



## Core Deposit Growth Sets Your Institution Up For The Future

by [Steve Brown](#)  [deposits](#) [strategic planning](#) [funding](#)

**Summary:** The industry is awash in cash, but not all deposits are created equally. Now is a good time to review and finetune your core deposit strategy. Ways to do this include: capturing customer relationships, revisiting your offerings, and restructuring fees so that you can position your institution for the future.

We have read that there are 21 things that are used to ask for a wish. Can you guess all of them? Wishbones, birthday candles, dandelions, and fallen eyelashes made the list, of course. But, did you know about white horses, wishing stones, and acorns? With all of these ways to make your wishes come true, it may not be surprising that bankers saw one of their biggest wishes come to fruition in 2020.

At the beginning of 2020, many community banks cited the need to grow deposits as one of their primary business goals. Little did they know that the pandemic would hit and create a flood of deposits.

In the first three quarters of 2020, total FDIC-insured US bank deposits increased by nearly \$2.6T or just about 18%. That's in part because of 0% interest rates and pandemic stimulus payments. But, the reality is that higher deposits will stay with financial institutions for as far ahead as we can see. With the latest stimulus, deposits increased by \$180B during the week ending March 17, 2021.

CFIs have a chance to use that extra money in ways that will better position them for the future by lessening their exposure to more expensive deposits, brokered deposits, repurchase agreements, and borrowing.

One community financial institution (CFI) CEO in TN notes, *"Where our focus has shifted, is more of a focus on continued growth in our core deposit funding."*

### Capture customer relationships

Low loan demand combined with low rates and higher loan loss provisioning has meant that net operating incomes are down for financial institutions across the US. Uncertainty, government programs, and economic weakness have contributed to stunted loan growth. Along with increased margin pressure, that's left operating revenues flat. It might seem like a bad time to fund relationship discounts on loan rates.

It's actually a good time to capture relationships through core deposits. This allows you to increase cash management fees and offer [relationship-based pricing](#) for your borrowers. By doing so, your institution can lock-in customers and grow deposit balances, reducing your dependency on higher-cost funding, such as CDs.

## Revisit offerings and restructure fees

Now is the time to revisit your deposit products to ensure you focus on growing your core deposits. As one example of revisiting and readjusting deposit products, the CFI from TN decided to actively shift to demand deposit accounts, noninterest-bearing deposits, and business account deposits from money markets or certificates of deposit.

Doing this may require changes in titles, job duties, and incentives. Some of these changes may be meaningful, causing discussion within your institution. Some may argue that this situation is temporary, with inflation coming around the corner. Whatever the future brings, the question remains: are you taking full advantage of the present circumstances to reduce funding costs and capture relationships?

Another tactic to consider is how you structure increases in cash management fees and reductions in your earning credit rate (ECR). Consider smaller reductions in ECR compared to interest-bearing offerings to further induce customers to move balances from money markets to operating accounts.

## Position for possible acquisition

Higher core deposits also can lead to higher book values. Publicly traded banks with core deposit ratios of more than 80% have price-to-tangible-book-value multiples that are 15% higher, compared with those having less than 80%. As bank M&A picks up steam, a strategy to increase core deposits leaves you well-positioned when suitors come calling.

The current Federal Reserve intervention and interest rate policy won't last forever. Make sure that your institution has a solid deposit strategy to grow your core deposits. This boosts your position in the eyes of investors and puts you on a more solid footing for the future.

## COMPETITIVE AND CONSISTENT LOAN PRICING

Achieve a 360-degree customer relationship view so you can determine the best loan pricing based on your customer data while driving higher bank profitability. Learn more about [Profitability FIT](#).

## ECONOMY & RATES

Rates As Of: 04/15/2021 05:10AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.02	-0.01	-0.07
6M	0.04	-0.01	-0.05
1Y	0.07	0.01	-0.04
2Y	0.17	0.00	0.04
5Y	0.85	-0.09	0.49
10Y	1.62	-0.13	0.70
30Y	2.29	-0.12	0.65
FF Market	FF Disc	IOER (Interest on Excess Reserves)	
0.07	0.25	0.10	
SOFR	Prime	OBFR (Overnight Bank Funding Rate)	
0.01	3.25	0.06	

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