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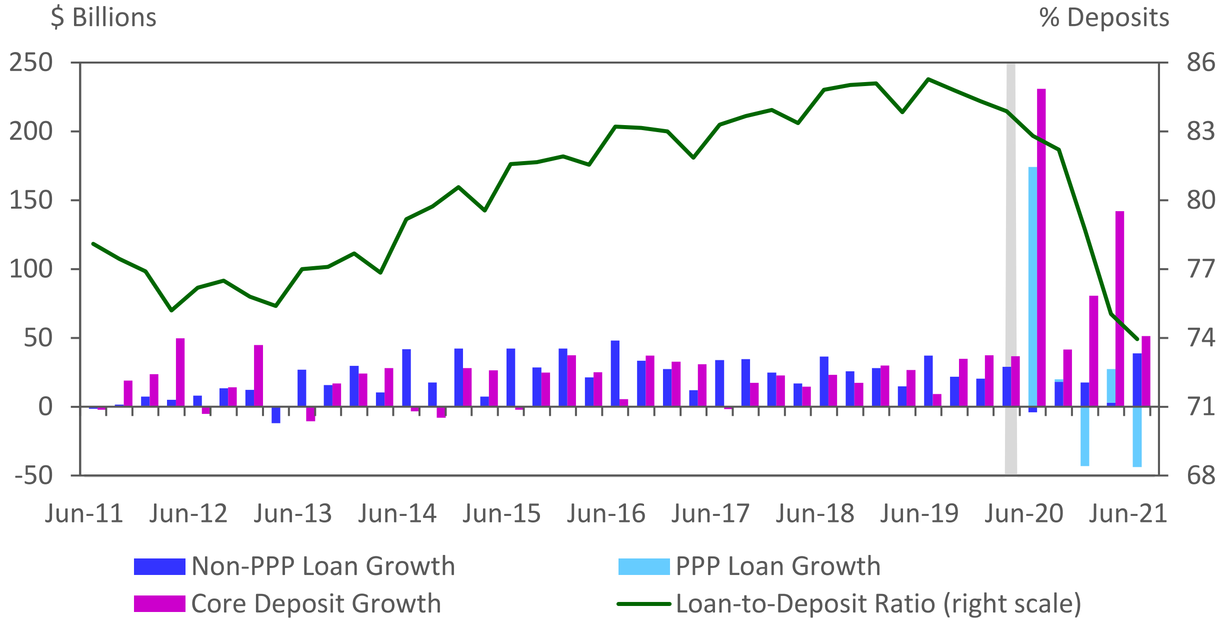
Community Banking Bulletin: Highlight

Providing insights on community banking

Surge in deposits has caused plummeting loan-to-deposit ratios

The rush of deposits into community banks[1] caused by the COVID-19 pandemic, combined with low loan demand, has caused loan-to-deposit ratios to fall to nearly 30-year lows.

Loan and Deposit Analysis at Community Banks



Source: Reports of Condition and Income, adjusted for mergers, acquisitions and failures

- The COVID-19 pandemic instigated various economic stimulus programs including direct payments to consumers and lending programs to small businesses. This stimulus led to a drastic increase in deposits in the banking system.
- A common measure of bank liquidity, the loan-to-deposit ratio, currently shows a substantial amount of liquidity in community banks as deposit growth has significantly outpaced growth in loans and leases over the last twelve months. In fact, community banking organizations have not seen loan-to-deposit ratios this low since the early 1990s.
- During the early stages of the pandemic, much of the influx in deposits was used to fund loans made under the Payroll Protection Program (PPP), holding loan-to-deposit ratios fairly stable. However, continued deposit growth, significant PPP loan forgiveness, and low loan demand has moved community bank loan-to-deposit ratios downward at a rapid pace.

Questions or comments? Please contact KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org

[1] Note: Community banking organizations are defined as having $10 billion or less in total assets