



Inquiry & Insight - Public Banks, Deposits, Google

by [Steve Brown](#) Topics: [deposits](#), [competition](#)

Summary: Today we answer questions from bankers on public banks, core deposits and Google's checking accounts.

We looked up the origins of the word, "question" to find this: "Utterance meant to elicit an answer or discussion." Today we have a few of those, and so we provide some points of discussion to start your day.

Q: Now that California has legalized public banking, what could the potential impact be if the movement continues to grow?

A: While not a new concept, momentum has been growing across the US for public banks--owned by the people of a state, city, community or country. Overall, it should be an interesting development to follow. While some community financial institutions (CFIs) may see increased competition with respect to certain student, home and business loans, this could be offset by additional business opportunities. For instance, a public bank isn't likely to compete with CFIs for all loan types, so it could be a co-lender for certain loans. This could potentially allow CFIs to make loans that might otherwise be out of their reach. Certainly, in states and regions where public banking is being more seriously considered, it is prudent to keep an eye out for these potential business opportunities.

Q: We've been grappling with internal pricing decisions and strategies, as they relate to core deposits. How might a core deposit study help us?

A: A core deposit study can help CFIs better recognize who their depositors are, understand the benefit of deposit portfolios from a depositor's perspective, and develop more favorable pricing strategies. These studies can also allow CFIs to gain insight into their depositors' price-sensitivities, scrutinize account closing data and analyze how balances rise or fall over time, among other things. Depending on when you last conducted a study, it might be worth it, given changes in interest rates and underlying economic conditions. Before undertaking such a study, however, it's important to be clear on your institution's objective, so you can weigh what method to use and the respective pros and cons.

Q: Even Google is launching smart checking accounts. How worried should I be and what should I be doing to compete?

A: With Amazon, Facebook, Apple, and Google launching or exploring financial products, CFIs need to be especially mindful of the growing competition and the blurring of the lines between technology and banking. While it may take years for some of these companies to build sizeable market share, you don't want to ignore burgeoning consumer demand for new, fast and more efficient payment tools. Watch and learn as these tech giants test new approaches and see what may work for your institution. Also, make sure to continue analyzing your customer data, so you know where you can continue to add value and build more loyalty with your customers. This way, they won't need to stray.

ECONOMY & RATES

Rates As Of: 01/06/2020 11:25AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.52	-0.02	-0.02
6M	1.54	-0.04	-0.04
1Y	1.52	-0.04	-0.04
2Y	1.54	-0.02	-0.02
5Y	1.60	-0.09	-0.09
10Y	1.80	-0.12	-0.12
30Y	2.27	-0.12	-0.12
FF Market	FF Target	Fed Disc	
1.55	1.75	2.25	
SOFR	Prime	Unemp	
1.55	4.75	3.50	

BANK NEWS

Economy 2020

A Wall Street Journal survey finds economists predict 1.8% YoY growth in Q4 2020, with a lower chance of a recession. They point to expected monthly job growth of 157k jobs in the first half of 2020, more steady manufacturing output and continued progress on trade with China. The average probability of a US recession within the next 12 months is now 26% vs. 35% in September 2019.

Real Estate

Low and even negative rates overseas have pushed people to buy real estate and to hoard US dollars in bank vaults. On the real estate side of things, valuations are booming and are increasing concerns of a bubble forming.

More Competition

Robinhood Markets launched a cash management offering, where the first group of customers will receive an annual percentage yield of 1.80%. Their website notes that any uninvested money in a customer's brokerage account will "move this cash to banks who pay the interest and provide FDIC insurance, subject to FDIC limits."

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