WEBINARS

Thursday, August 15th @2PM ET

Commercial Deposits:
Market Trends & Opportunities

FEATURING

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Topics

1. Drivers behind heightened deposit focus
2. How much are banks paying to attract commercial deposits?
3. Market trends and value of liquidity vs. yield
4. Degree of cross-sell across the market
5. Successful tactics to drive deposit growth

Methodology

- The data presented in this webinar covers **commercial deposits** as of July 2019
- Primary data source: **PrecisionLender's proprietary database**, reflecting **actual commercial relationships** (loans, deposits and other fee-based business) from **over 200 banks**; supplemented with **commercial bank call report** data from the FDIC
- The banks in this data set are **geographically diverse** and range in size from **community banks** to **top 10 U.S. institutions**
- Deposit rates shown in this webinar reflect the **weighted average interest rate** paid on the respective deposit accounts and may include **promotional rates**
- For purposes of this analysis, **checking with interest accounts** (CWI) have been grouped with **money market accounts** (MMA)

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Customer Priorities

Live Poll

As related to commercial deposits, which of the following is most important to your customers?

- ❑ Rate
- ❑ Liquidity
- ❑ Rate and liquidity are equally important
- ❑ Other

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Key Takeaways

#1 With credit spreads tightening, deposit-gathering has become an increasingly important strategy for lowering funding costs and increasing NIM

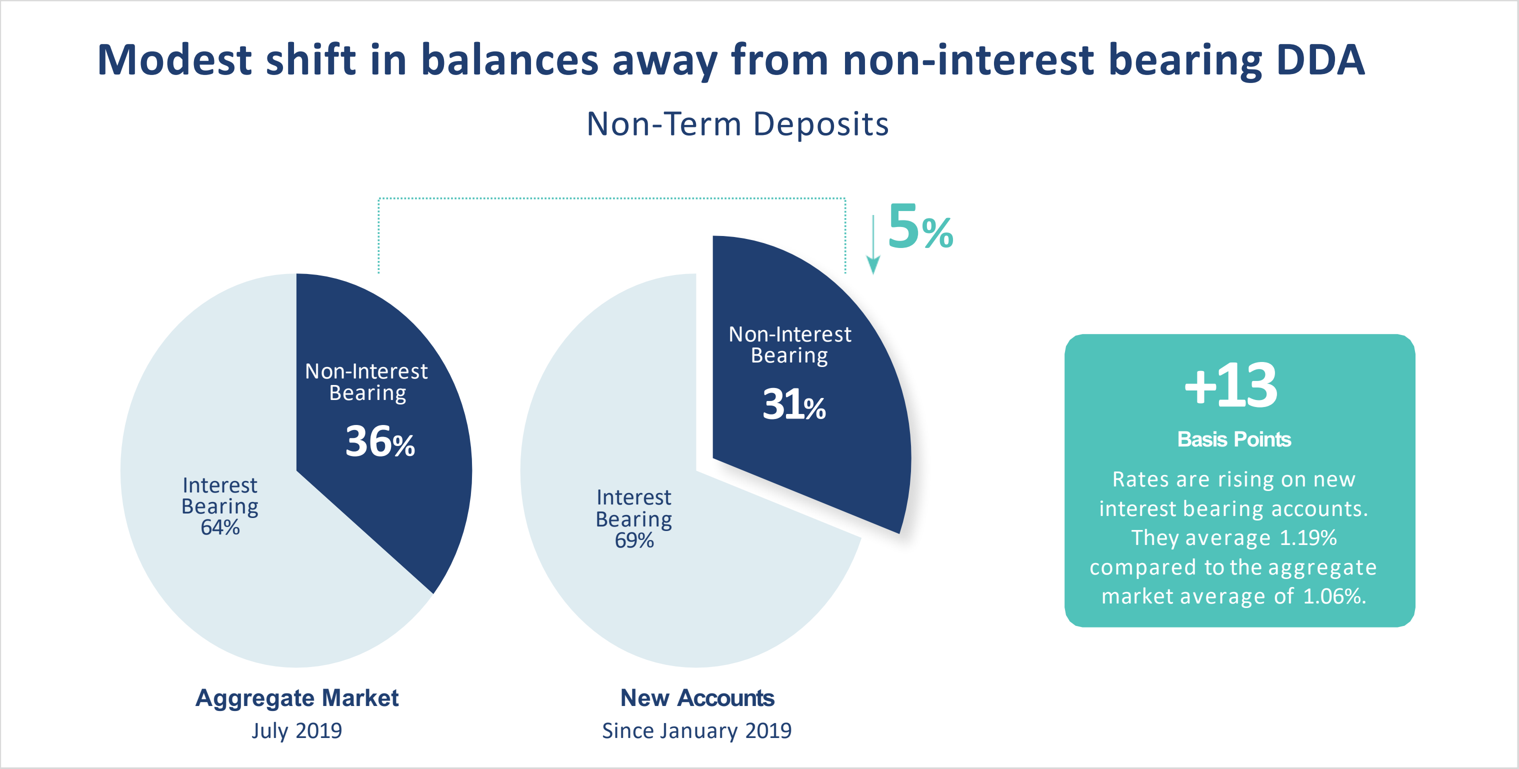
#2 While rising deposit rates has created an incentive for customers to invest in longer-term deposits, clients place more value on liquidity than rate

#3 Bankers are offering higher rates to attract new deposits relative to existing customers and paying premiums on larger accounts

#4 Despite the value of deposits in driving relationship profitability, a striking proportion of relationships remain credit-only

#5 Certain tactics help some bankers achieve far more deposit business – and higher resulting NIM – than others

Liquidity > Rate

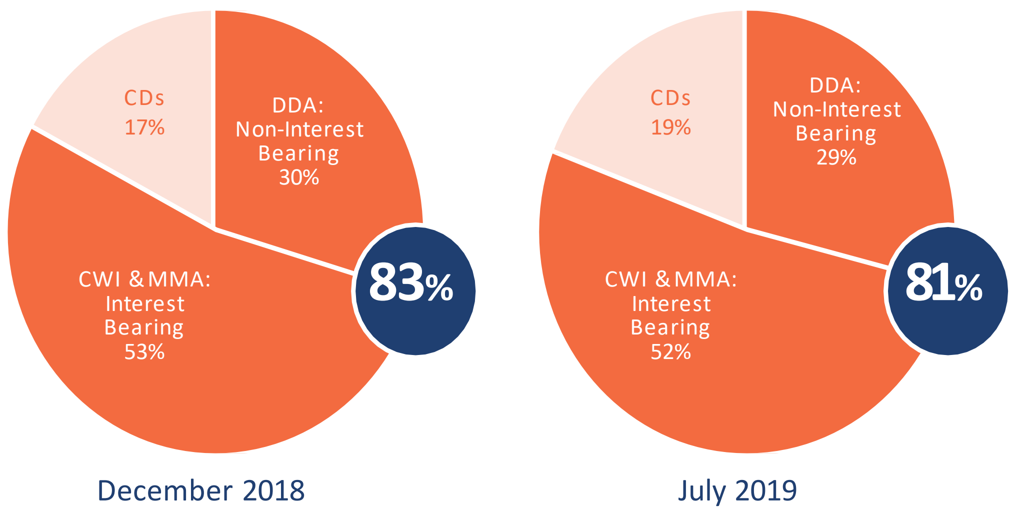


- As expected, rising deposit rates are creating an incentive to shift accounts
- Market has seen a slight rise in CWI/MMA and corresponding decline in DDA

*Source: PrecisionLender. Aggregate Market chart reflects total deposits excluding CDs as of early July 2019, irrespective of the account open date. New Accounts chart shows only those accounts which were opened since January 2019. Figures are weighted by average deposit balances.

Liquidity > Rate

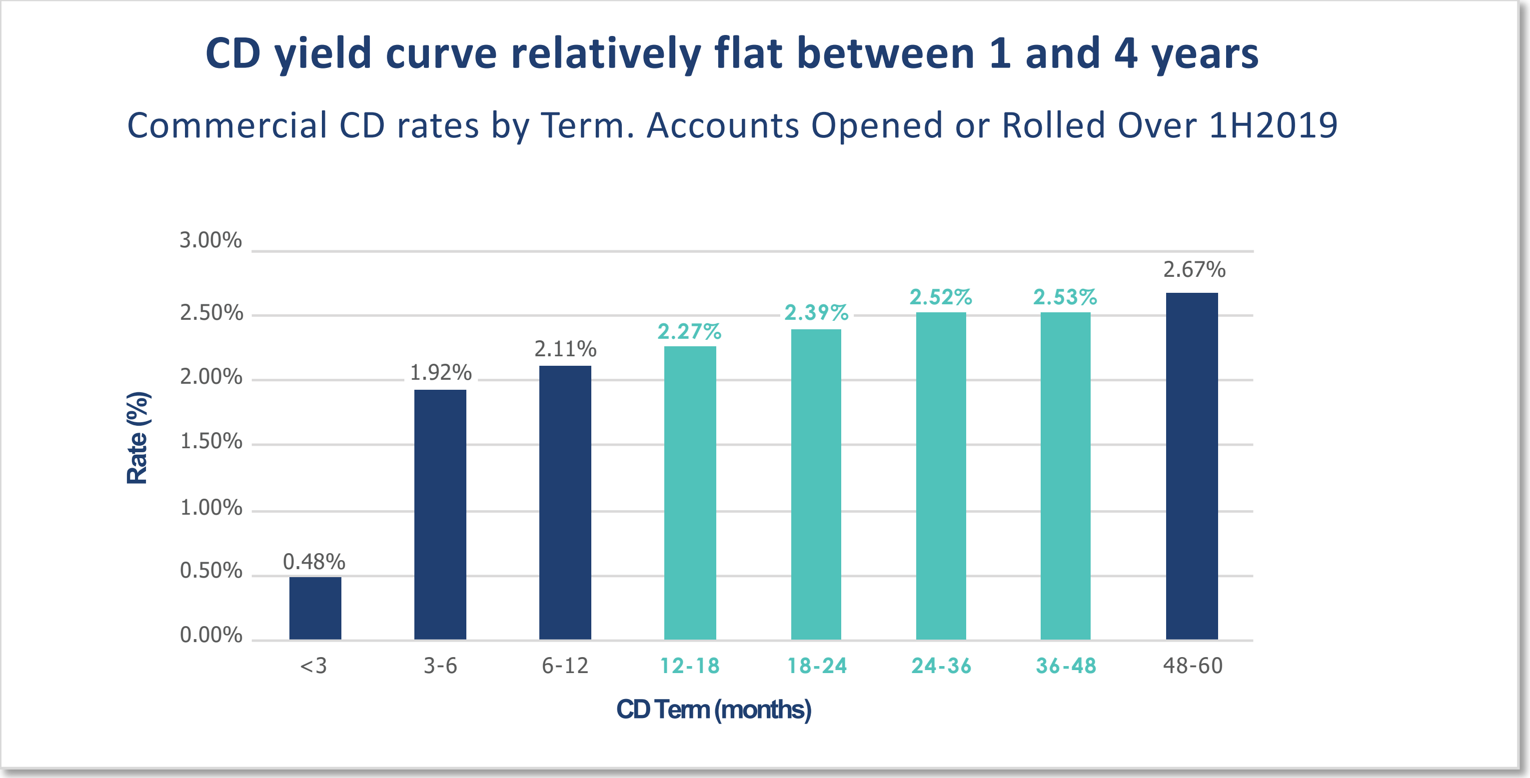
More than 80% of commercial deposits held in liquid accounts



- Appeal of higher-yielding CDs evidenced in latest data
- Still, more than 80% of commercial deposits remain in fairly liquid accounts

*Source: PrecisionLender. Data reflects aggregate deposits as of the indicated data, irrespective of the account open date. Figures weighted by average deposit balances.

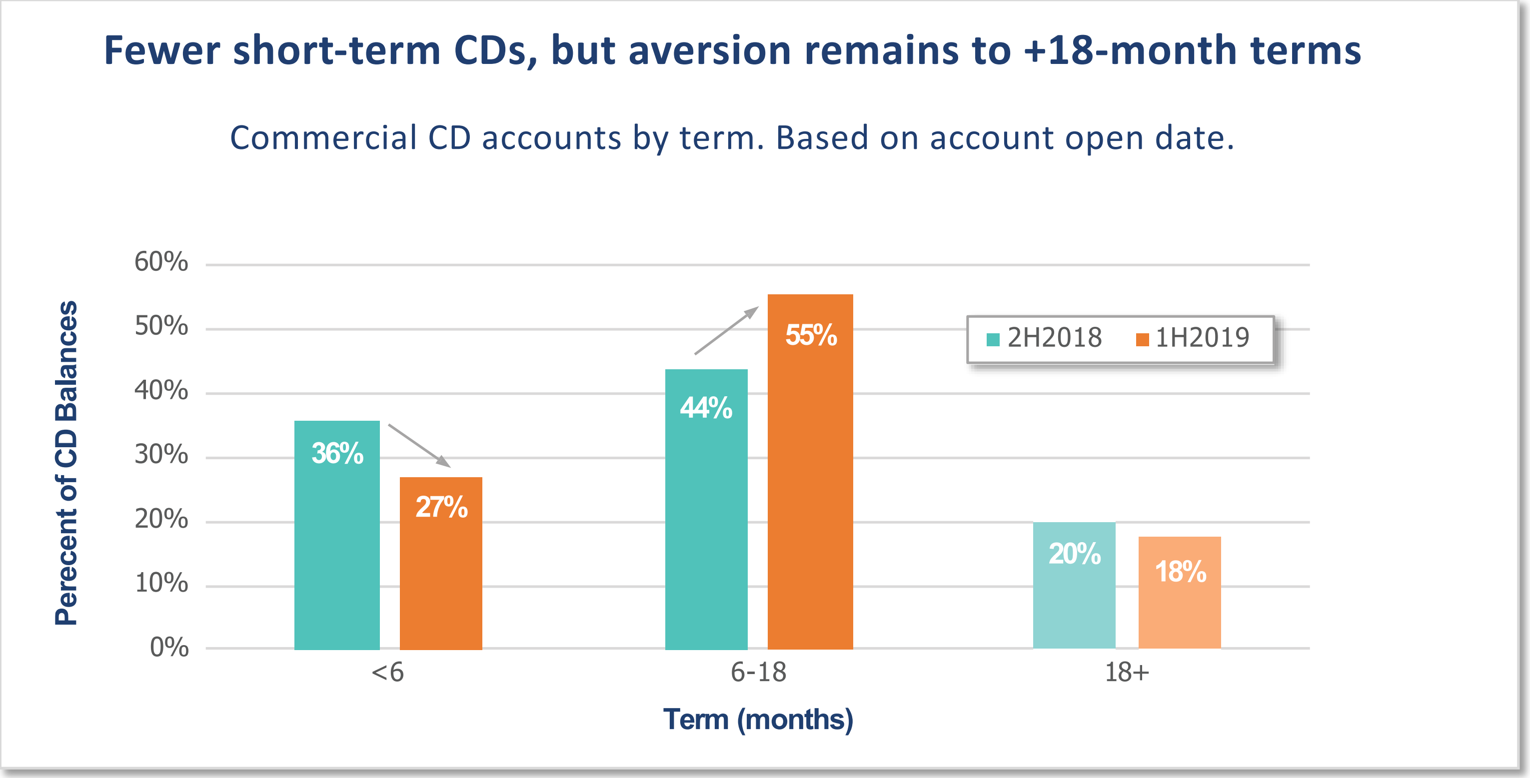
What’s there to gain?



- How much yield can customers pick up by moving to term deposits?
- Limited incentive to tie up funds beyond one year

*Source: PrecisionLender. Data reflects weighted average rates on CD accounts which were opened or renewed in the first half of 2019. Figures include promotional rates.

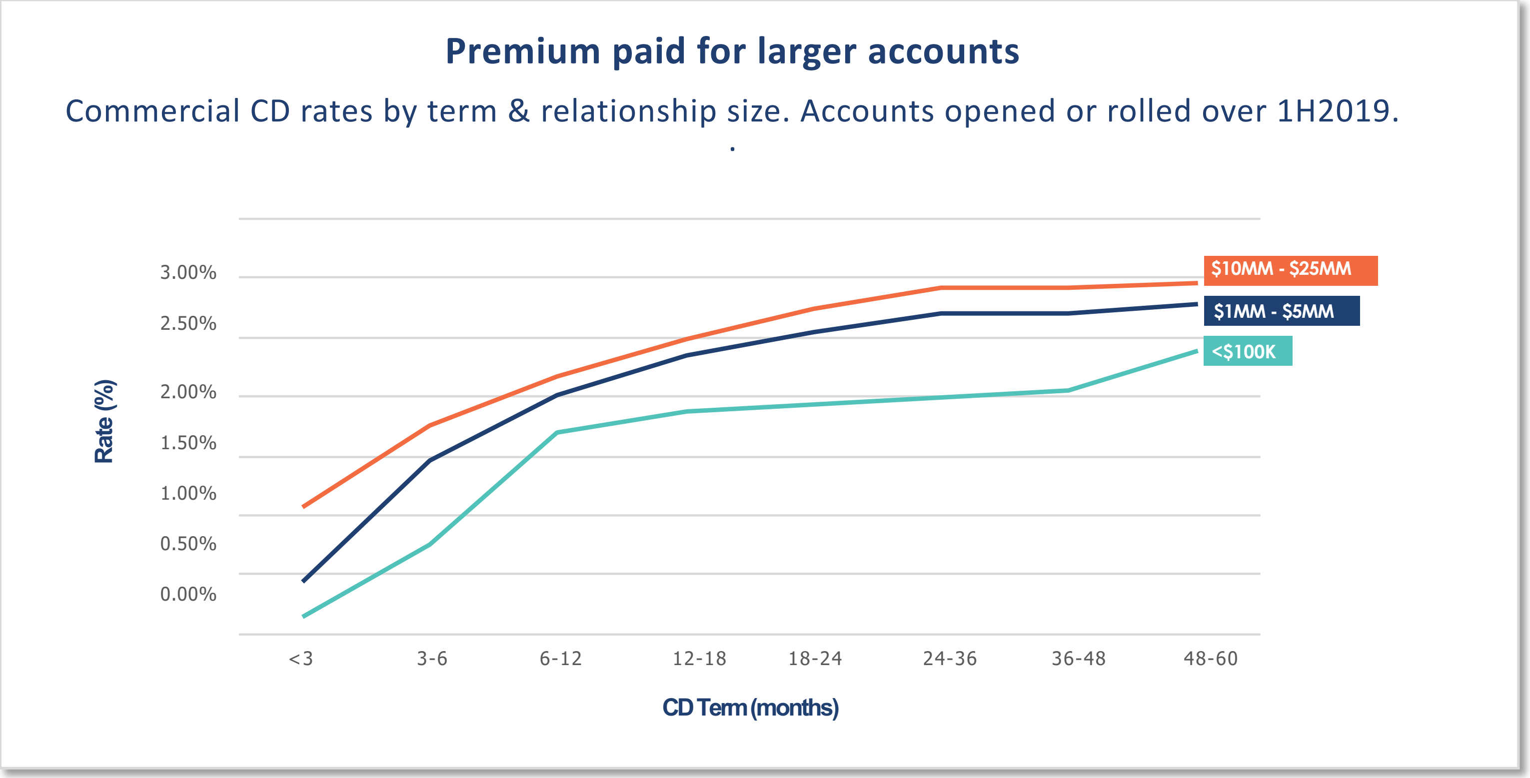
What’s there to gain?



- Pronounced shift in short-term end of market (< 18 months)
- No meaningful change in incidence of long-term deposits

*Source: PrecisionLender. Data reflects percent of CD accounts which were opened or renewed in the indicated period with a CD term in the indicated range. Figures weighted by average deposit balances.

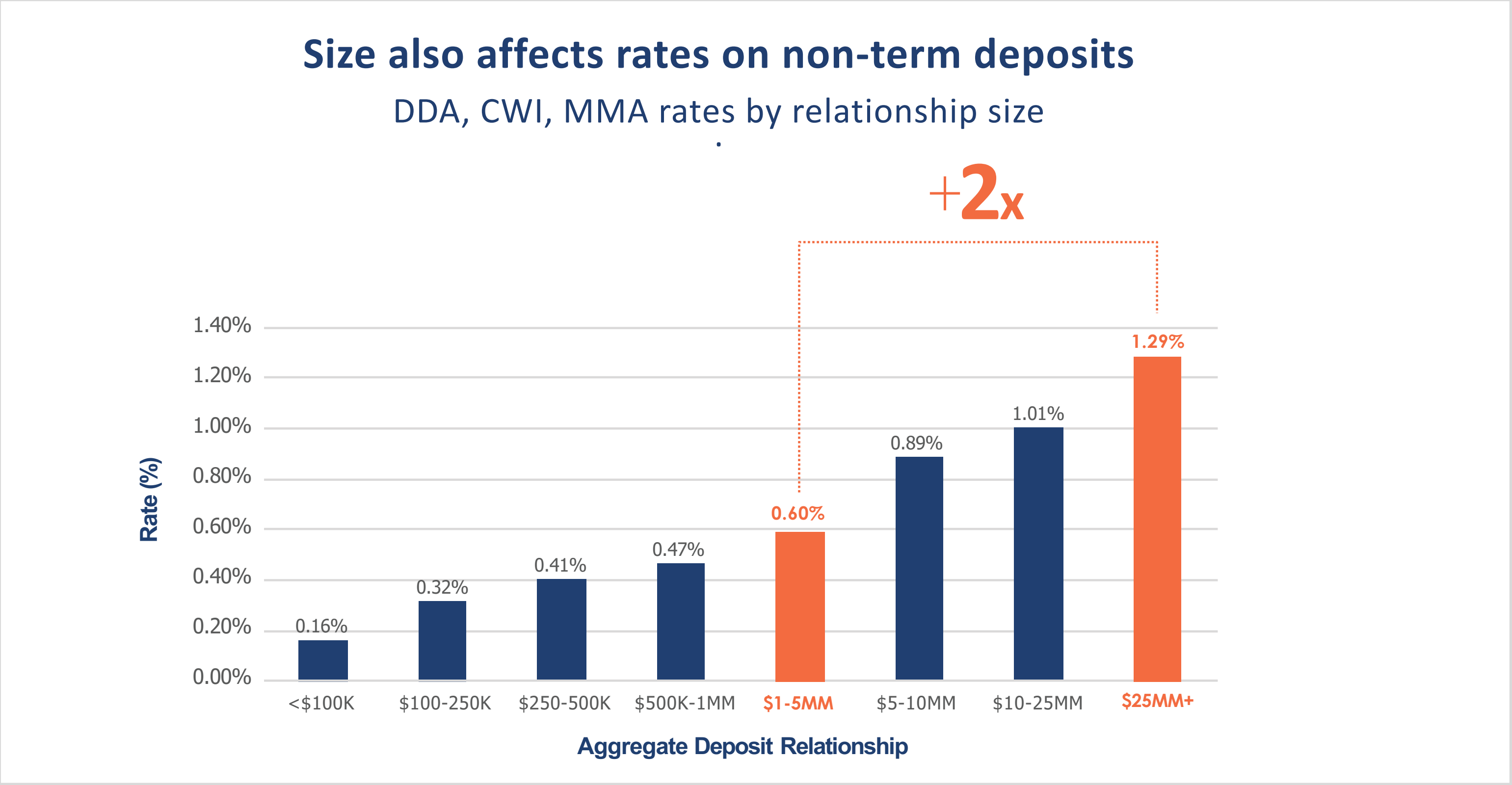
Relationship Size Matters



- Term is not the only deciding factor: banks willing to pay up for larger accounts
- Despite higher rates, deposits still a comparatively inexpensive funding source

*Source: PrecisionLender. Data reflects weighted average rates on CD accounts which were opened or renewed in the first half of 2019. Figures include promotional rates. Relationship size reflects aggregate deposits, not only the portion held in CDs.

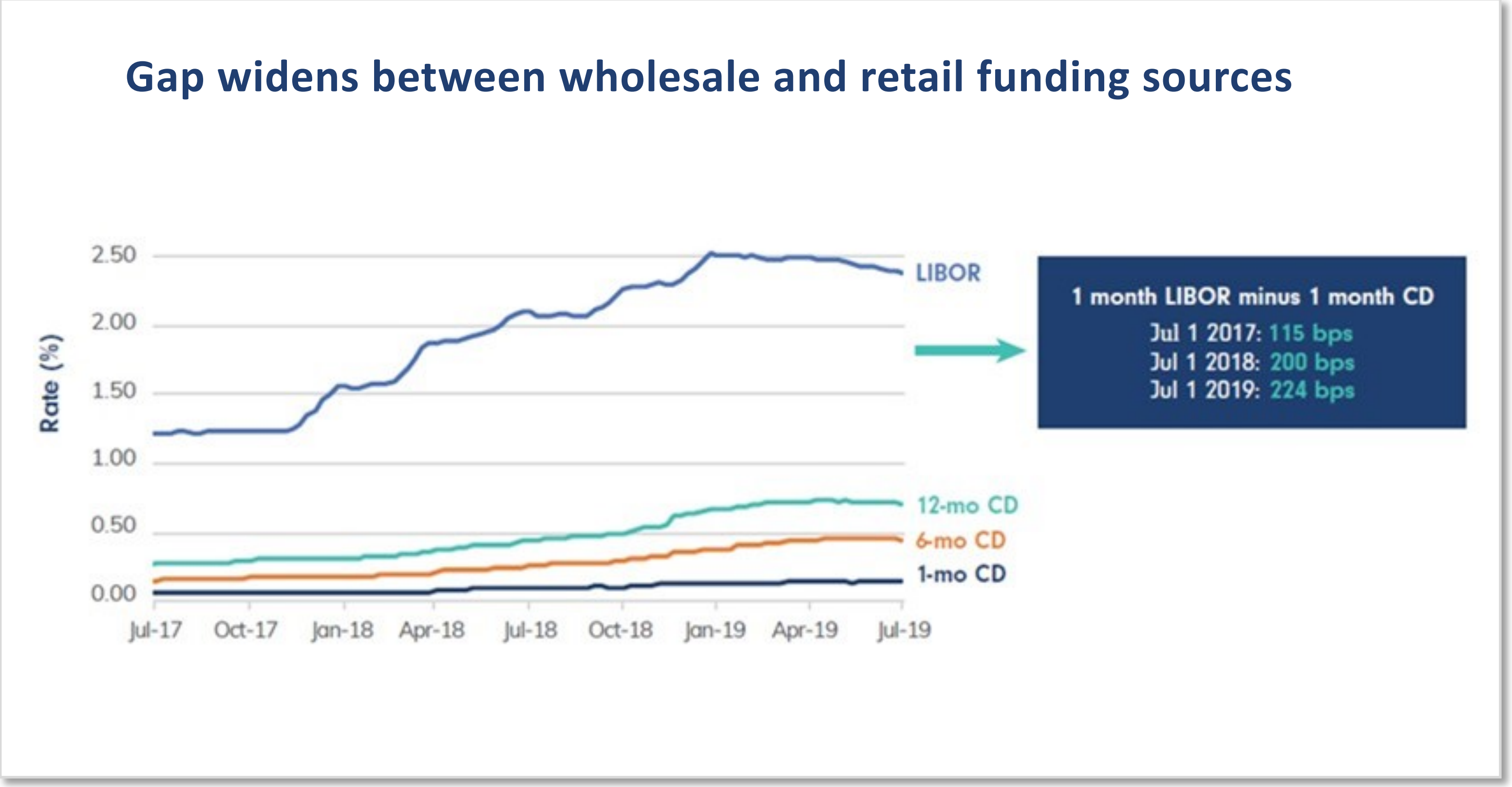
Relationship Size Matters



- Rates paid on DDA and MMA accounts rise considerably with the size of the deposit relationship
- Customers with balances over $25 MM now earn more than twice the rates as those in the $1-5 MM range

*Source: PrecisionLender. Data reflects weighted average rates paid on commercial DDAs, CWIs and MMAs as of July 2019, irrespective of the account open date. Figures include promotional rates and non-interest bearing DDAs. Relationship size reflects aggregate deposits, not only the portion held in the non-term deposit accounts.

A Powerful Impact on COF

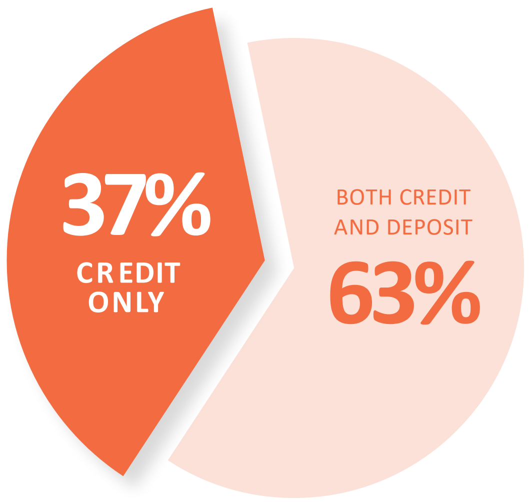


- While deposit rates have risen steadily, spread between them and wholesale funding rates has widened
- Even interest-bearing deposit accounts can significantly bolster NIM in the current rate environment

Source: Federal Reserve Bank of St. Louis (FRED). Deposit rates reflect accounts over $100K.

Credit-Only Relationships Still Common

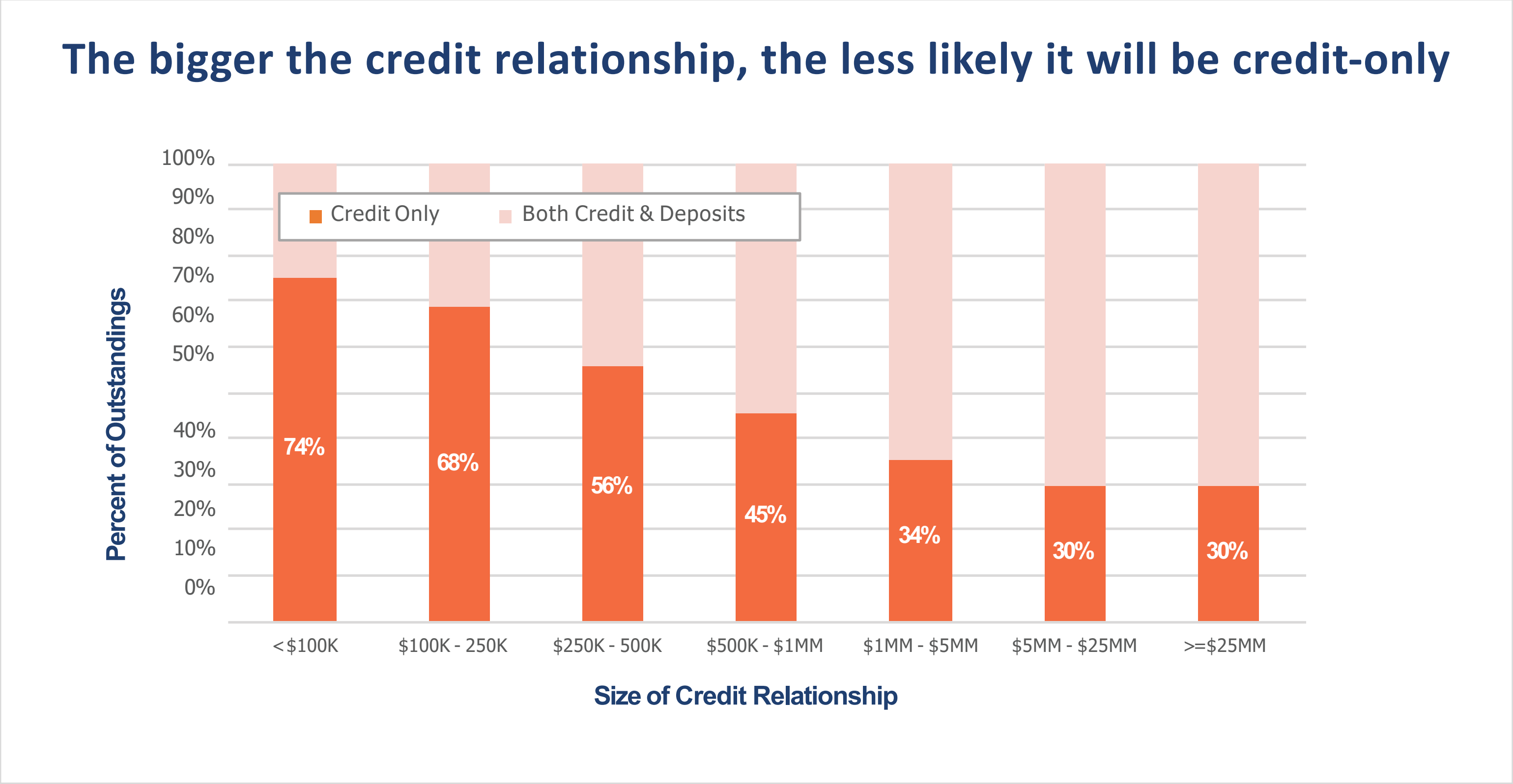
More than one-third of commercial loan outstandings lack a deposit relationship



- Clearly, winning deposits is an important strategy for most banks
- That said, a surprisingly high volume of credits is originated or renewed with no associated deposits

*Source: PrecisionLender. Data reflects the percentage of loan outstandings on the books as of July 2019 with associated deposit balances, irrespective of the loan origination date.

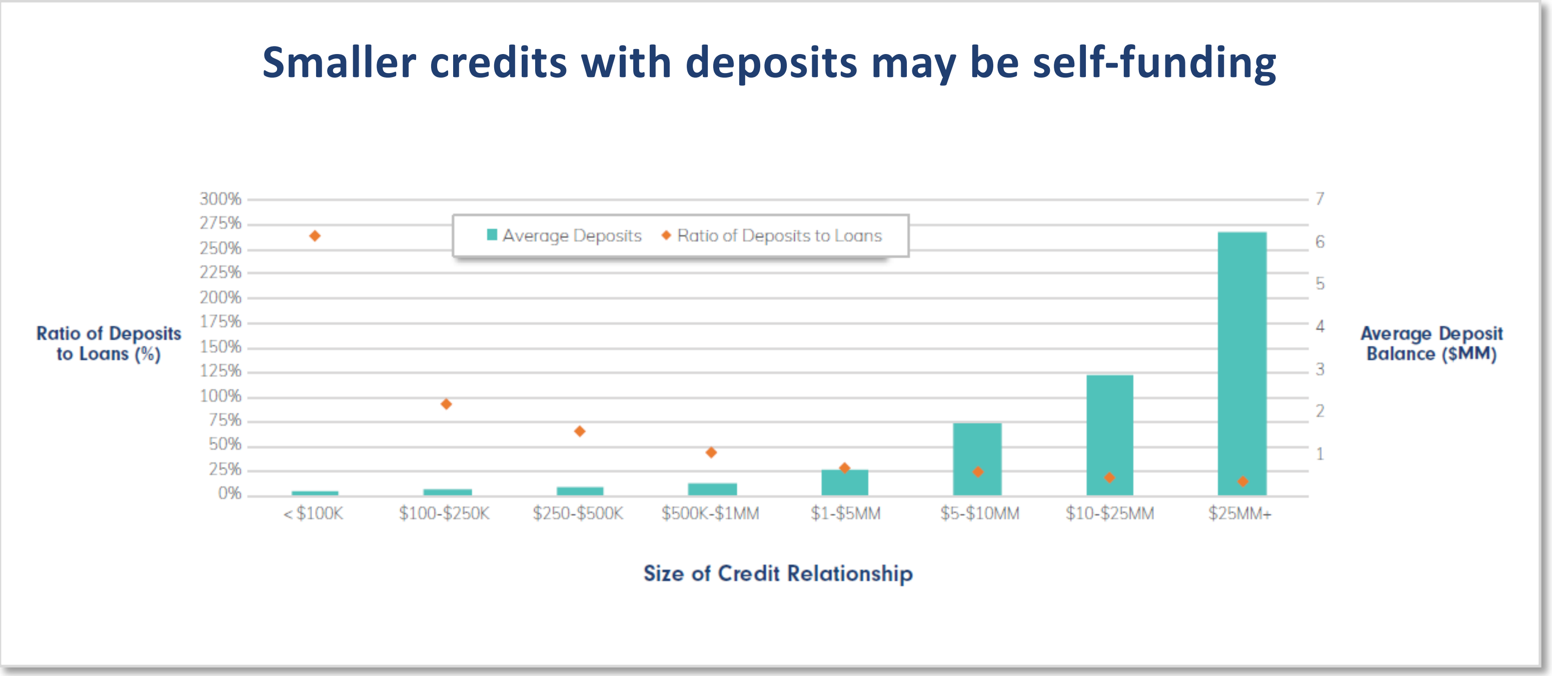
Credit-Only Relationships Still Common



- Incidence of credit-only commercial loans diminishes with size
- Still, about 30% of credit relationships over $25MM remain credit-only

*Source: PrecisionLender. Data reflects the percentage of loan outstandings on the books as of July 2019 with associated deposit balances, irrespective of the loan origination date. Size of Credit Relationship reflects aggregate credit exposure.

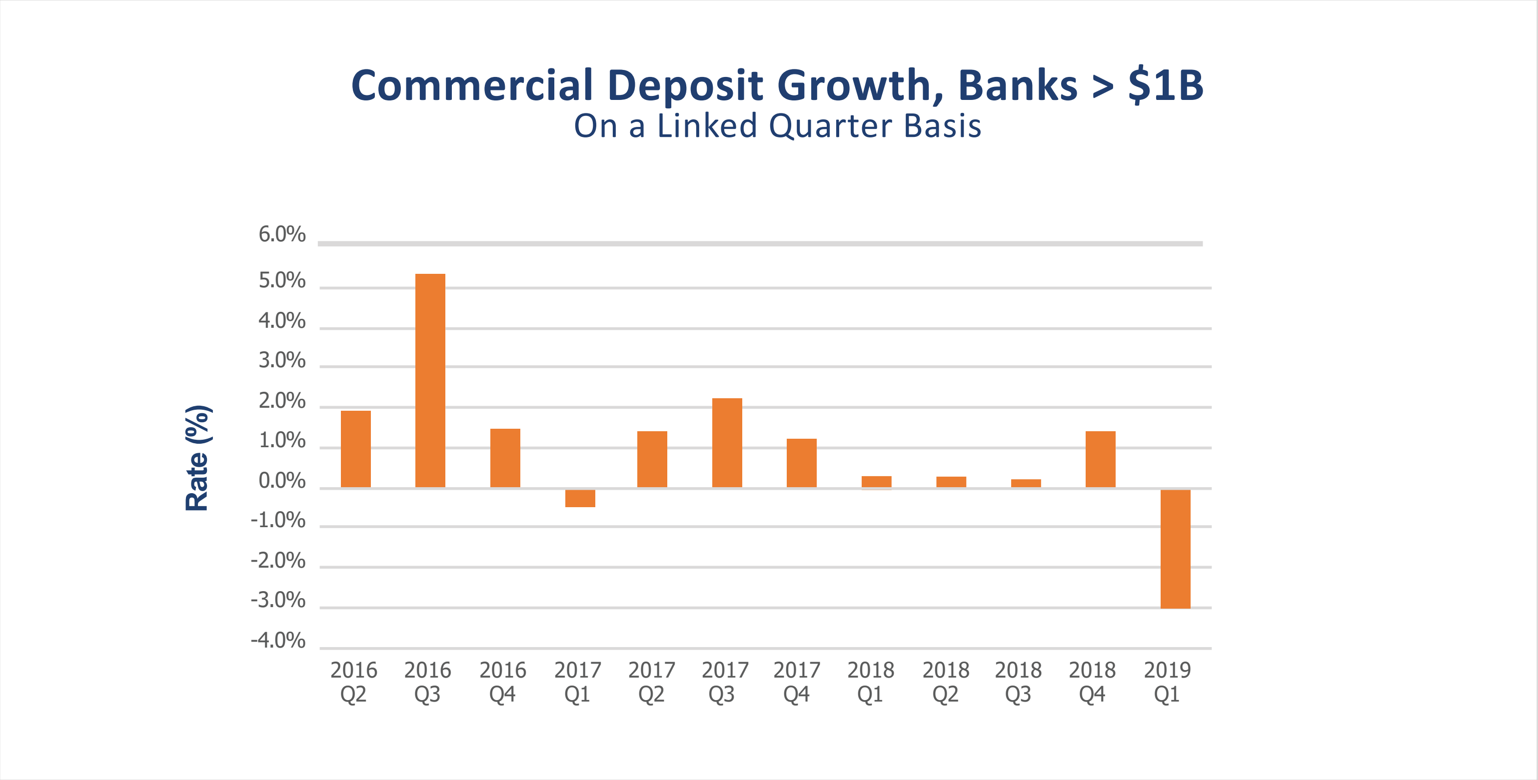
Materiality of deposits varies with size



- Credit relationships accompanied by deposits can be highly lucrative
- Deposit balances tend to exceed credit exposure on the smallest loans – making these credits self-funding – and help fund larger credit exposures

*Source: PrecisionLender. Data reflects the average deposit balances on relationships with aggregate credit exposure in the indicated range. Analysis excludes those credit relationships with no deposits. Data as of July 2019.

Aggregate Market: Challenges in Commercial Deposit Growth



- Inconsistent commercial deposit growth in market as a whole
- Sharp declines for larger commercial banks, greater stability among community banks

*Source: FDIC. Chart shows the quarter-over-quarter growth in commercial deposits for banks with assets over $1B. Commercial deposits were estimated based on call report data and include both transaction and non-transaction accounts.

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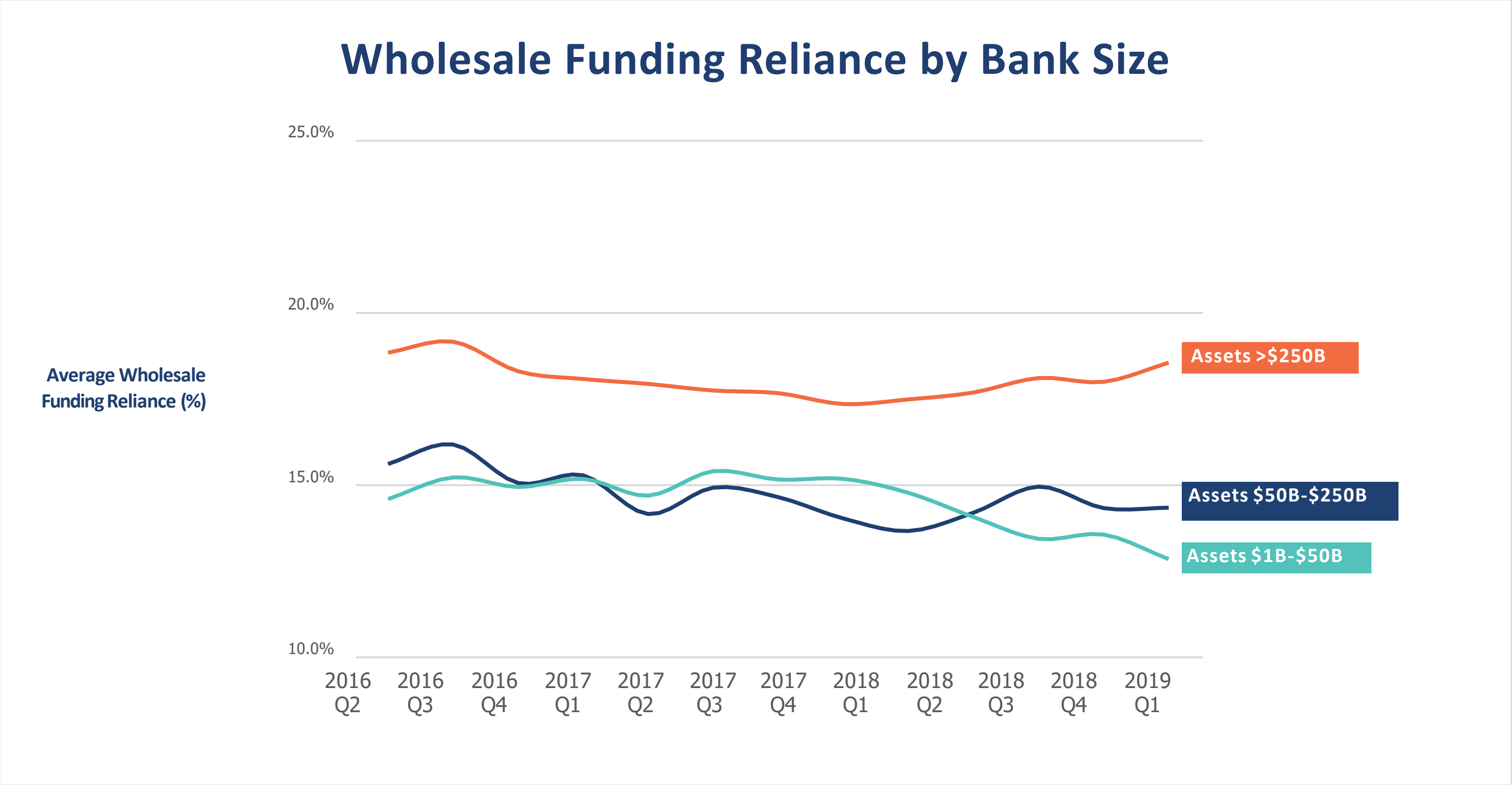
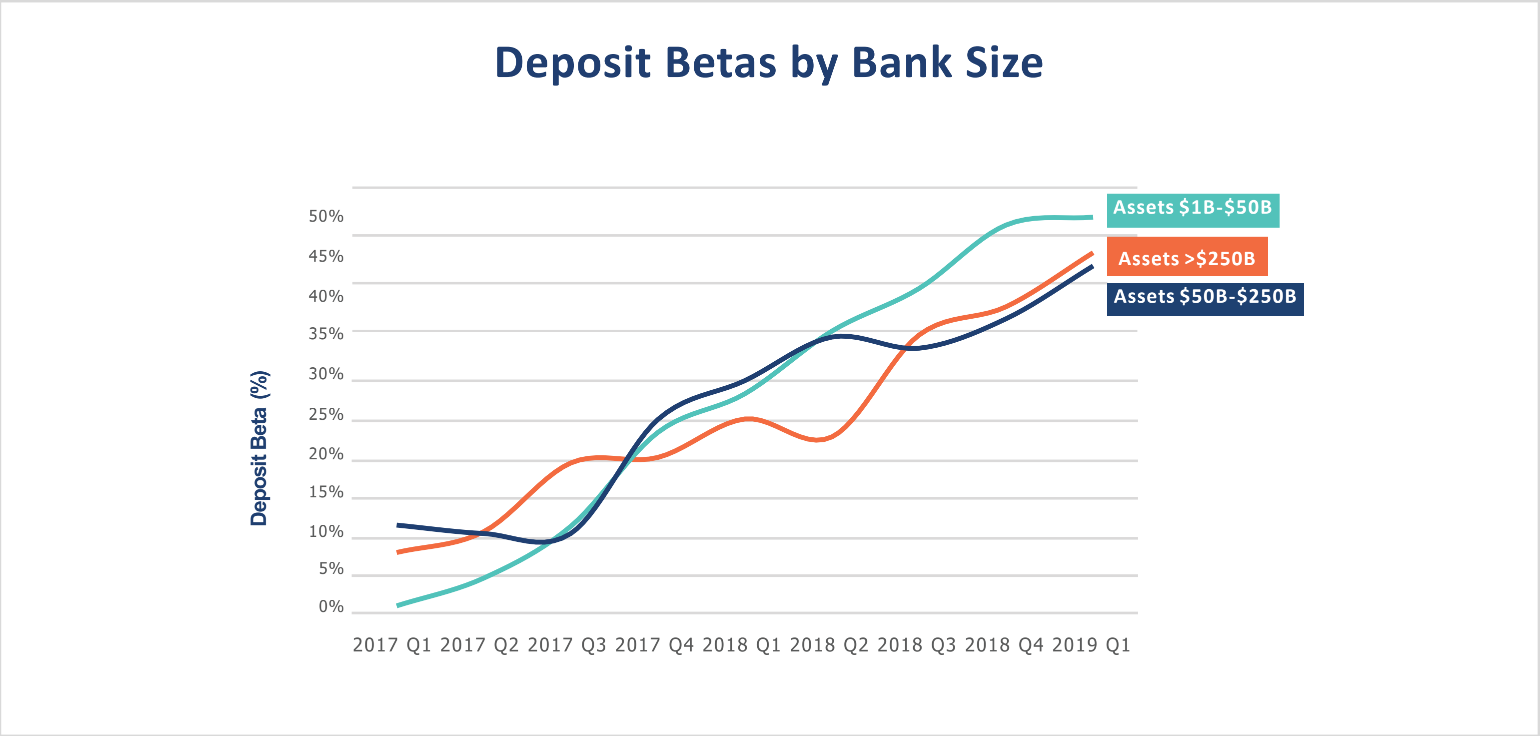
Aggregate Market: Dependence on Wholesale Funding Remains



- Tepid growth in commercial deposits has contributed to market's dependence on expensive wholesale funds
- In current regulatory environment, some reliance on wholesale funding is unavoidable for largest banks

*Source: FDIC. Figures reflect the average wholesale funding reliance for commercial banks within the indicated asset range. Wholesale funding sources primarily reflect the following: Fed Funds Purchased, Repurchase Agreements, FHLB Advances, Subordinated Notes & Debentures, Other Borrowings and Brokered Deposits.

Aggregate Market: Deposit Betas Trend Higher



- Importance of deposits to commercial banks evident in the rising deposit betas, which measure the proportion of total rate increases shared with customers via increased deposit rates

*Source: FDIC. Figures reflect the average percentage of increases in the Fed Funds rate passed along to customers via increased deposit rates.

Key Challenges in Building – and Maintaining – Deposits

- Lack of oversight and accountability
- Absence of well-defined strategy for attaining the deposits
- No firm agreement with customer to move the business over before loan closing or within a reasonable timeframe
- Opportunity passed along to a product partner, falling off RM's radar
- Inadequate feedback mechanism to track whether ancillary business came to fruition
- Deposits moved but ultimately closed; lack of ongoing intel on relationship profitability

8 Ways the Best Bankers Win More Deposits

The aggregate results mask significant differences across banks, with some banks consistently winning deposits and others falling short.

What separates the best from the rest?

1. Negotiate moving some deposits over prior to loan closing
2. Tie credit pricing contractually to deposit balances
3. Utilize the borrower's liquidity data to identify the sales pipeline
4. Cultivate a culture where bankers ask for deposits
5. Stay abreast of market conditions and ensure deposit rates are competitive
6. Track delivery vs. promise and hold bankers and product partners accountable
7. Explain the benefits of maintaining both loans and deposits with a single bank
8. Remove obstacles and simplify the account-opening process

Concluding Thoughts

- Deposit-gathering is among the most important tactics for strengthening NIM in the current banking environment
- Inconsistent deposit growth in the market as a whole has created challenges for banks
- Success stems from staying apprised of competitive market rates and remaining in tune with customer priorities relative to both yield and liquidity
- Stronger results among banks able to track whether promised deposits come to fruition, with proactive follow-up on outstanding deposit opportunities
- Bankers can gain a competitive edge by employing winning tactics, and can limit NIM compression – or even grow NIM – while concurrently achieving their production goals

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