvements, low cost processing, credit scoring and sophisticated risk management is rapidly eroding community bank market share. Like pushing the Dyson vacuum over a dirty rug, once customers get sucked up by the large banks, it is difficult to get them back again. Launch remote capture, begin to explore mobile banking and be very, very diligent about when and where to open new branches. The funding environment is tough right now, but community bankers with a plan are tougher.

BANK NEWS

Earnings Ouch

Bank of America reported 3Q profit fell 32%, as trading losses and write-downs various loans offset strong revenue growth in many business lines. The bank wrote down \$247mm of leveraged loans and \$607mm in trading losses. It also booked a \$527mm loss related to structured products, including

residential MBS and CDOs. Finally, BofA set aside \$2.03B for future credit losses, a 73% increase from the same period last year.

Selling US Assets

The Treasury Department said that international investors sold a record \$69.3B in U.S. assets during August, the first decline since Russia defaulted on its debt in 1998.

Online Banking

A recent survey found that 62% of online banking customers would move their money to a different bank if it featured more robust online banking capabilities. Additionally, 65% of those surveyed have a "high" or "very high" desire to perform all their banking and financial transactions online, and 73% preferred opening and funding a new bank account online.

Foreclosure Spike

Home foreclosures in September jumped to 223,538, double the amount from a year earlier, as subprime borrowers struggled to make payments on adjustable-rate mortgages. CA had the highest number of foreclosures (51k) while FL came in second (33k). Nationally, the foreclosure rate was 1 for every 557 households.

Hacked

Commerce Bancshares (\$15B, MO) said Tuesday a computer system that contained a database of 3,000 records was hacked into and 20 customers had personal data compromised.

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.