

Deposit Pressure Rises Across The State

Money Market, Savings Accounts Seeing 150 to 200 Basis Point Promotions



By Bram Berkowitz, Banker & Tradesman Staff

With another rate hike slated for December, banks in Massachusetts and New England appear to be experiencing more deposit pressure as customers seek higher returns in an economy currently on the upswing.

Many banks reported higher cost of funds and lower margins in the third quarter, leaving investors with questions about competition in certificate of deposit accounts, as well as money market and savings accounts.

While outflows and competition seemed to derive mostly from the municipal arena, banks also said they were facing pressure on commercial deposits, and even some on the consumer side.

"Banking in Massachusetts puts you on the leading edge of these deposit pricing pressures," Jeff Reynolds, managing director of Newburyport-based Darling Consulting Group, told Banker & Tradesman. **"The Boston area has seen strong loan demand. There are also a number of mutual banks that recently converted to stock and have been working diligently at deploying the new capital in the form of loans. They need the traditional deposit-based liquidity and have been working just about every avenue to find it."**

The national average on savings accounts returns was .09 percent, with the best rates at about 1.5 percent as of Nov. 1, according to Bankrate. The national average for money market accounts was .13 percent, with the best rates at 1.41 percent.

Eric Newall, executive vice president and CFO of United Bank, which has branches in Connecticut and Western Massachusetts, told a group of investors on an earnings call he was seeing promotional money market accounts offering 150 to 200 basis points.

"Regionals in our space are offering fairly aggressive rates, and smaller banks have a biased towards higher than 1.5 percent," he said. **"It's not widespread, but there is more pressure now than last quarter,"** added Carl Carlson, the CFO of Brookline Bancorp, the parent company of Brookline Bank, on a call with investors. **"There are special deals people are not [publicly] advertising."**

Competition For Muni Deposits

The main competition banks have faced this year has been with municipal deposits.

Rockland Trust CFO Robert Cozzone said on an earnings call the bank saw some outflows in this area and, as a result, had to raise the cost of those deposits by 10 basis points over the last few quarters.



"Municipalities are an extremely attractive source of deposits," said Bob Mahoney, president and CEO of Belmont Savings Bank. Municipal deposits "come in large amounts, are very predictable and don't require a lot of servicing."

The most competition Mahoney is seeing is from the Massachusetts Municipal Depository Fund, which has salespeople pitching municipalities regularly, he said.

A subsidiary of Federated Investors, the fund allows Massachusetts public entities such as cities, towns, public retirement systems and regional school districts to pool their funds to receive professional investment management at a competitive cost. But unlike banks or other traditional financial institutions, the MMDT – and therefore the funds it manages – are not insured by any government agency.

According to MMDT annual reports, the MMDT cash portfolio had total assets over \$10 billion as of June 30 of this year, a year-over-year increase of roughly \$1.1 billion.

The fund's website shows a daily gross yield on its cash portfolio upwards of 1.38 percent between Oct. 22 and Oct. 31. In comparison, Mahoney said Belmont Savings Bank is offering an overnight rate close to what the treasury offers between .75 and 1 percent.

The competition in recent quarters has begun to trickle down to commercial and consumer deposits.

Banks are now offering 1 percent on certificates of deposits, and Rockland Trust is offering similar promotional offers, said Ellen Molle, Rockland's vice president of public relations and marketing.

Outlook Depends On Fed And Loan Demand

How the Federal Reserve proceeds with rate hikes will impact the future level of competition.

The Fed is projected for one more rate hike this year, and another three in 2018. But if the hike projected for December does not materialize, Molle said Rockland Trust expects to see competitive offers abate next year.

Loan demand in the area is also another important factor.

"The Massachusetts economy [right now] is firing on eight cylinders," said Mahoney. "Deposits fuel loan growth, particularly on the residential side."

And at this point, said Reynolds, the banks offering better rates have likely already used funding mechanisms such as brokered deposits and borrowings from the Federal Home Loan Bank "to the top of their comfort range."

Going forward, he said, banks need to focus on adequate pricing.

"The trick is knowing when to move and how to be disciplined in how the organization goes about doing this so you keep your high value customers and grow that base," he said. "The right strategy finds that optimal intersection of retention of high value relationships, growing that base and minimizing the recycling of other deposits to higher costs needlessly."

Lastly, bankers need to remember that net interest margin is a "two lane street," Reynolds said.

"Most banks have been lucky to see much of any lift on fixed commercial real estate pricing over the past year," he said. "If the deposit side heats up that much more, it is going to be tough to digest without a new-found religion on loan pricing."

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