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Some banks offer promotional CDs to lure customers, lock in today's rates

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Some banks have built term funding to attract new customers and lock in funding costs while they remain low.

While short-term interest rates have begun to creep up and could increase further this year, most banks have worked to shrink term funding on their balance sheets. Many banks are decreasing CDs as a portion of their balance sheets while rates remain low, but some institutions are employing strategies they believe will help grow their customer bases while limiting increases in deposit costs if interest rates increase further.

The banking industry as a whole reported only modest growth in CDs in the first quarter. Accordingly, CDs fell to a median of 30.13% of deposits in the first quarter from 31.90% a year earlier.

The decline was consistent across banks of all sizes, except among those with assets ranging from $50 billion to $250 billion, where CDs inched up to a median 10.45% of deposits from 10.42% one year ago.

The year-over-year increase in that asset group was primarily due to M&T Bank Corp.'s acquisition of Hudson City. When the deal closed, the target had $35.1 billion in assets and far higher CD balances than M&T. After the transaction, M&T saw CDs grow to 14.26% of its deposits from 3.83% in the quarter before completing the acquisition.

Q1'16 banking industry CD balances, by bank size*

	CDs			
			Median concentration (%)[2]	
Bank assets	Balance ($B)	YOY change (%)[1]	Q1'16	Q1'15
$1B & below	326.70	-8.29	31.27	32.92
$1B-$10B	296.47	6.70	21.59	22.39
$10B-$50B	194.69	-5.77	14.36	16.55
$50B-$250B	458.95	27.19	10.45	10.42
$250B & above	371.67	-14.63	5.44	7.24
Industry	**1,648.48**	**0.71**	**30.13**	**31.90**

Data compiled May 24, 2016.
* Analysis includes commercial banks, savings banks and savings & loan associations that have filed regulatory reports for the respective period. Industrial banks, cooperative banks and nondepository trusts are excluded.
[1] Year-over-year change is based on reported CD balances and is not adjusted to exclude growth from activity related to mergers and acquisitions.
[2] Represents the median concentration of retail and jumbo time certificates of deposit as a percentage of total deposits across each asset group.
CD balances are based on regulatory filings.
CD = certificate of deposit; YOY = year over year
Source: SNL Financial, an offering of S&P Global Market Intelligence

The sizable increase in CDs caused M&T's cost of funds to increase in the period as well, but the company said it plans to maintain pricing on Hudson City's time deposits, at least for the time being.

Other banks saw notable growth in their CD balances as they worked to grow their deposit bases. Geoffrey Greenwade, president of Green Bancorp Inc., said at the Gulf South Bank conference in early May that the company has some bankers focused purely on growing deposits. He said Green Bancorp's portfolio bankers will not get paid for the loan growth they generate if they do not hit at least half of their deposit growth goal. He further said the company is running weekly advertisements in newspapers, while

Average $10K CD rates at US banks & thrifts, by asset size*

	CD rates (%)^									
	3-month		6-month		1-year		3-year		5-year	
Assets	12/11/15	05/20/16	12/11/15	05/20/16	12/11/15	05/20/16	12/11/15	05/20/16	12/11/15	05/20/16
$1B-$10B	0.13	0.14	0.20	0.21	0.34	0.36	0.76	0.77	1.20	1.18
$10B-$50B	0.11	0.12	0.18	0.19	0.32	0.34	0.73	0.73	1.12	1.09
$50B-$250B	0.09	0.09	0.22	0.21	0.36	0.35	0.70	0.66	1.05	0.97
$250B & above	0.06	0.06	0.06	0.06	0.11	0.11	0.27	0.26	0.52	0.51
Industry average*	**0.15**	**0.15**	**0.23**	**0.24**	**0.38**	**0.40**	**0.80**	**0.81**	**1.22**	**1.23**

Data compiled May 24, 2016.
* Analysis includes commercial banks, savings banks and savings and loan associations that have filed regulatory reports for March 31, 2016. Industrial banks, cooperative banks and nondepository trusts are excluded.
^ Represents average U.S. interest rates for different $10,000 certificate of deposit products. Interest rate data may not reflect all pricing regions for each company and is based on current S&P Global Market Intelligence coverage.
CD = certificate of deposit
Source: SNL Financial, an offering of S&P Global Market Intelligence

increasing direct mail to customers and businesses in its footprint.

Green Bancorp reported the fifth-largest year-over-year growth in CDs in an S&P Global Market Intelligence analysis, which included institutions with more than $1 billion in assets, CD balances of more than $100 million and loan-to-deposit ratios in excess of 50%. Institutions that have not disclosed current rates for three-month, one-year and three-year CDs were excluded from the analysis.

Other institutions have actively worked to increase CD balances to attract new customers. TCF Financial Corp. has targeted growth in CDs through promotional campaigns. While the growth in CDs has increased TCF's overall cost of deposits, the company believes growing CDs provides longer-term value because more than 80% of promotional CD customers also utilize other products at the bank.

Some banks saw CDs as a tool to improve their liquidity and lock in funding for longer periods. First Internet Bancorp ranked among the top 20 growers of CDs over the last year, adding $255 million in new CD balances in the first quarter. The company said the additions enhanced liquidity and asset/liability management and noted that most of the new CDs had longer duration, coming in at a weighted average term of approximately 38 months.

US holding companies with the highest YOY change in CD balances (%)*

Company (top-level ticker)	Q1'16 balance ($M)	Change (%)[1] QOQ	YOY	Average $10K CD rates, by maturity (%)[2] 3-month	1-year	3-year
M&T Bank Corp. (MTB)	12,841.3	-2.05	335.87	0.07	0.15	0.29
NexBank Capital Inc.	554.5	8.15	127.50	0.15	1.25	0.45
Live Oak Bancshares Inc. (LOB)	590.0	44.70	118.04	NA	1.30	1.55
Merchants Bancorp	359.6	-10.88	117.20	0.35	0.35	0.80
Green Bancorp Inc. (GNBC)	1,394.4	3.08	110.17	0.15	0.60	1.00
Franklin Financial Network Inc. (FSB)	750.8	-0.09	104.28	0.57	0.91	1.23
First Foundation Inc. (FFWM)	476.2	1.27	97.98	0.10	0.25	NA
Bridge Bancorp Inc. (BDGE)	267.6	-8.63	92.19	0.05	0.20	0.40
American Express Co. (AXP)	13,958.0	-1.27	81.27	NA	0.55	1.25
First Internet Bancorp (INBK)	731.6	51.29	76.33	0.50	1.21	1.46
CIT Group Inc. (CIT)	18,439.3	1.19	72.05	NA	1.22	1.50
Penn Community Mutual Holdings Inc.	482.4	-1.98	66.28	0.15	0.35	0.80
Lakeland Bancorp Inc. (LBAI)	483.8	40.92	65.85	0.03	0.17	0.42
Banner Corp. (BANR)	1,287.9	-4.87	65.53	0.10	0.20	0.60
Capital One Financial Corp. (COF)	12,916.4	5.55	63.13	0.10	0.15	0.34
Bankwell Financial Group Inc. (BWFG)	474.7	8.72	57.60	0.15	0.30	0.70
FCB Financial Holdings Inc. (FCB)	1,887.6	1.58	54.79	0.05	0.65	0.35
American Bancor Ltd.	183.4	-3.66	51.80	0.05	0.28	0.63
Horizon Bancorp (HBNC)	416.8	13.72	51.74	0.05	0.50	1.25
Guaranty Bancorp (GBNK)	281.3	8.67	45.69	0.10	0.40	1.00
Industry[3]	**1,648.5**	**2.04**	**0.71**	**0.15**	**0.40**	**0.81**

Data compiled May 24, 2016.
* Analysis is limited to 20 top-tier U.S. holding companies with the highest year-over-year change in certificates of deposit, as of March 31, 2016. Only institutions with assets greater than $1 billion, CD balances of more than $100 million and loan-to-deposit ratios of greater than 50% were considered. Also excludes institutions for which the current CD rates data for all three maturities shown in the table was not available.
[1] Quarter-over-quarter and year-over-year change are based on reported CD balances and are not adjusted to exclude growth from activity related to mergers and acquisitions.
[2] Represents average U.S. interest rates for different $10,000 certificate of deposit products. Interest rate data may not reflect all pricing regions for each company and is based on current S&P Global Market Intelligence coverage. Rates are as of May 20, 2016.
[3] Represents the figures across all commercial banks, savings banks and savings & loan associations that filed regulatory reports for March 31, 2016. Industrial banks, cooperative banks and nondepository trusts are excluded.
CD balances are based on regulatory filings.
CD = certificate of deposit; NA = not available; QOQ = quarter over quarter; YOY = year over year
Top-level ticker is based on the home country of the highest traded entity within the corporate structure.
Source: SNL Financial, an offering of S&P Global Market Intelligence

As a result, the company's cost of CDs rose to 1.48% in the first quarter from 1.40% in the prior quarter.

Across the industry, the cost of CDs at various maturities, and among different-sized banks, has not changed that much over the last six months since the Federal Reserve finally raised short-term rates in mid-December 2015. SNL data shows that the cost of CDs rose 1 to 2 basis points at most on CDs of varying maturities between Dec. 11, 2015, and May 20, 2016.

Some bankers have said in recent months that they raised rates on certain deposit products to offer customers some much-desired yield, but those increases often came on money market accounts. For instance, Signature Bank's cost of money market accounts rose 2 basis points in the quarter due to "selective increases" to certain deposit clients as a result of the Fed rate hike, management said during the company's first-quarter earnings call.

Southside Bancshares Inc. made a similar concession. Southside President Lee Gibson III said at the Gulf South conference that the company increased interest on money market accounts by 5 to 6 basis points in the quarter because the bank felt it "owed" customers. Gibson said the company does not expect much pressure on deposit costs coming from any further rate increases.