Deposit composition continues to shift amid heightened competition

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Runoff in core deposits stabilized in the latter half of 2023 while non-core deposits, particularly large time deposits, continue to increase.

- Following the pandemic-induced surge in bank deposits in 2020 and 2021, total deposit growth[1] across community banking organizations[2] (CBOs) came to a virtual halt at the onset of quantitative tightening in early 2022. Since then, the composition of deposits has shifted considerably amid higher interest rates and increased competition.
- Most CBOs experienced declines in core deposits[3] in 2023; however, runoff stabilized in the latter half of the year. Core deposits were replaced in part by non-core deposits,[4] primarily time deposits above the FDIC insurance limit and brokered deposits.
- The composition of core deposits has shifted, with the greatest declines seen in typically rate-sensitive savings and money market deposit accounts (MMDAs). As non-maturity deposit balances declined in 2023, time deposits increased at a rate of 42 percent year-over-year and now represent almost 25 percent of total deposits.
- Amid core deposit runoff, CBOs also turned to brokered deposits and other borrowings, which saw year-over-year increases of 39 percent and 28 percent, respectively. However, utilization of these funding sources slowed in the latter half of the year.

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Endnotes

[1] Growth rates are adjusted for merger activity. Merger-adjusted calculations add the assets and liabilities of acquired institutions to the acquiring institutions in previous periods.

[2] Community banking organizations are defined as having less than $10 billion in total assets.

[3] Core deposits as defined by the FFIEC Uniform Bank Performance Report: transaction accounts, savings accounts, MMDAs, and time deposits below $250M, excluding brokered time deposits less than $250M.

[4] Non-core deposits include time deposits above $250M, brokered deposits, and foreign office deposits.