The Rising Popularity Of Reciprocal Deposits

deposits business customers funding

Summary: Fifty-eight percent of bankers surveyed last year said they expect to begin using or increasing their use of reciprocal deposits promptly, due to the new S.2155 law provisions. We break down the details for you.

When someone gives something to someone else for mutual benefit it is known as reciprocity. Studies in fact, find that when someone does something beneficial to you, the vast majority (90%+) are prepared to do something beneficial in return, even when it was not decided in advance. One easy example is from social media circles where liking a picture sent to you carries with it the unspoken expectation that person will also like a picture of yours.

There are many examples of reciprocal arrangements in banking too. Reciprocal deposits, for instance, offer excess insurance. They are not new, but some things have changed.

Community banks often use reciprocal deposits to make sure depositors can still insure funds over the $250k FDIC threshold. However, with the recent passing of the Economic Growth, Regulatory Relief and Consumer Protection Act, also known as S.2155, reciprocal deposits are more popular than before. In fact, 58% of bankers surveyed by a deposit placement network last year said they expect to begin using or increasing their use of reciprocal deposits promptly, due to this new law.

That is because a provision in the law removes the requirement for reciprocal deposits to be considered brokered. This change not only helps create additional non-brokered, insured deposits, but it also allows banks to more easily compete with the bigger banks for customers with larger deposits.

To qualify as non-brokered, reciprocal accounts must meet the following conditions:

1. The bank is well capitalized.
2. The total amount of reciprocal deposits held doesn't exceed the lesser of $5B or 20% of your total liabilities.

Given this change, more community banks are considering reciprocal deposits and that is good news, given the stiff competition in deposit funding right now.

This option can also help attract larger customers seeking insurance protection, as your bank might be able to capture more funding to help grow your loan portfolio, while you maintain and solidify your current customer relationships.

As the president of three community banks stated recently, "This is one of those areas that reflects what bankers always thought was true - when a large, local depositor does business with us, any deposits above the $250k FDIC insurance threshold shouldn't be considered brokered or highly volatile just because we place them with other institutions on a reciprocal basis."

We are happy to report that as a bank owned by community banks, we can help your bank attract and retain larger depositors too. To find out more, visit us here, call or email us.

INCREASE YOUR NON-BROKERED DEPOSITS

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