Fed Funds And EBA

by [Steve Brown](#) Topics: capital, funding

Summary: The Fed has cut rates more for EBA than the fed funds target rate. This is a good time to get a higher return.

Research by the University of Scranton finds a huge 92% of people who set New Year's goals never attain them. It seems most people set goals that are too vague or too challenging. Add to that a heavy dose of procrastination and no support system, and you can see how this occurs.

Back in 2009, the Fed set a goal to add liquidity to the system. If you recall, back then the Fed started the transactional account guarantee (TAG) program that allowed banks to deposit excess funds. This was after the Great Recession, so the insured deposits for excess funds was important to continue to incentivize market liquidity.

This was also the first time the Fed paid interest on excess funds (anything over required reserves). TAG eventually became the Excess Balance Account (EBA) and through correspondent banks, like PCBB, other banks could have excess funds automatically swept into an EBA account. For years, the Fed raised or lowered rates for both fed funds and EBA at the same pace, so banks could just leave funds sitting in EBA. After all, since fed funds transactions have credit exposure to another bank and a 20% risk weighting, the return had to be above EBA for it to make sense for banks to mess with it. Initially these rates were right on top of each other.

Fast forward to now though, and we see that the Fed has cut rates more for EBA than the fed funds target rate. This encourages banks to start moving their money to fed funds instead of leaving it in EBA. This will increase liquidity in the market, as banks realize they can get a higher return with fed funds than in the EBA, which is needed right now. By the way, our sweep program automatically moves balances for banks to the higher of fed funds or EBA every day.

Right before the Fed announced its last rate cut, the overnight repo market spiked. Banks were asking for more funds than were available in the market, so the NY Fed offered $75B daily through Oct 10th. The spike in repo rates above the Fed's target for overnight rates also caused SOFR to hit 5.25%. This has some concerned since SOFR is the rate expected to replace LIBOR in 2021. However, since SOFR uses a 90-day average, SOFR moved only 0.02%, even with the spike on September 17th.

The bottom line is that community bankers want the highest overnight return for their excess funds, and now is a good time to review a few things to make that happen.

- Review credit criteria on an ongoing basis to see what excess funds you have
- Find a reliable "as agent" correspondent bank like PCBB to set up an account for your overnight investing of funds
- Make sure your sweep account automatically invests at the higher rate and returns your money the next day with interest paid
- Verify that your fed funds are sold to multiple banks to diversify your credit risk

As interest rates are low, now is the time to look in the couch cushions to see what money you may be leaving on the table. We can help you with an "as agent" fed funds/EBA sweep account. We do the heavy lifting by finding the banks, managing the credit criteria of counterparties, placing the transactions, and managing the flow of funds on your behalf, saving you time and money.

BANK NEWS

Responsible Banking

S&P Global reported that Citigroup is the only major US bank that has agreed to adhere to the UN-backed Principles for Responsible Banking (PRB). The group of 130 global financial entities that has committed to PRB represents $47T in assets, or 33% of the global banking industry. These banks agreed to strategically align their business with the goals of the Paris Agreement on Climate Change and the Sustainable Development Goals.

Sharing Data

Accenture surveyed consumers on what they want from their banks in return for sharing data and found: 83% would share data for more savings; 78% for greater efficiency; 78% for advice that fits their personal circumstances; and 72% for personalized location-based offers.

Region Unemployment

The Bureau of Labor Statistics (BLS) finds US geographic areas with the highest unemployment rates nationwide are: Yuma AZ (22.1%), El Centro CA (20.7%), Guayama PR (12.1%), Ponce PR (10.6%), San German PR (10.6%), Aguadilla-Isabela PR (10.3%), and Visalia-Porterville CA (10.0%).

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