Fremont Area Community Foundation

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What the Bank Deposit Surge Could Mean for You

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Bank deposits have increased nearly 50 percent from pre-pandemic levels. Unless you are a bank executive or regulator, you might think this statistic means little to your short-term finances or long-term investments. The truth is that these deposit levels can be a bellwether for the health of our economy, the overall confidence of investors, and what to expect moving forward.

Bank deposit levels (inventory) have an impact on bank profitability since they represent cost due to interest paid and FDIC premium. Bank deposits also supply liquidity that allows loan growth that often funds business and consumer spending.

Should we expect a sustained low interest rate environment that fuels home construction and commercial expansion? Or will the consumer and investment benefits be mitigated by other factors such as a prolonged pandemic, regulatory measures, or inflation? Before we can read the tea leaves of the bank deposit surge, we should consider the sources and causes of these increased deposit levels.

Municipal deposits are a significant force at both the commercial and community bank levels. Relatively level tax revenue, economic stimulus, and often flat-to-declining expenses during the pandemic have greatly increased the municipal funds held by banks. Although municipal deposits are typically rate sensitive, most of these relationships are only reviewed annually and are considered long-term funds.

A second significant source of deposits is consumer savings measured by the personal savings rate. The average savings rate for the decade prior to the pandemic was seven percent. During the pandemic, the personal savings rate averaged 14 percent. This exceptional two-year period nearly doubled the personal savings of the average household. Governmental stimulus, risk averse investors, and limited spending

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opportunities have all contributed to this increase in consumer deposit levels. The funds are generally considered core deposits and are expected to remain long-term.

Bank chief financial officers have been trained from birth to fear liquidity issues and expected this surge in deposits to dissipate. This has not been the case. The surge in deposits continues to remain on the balance sheet, forcing banks to get creative in their lending at a time when loan demand has been historically low. The pending increases in Federal Funds Rates dually create added pressure to lend as well as potentially increased deposits cost. This pressure could broaden the bank appetite for risk even as rates steadily climb from historic lows.

What does this mean for you when banks are flush with cash? That depends entirely on who you are over the next five to 10 years. If you are an individual investor nearing retirement, you may only see a marginal increase in the rate of return for the haven of bank certificates and money market accounts. If you are a prospective home buyer, you may see slightly higher rates but a lessening of requirements such as credit, down payment, and equity requirements. Is your business looking to expand? You should find an extremely favorable loan environment to fund your next moves.

While there may be multiple reasons for economic uncertainty, this unprecedented surge in deposits could be the safety net we all need now to achieve our financial goals.