Managing Liquidity in an Uncertain Rate Environment
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There's little certainty in the current economic environment. As the Federal Reserve works to strike a delicate balance to tame inflation without stagnating growth, central bankers have repeatedly remarked on the murky future for rates.

At the same time, fintechs and other nonbank entities are offering high yields to digitally savvy consumers who can find attractive rates directly through their smartphones. Per a Q2 2024 survey from IntraFi, 59% of bankers reported worsening deposit competition over the past 12 months, with nearly half expecting that trend to continue for the next year.

With elevated customer demand for safe cash investments, increased competition for deposits, and potential rate cuts on the horizon, banks are strategizing carefully to maintain competitiveness while minimizing risk exposure when it comes to savings rates.

Committing to high-interest deposit accounts now could result in significant financial strain if market rates decline – adversely impacting a bank's profitability and liquidity management.

One solution to this problem: A deposit placement service that offers an option to sell deposits to participating network members. Selling deposits via a service can help banks to manage liquidity effectively, satisfy customer demand for higher rates, and safeguard their financial stability.

What Is a Deposit Placement Service?
A deposit placement service enables participating financial institutions to place their customers' funds in deposit accounts at other participating depository institutions in increments under $250,000 to provide access to an amount of aggregate FDIC insurance greater than the per depository institution limit. The depositor maintains access to its funds through the same bank it already uses. A bank using a deposit placement service may be able to choose to exchange, buy, or sell deposits to manage its liquidity – without affecting the customer relationship.

How Selling through a Deposit Placement Service Works
Some deposit placement services offer the option for financial institutions, including banks and brokerage firms, to sell funds to other network member banks in exchange for fee income. For banks, the ability to move deposits off balance sheet while retaining the customer relationship can dramatically improve liquidity management. Benefits include:

- **Balance Sheet Management**: For example, a bank can sell higher-interest deposits and instead seek shorter-term wholesale funding. This allows a bank to remain agile, adjusting its strategy as interest rates fluctuate and reducing the burden high-interest deposits put on the balance sheet.
- **Attractive Deposit Options**: A bank can still accommodate customers seeking higher rates. And the bank can offer access to millions in aggregate FDIC insurance across network banks.
- **Fee Income**: This additional revenue stream can enhance the bank's financial performance without increasing the cost of funds.

Practical Applications

Consider a bank that has attracted a significant number of depositors with 5%+ rates for longer term CDs. By utilizing the option to sell deposits to other network members, the bank can continue to offer these attractive rates to customers. The bank sets the interest rate, and customers benefit from access to FDIC insurance beyond the standard limit and consistent service from the bank they trust. Meanwhile, the bank sells these deposits off its balance sheet, mitigating the risk of being locked into high rates if the market rates decline.

What Bankers Say

Here is how some community bankers describe their experience using IntraFi's deposit placement services, which offer the ability for network members to sell deposits for fee income.

A Minnesota community banker: “As other institutions started to become more aggressive in raising deposit rates, IntraFi’s deposit services made it easy to accommodate rate-sensitive customers on a case-by-case basis without cannibalizing our other deposits.”

A Texas community banker with an influx of liquidity: “Taking that money off our balance sheet has been a godsend. Our capital ratio went back up, and all the little things that the Fed examiners look at improved.”

A Strategic Approach to Funding

By using a deposit placement service to sell deposits, a bank can adopt a barbell approach to funding – fine-tuning the distribution of risk across its liabilities. For example, an institution can keep on balance sheet the amount of short-term network deposits, which reprice efficiently and can be adjusted as rates change – while selling off higher rate, longer-term deposits.

Build and Maintain Strong Customer Relationships

In an uncertain rate environment, effective liquidity management is essential. Having the ability to sell deposits through a deposit placement service enables banks to offer competitive long-term rates to customers and help manage their cost of funds or risk exposure.

An essential feature of any robust deposit placement service is the ability to sell deposits to network members. This empowers banks to accept large-deposit customer relationships they might have otherwise declined due to concentration risk or balance sheet concerns. By saying “yes” to these valuable, franchise-building customers, banks can strengthen customer relationships and increase customer loyalty.

Embracing innovative deposit placement solutions not only addresses immediate liquidity concerns, but also positions banks for long-term success. With rate changes potentially on the horizon, the ability to adjust funding strategies swiftly and efficiently becomes a significant competitive advantage, helping banks to meet customer demands and offering another tool banks can use to maintain financial stability in any rate environment.

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