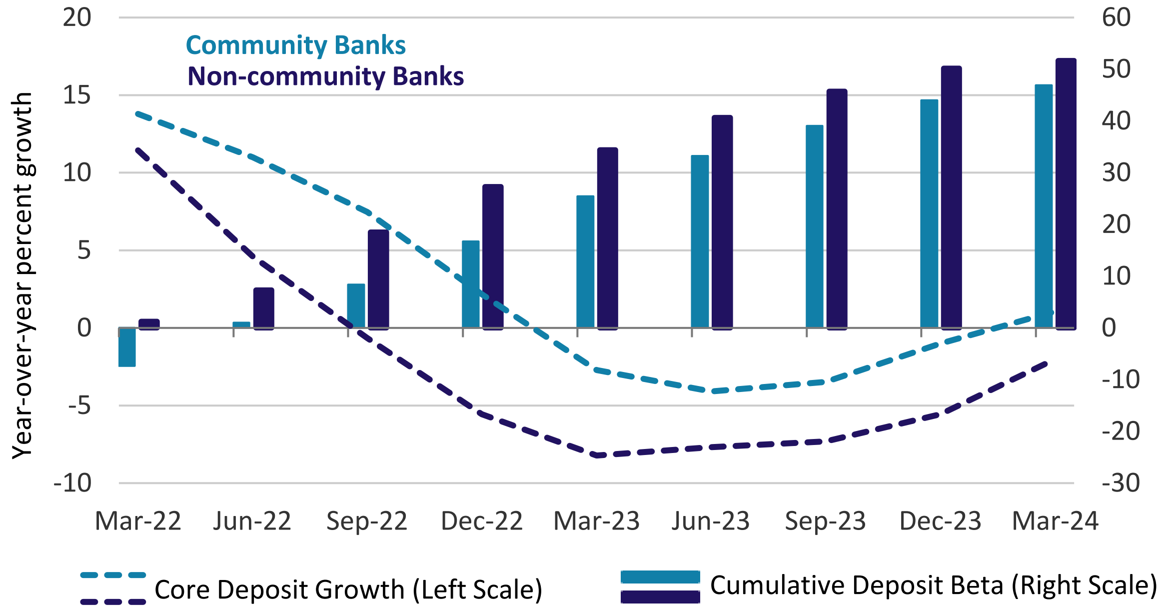
Community Banking BULLETIN: Highlight

Providing insights on community banking

Highlight: Community bank deposit pricing becoming more sensitive as policy rates remain stable

Community banks were slower to raise deposit rates in the early stage of the rising rate cycle but increased the pace in 2023 after experiencing core deposit runoff.

Cumulative Deposit Beta



Source: FFIEC Call Reports, Federal Reserve Economic Data (FRED)

- Community banking organizations'[1] (CBOs) cumulative deposit beta—which represents how much of the Federal Reserve's total rate hike (since 2022) banks have passed on to depositors—reached 46.9 percent as of 1Q 2024.[2] The cumulative deposit beta was higher at CBOs that had branch presence in metropolitan areas.
- Non-CBOs experienced faster core deposit runoff in the early periods of the rising rate cycle relative to CBOs, and in response, their deposit pricing increased more rapidly as reflected in their steepening aggregate cumulative deposit beta through 2022.
- CBOs increased the pace of raising deposit rates in 2023 as deposit competition intensified and core deposit growth turned negative, resulting in a cumulative deposit beta closer to, but still below, that of non-CBOs. Core deposit outflows began stabilizing across all banks in 2023 and turned positive for CBOs in the first quarter of 2024, increasing 1.1 percent year-over-year. However, deposit betas continue to show an increasing trend.

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

[1] Community banking organizations are defined as having less than $10 billion in total assets.
[2] The cumulative deposit beta is calculated as the cumulative change in the cost of deposits as a percentage of the cumulative change in the effective federal funds rate since the start of the Federal Reserve's tightening cycle in March 2022.