

TAP, ROLL AND RACK DEPOSITS

by [Steve Brown](#)

You are in a firefight and your gun jams. What do you do? Semi-automatic handgun shooters for the past 25Ys have been taught a simple mnemonic to help them remember - "index, identify, tap, roll and rack." Remove your finger from the trigger or index it; observe the problem; reseal the gun's magazine by tapping it; roll the gun inward to gain leverage; and finally, rack, or pull back on the gun's slide action (the top part of a gun) in order to clear the problem.

In similar fashion, banks that are in a firefight for deposits may want to try a procedure in order to clear their bank of high priced deposits. A low rate environment where loan growth is negligible is the perfect time to fix deposit pricing jams. Now is when you will find customers less interest rate sensitive than ever before and an ideal spot to work on retraining.

The first step is to get your finger off the pricing trigger and relieve funding pressure. Just like the simple act of pulling a trigger can have dire consequences, pricing deposits high can have negative repercussions for years to come. Dropping all deposit rates to the local median level would be the first step to realigning your bank's cost of funds.

The next step is to identify the problem. Some banks lack an articulated pricing strategy and their whole set of deposit offerings are skewed. Sometimes the problem just lies with CDs, while other times the problem is in a bank's money market accounts. For some banks the driver of high cost deposits is management. In other banks, high rates may be an issue with the deposit manager, while in others it is a problem with the line staff or even marketing. Maybe it is a philosophical issue, or maybe it is a training issue. Wherever the issue lies, bankers need to get to the heart of high cost deposits and then go to work on fixing the problem.

Once the problem(s) are ascertained, the next step is to reset everyone's way of thinking. While high deposit rates build happy customers, they don't build happy shareholders. There are other ways to please customers besides rates and all employees must believe in that premise. This starts with the very notion of how to present deposit building. Try talking in terms of "cash management" instead of "deposit gathering" or "funding." Deposit gathering or funding are very bank-centric and implies that it is all about you. "Cash management" on the other hand implies a service to the customer, which is where you want to be aiming. Taking another look at your product line up is helpful at this point. Make sure your bank has the ever-important premium and economy business checking, sweep, lock box, ACH, online banking and the host of other cash management products that drive more than 60% of your bank's profitability.

Next, a company-wide training initiative may be in order to educate everyone of the importance of service over rate. This "rolls" your bank in a position to be the most effective in how and when to introduce products to customers. Employees need to get to the point where instead of complaining their competition is offering higher rates, they are laughing at them for such a short-sighted tactic.

Finally, "rack" your bank by launching a series of marketing campaigns that underscores the difference in your cash management services and promotes attributes that set your bank apart.

Now is the time to devote more resources to restructuring deposit offering and pricing, as the effort will pay off handsomely when rates go up. Clearing jams are frustrating for many, but the key is keeping a cool, logical head. If you need assistance, our Liability Coach product specializes in becoming your outsourced deposit officer to ensure you have the right pricing strategy, products and positioning. Contact us for more information.

BANK NEWS

Closures 38, 39 & 40

Southern Community Bank (\$377mm, GA) failed with United Community Bank (\$8.15B, GA) acquiring deposits for a 1% premium and purchasing 364mm in assets. Regulators shut down Cooperate Bank (\$970mm, NC) with First Bank (\$2.70B, NC) agreeing to assume deposits and \$942mm in assets. First National (\$157mm, KS) also failed with Bank of Kansas (\$188, KS) assuming deposits for a 0.5% premium and purchasing \$157mm in assets.

Bleak Jobs Picture

In May, 48 states and DC saw their unemployment rate increase, as 15 of those states and DC registered unemployment rates above 10%. By state, MI was the worst at 14.1%, OR snagged 2nd at 12.4%, RI and SC tied for 3rd at 12.1% and CA came in at 11.5%. All told, the showing was the worst in 26Ys.

Extreme Stress

We examined 1Q FDIC data and adjusted it for bank closures that had already been announced YTD. Our data finds there are 417 banks in the country that remain with a Texas Ratio [(loans 30D or > delinquent + nonaccrual + OREO) / (Tier 1 capital + ALLL)] > 100% (early warning signal of potential failure). States with at least 10 banks at risk using this metric in order were GA (74), FL (68), IL (43), MN (27), CA (19), WA (16), MO (15), MI (14) and UT (11).

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