

The Bank Treasury Newsletter

The Chart Deck

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In This Month's Chart Deck

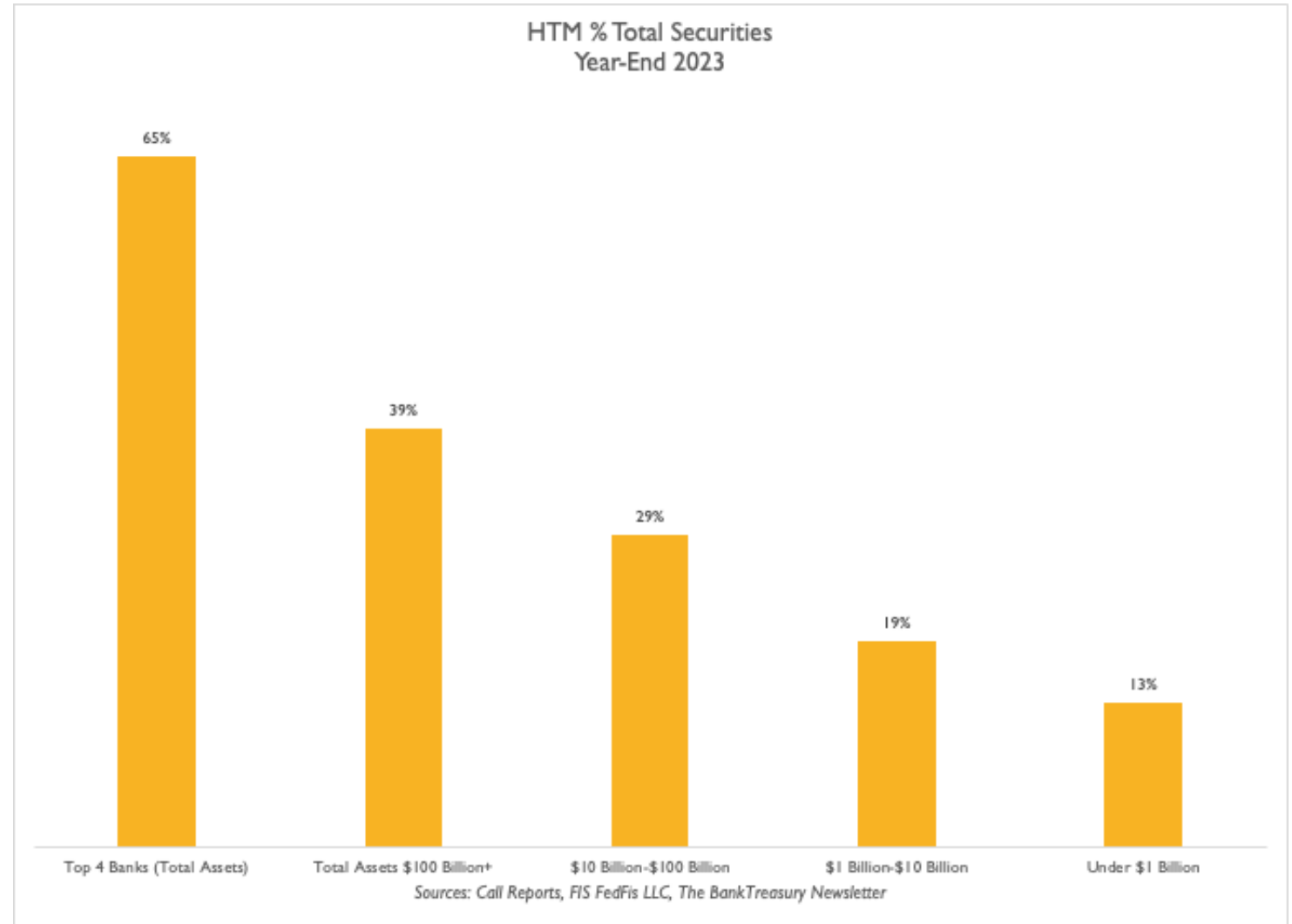
- The portion of bank investment portfolios locked away in held-to-maturity (HTM) accounts varies with the size of the bank, with the largest banks holding nearly half of their portfolios in that account, compared to the smallest banks with total assets under \$1 billion, where HTM constituted only 13% of total securities at year-end 2023 (Slide 4). Bank treasurers use the HTM account to protect against changes in fair value which the largest institutions are required to capitalize in regulatory capital, but as discussed in this month's newsletter, under Accounting Standards Update 2022-1, they have more latitude than they have ever had since the publication of Statement of Financial Accounting Standard No. 133 in 1999, to hedge their bond portfolios, even prepayable securities. Bank treasurers are also shortening the duration of their portfolios with short Collateralized Mortgage Obligations (CMOs) that equaled half of their portfolio at year-end (Slide 5).
- The Fed continues to allow its System Open Market Account (SOMA) to shrink, which decreased by \$1.4 trillion, to \$7.1 trillion since Quantitative Tightening (QT) began in June 2022. However, contrary to the way it shrank its balance sheet the last time, (October 2017-September 2019), when reserve deposits fell by half, this time reserve deposits increased, from \$3.4 trillion to \$3.6 trillion. The increase is attributable to several factors that more than offset the reduction in SOMA, including (Slide 6) the launch of the Bank Term Funding Program (BTFP), a \$1.4 trillion decrease in the Reverse Repo Facility, and notably, to cumulative negative Treasury remittances, which fell by \$25 billion since the beginning of 2024, to minus \$98 billion. Remittances turned negative last year because the Fed has been earning less on its SOMA portfolio and its lending facilities such as the BTFP, than it is paying out to banks and money market funds for their overnight cash.
- The stability of reserve deposit balances despite downward pressure from QT helped keep bank deposit balances at near-record levels. Total deposits, at \$17.5 trillion, are down only \$0.5 trillion from their peak in March 2022 but are still much higher than they were going into Covid in 2020, when they equaled \$13.3 trillion. Nevertheless, a combination of loan growth and bond investments has meant that the average regional and community bank has fewer excess deposits than it had two years ago (Slide 7).
- Even though the Fed stopped raising rates last May, deposit costs are still increasing (Slide 8). Depositors are still shifting cash from noninterest-bearing to interest-bearing accounts which adds to upward pressure (Slide 9). Bank treasurers expect deposit funding costs to stabilize this year and maybe even start falling by the summer if, and when, the Fed starts to cut rates.
- The fallout from the bank crisis last spring with uninsured deposits appears to be contained, as the average uninsured deposit account balance in Q4 2023 was only slightly lower than it was in Q4 2022 (Slide 10). Large commercial depositors did broaden the number of their primary banking relationships and expanded their use of sweep accounts, which slightly reduced the number of uninsured accounts (Slide 11).
- Multi-family lending has been a fast-growing credit concentration for commercial banks in the U.S. since the pandemic (Slide 12), which is generally perceived by investors as carrying a lower risk of loss compared to office commercial real estate, where vacancy rates are running higher. In New York City, rent regulations are leaving landlord owners squeezed between rising expenses and rents that are difficult to increase. Also, mortgage loans are coming up for refinancing over the next two years in a higher-rate environment that could lead to a surge in defaults. That said, apartments in NYC tend to have low vacancy rates, and apartment rental income remains stable at record levels (Slide 13).

List of Slides

- HTM, Percent Total Securities, *Sources: Call Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- CMOs, Percent Total Securities, *Sources: Call Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- Loans + Investment Securities Portfolio, Percent of Total Deposits, *Sources: H.8 Report, Federal Reserve, The Bank Treasury Newsletter*
- How Reserve Deposits Grew Since QT Began in June 2022, *Sources: H.4 Report, Federal Reserve, The Bank Treasury Newsletter*
- Cost of Total Deposits, *Sources: Call Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- Demand Deposits, Percent Total Deposits, All National Banks, *Sources: Uniform Bank Performance Report, FFIEC, The Bank Treasury Newsletter*
- Average Uninsured Deposit Balance, *Sources: Call Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- Number of Uninsured Deposit Accounts, *Sources: Call Reports, FIS FedFis LLC, The Bank Treasury Newsletter*
- Multi-Family Loans, Percent Tier 1 Capital Plus Allowance for Loan and Lease Losses (ALLL), All National Banks, *Sources: Uniform Bank Performance Report, FFIEC, The Bank Treasury Newsletter*
- Average Monthly Rent For An Apartment In NYC and All US Cities, *Sources: Apartmentlists.com, The Bank Treasury Newsletter*

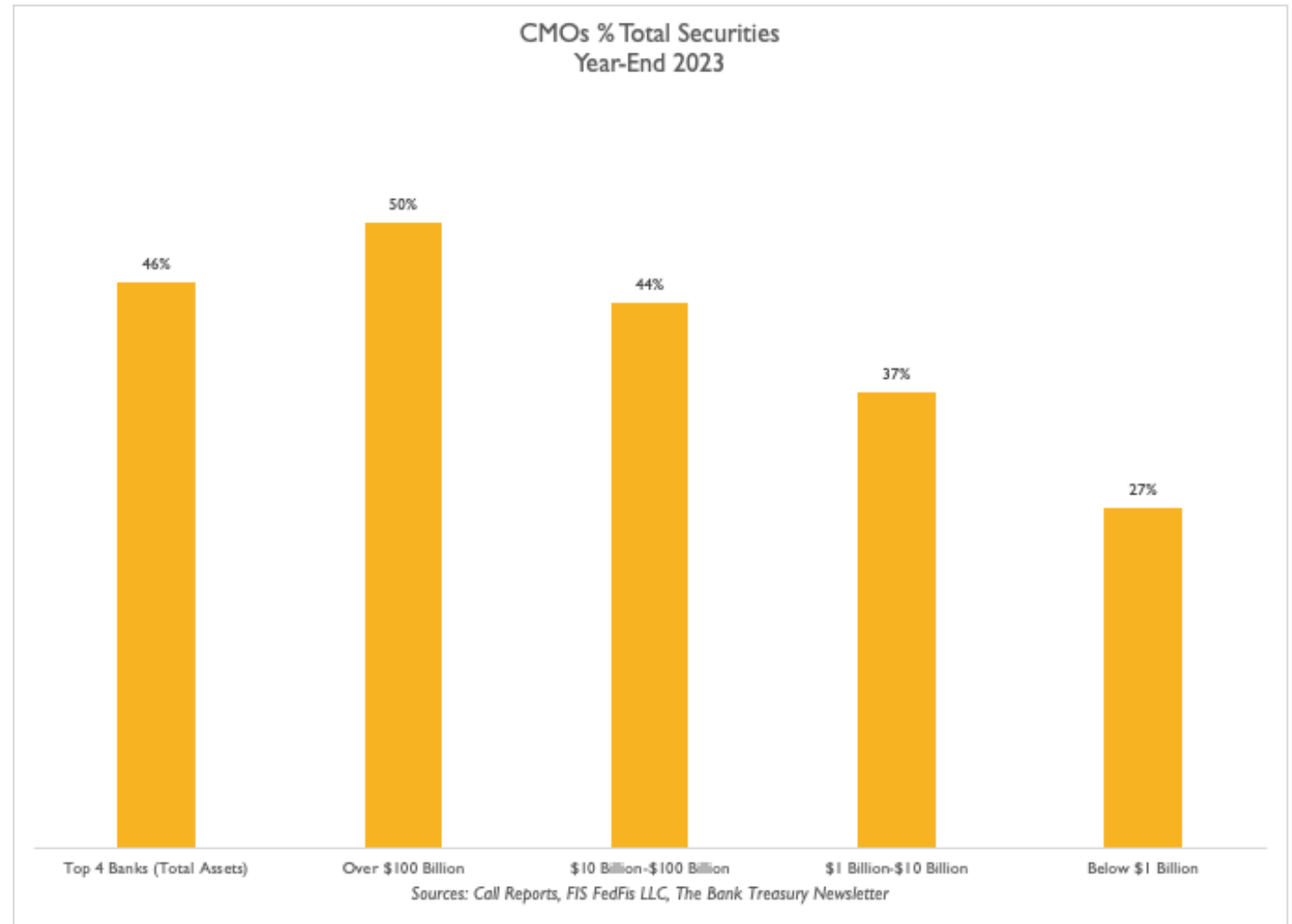
Large Banks Stay Hedged In HTM For Rates Up

Unable to opt out of including AOCI in their regulatory capital ratios as their smaller peers can do, large banks shield a considerable portion of their bond portfolio in HTM.



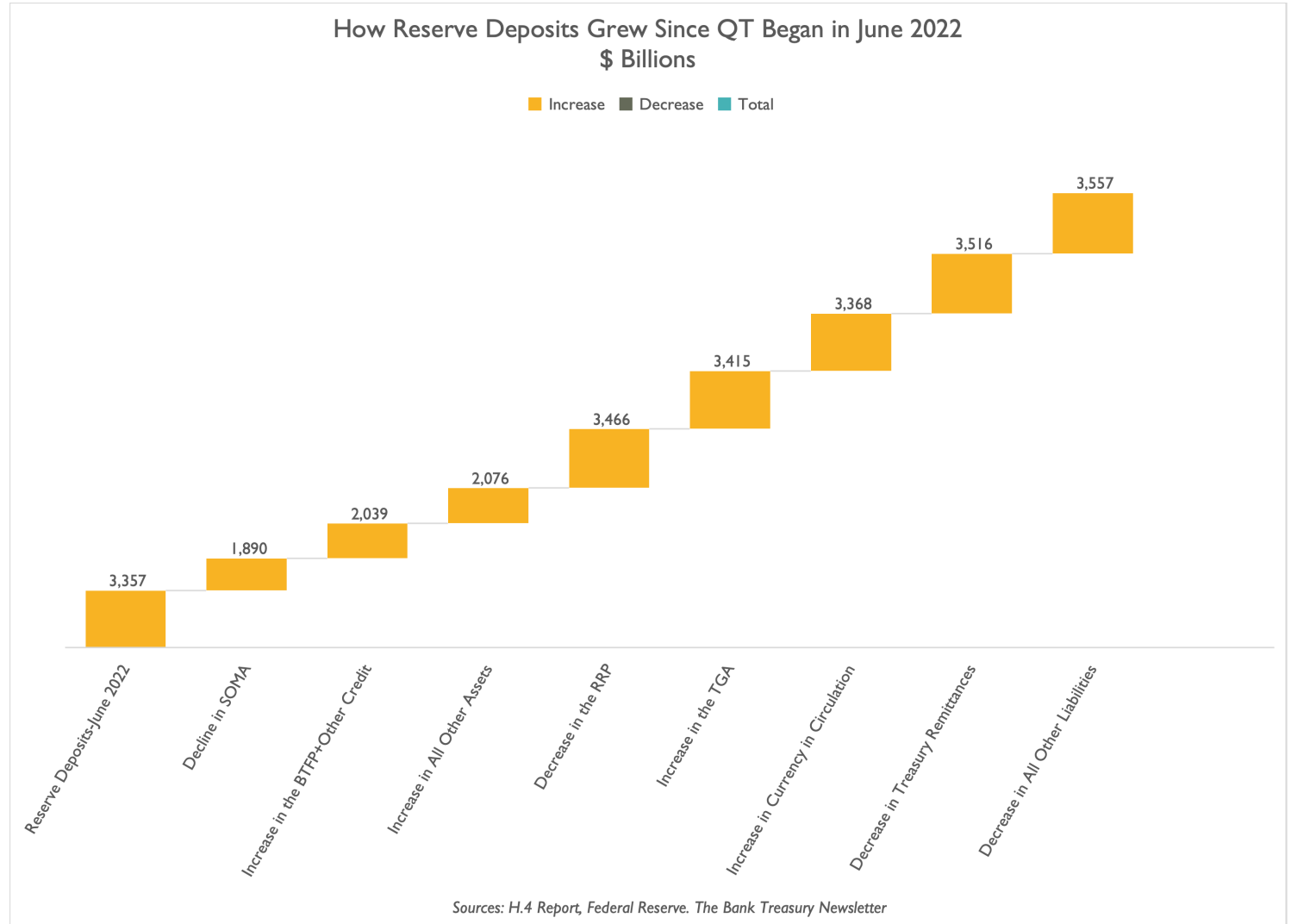
CMOs Remain Single-Largest Bond Concentration

Bank treasurers are using short-term CMOs to manage the duration in their bond portfolios.



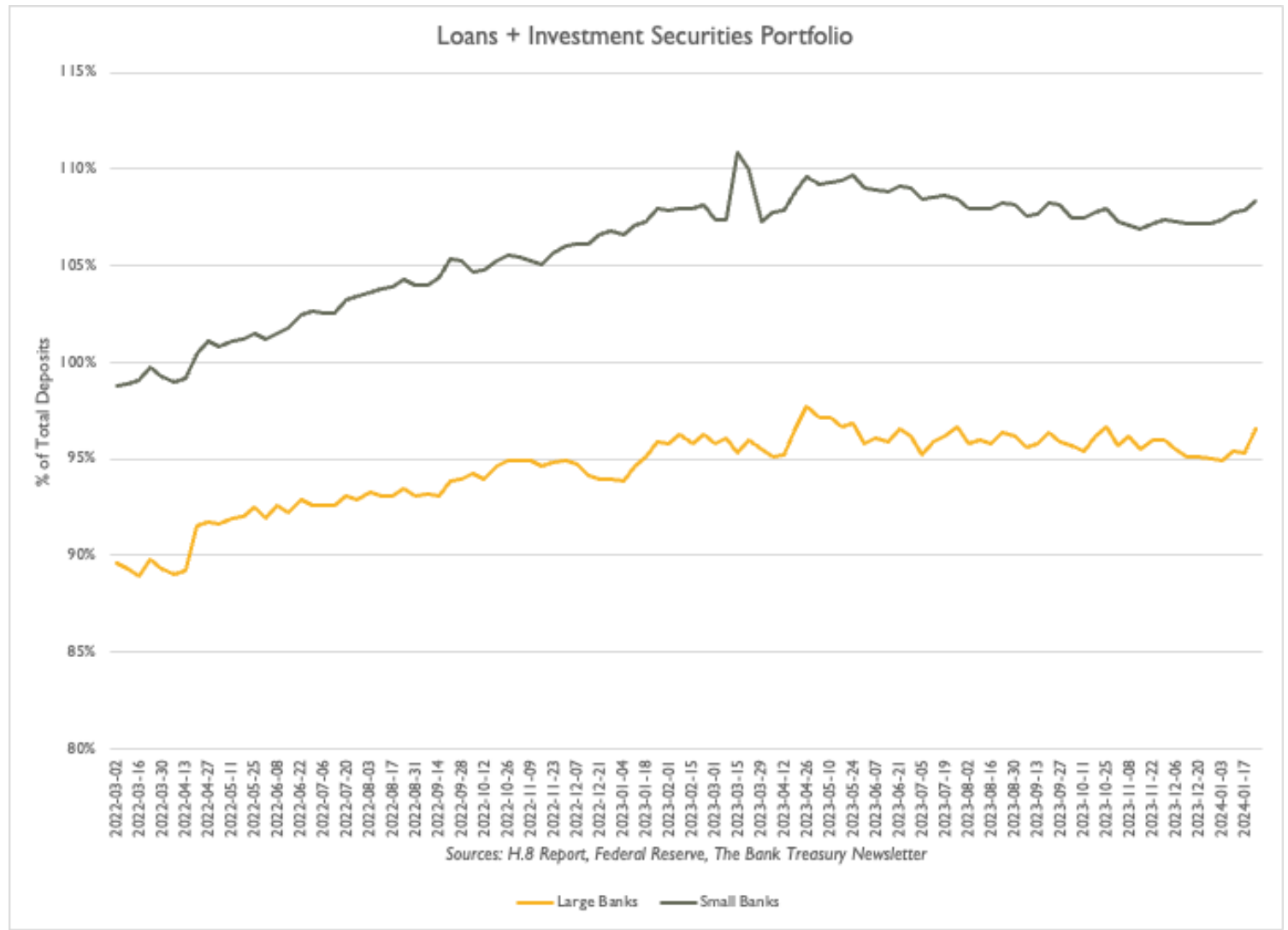
Reserve Deposits Increased Since QT Began

Even though the Fed shrank its balance sheet by \$1.4 trillion, changes in other components of its balance sheet on both the right and left side contributed to a \$0.2 trillion increase in reserve deposits through this month.



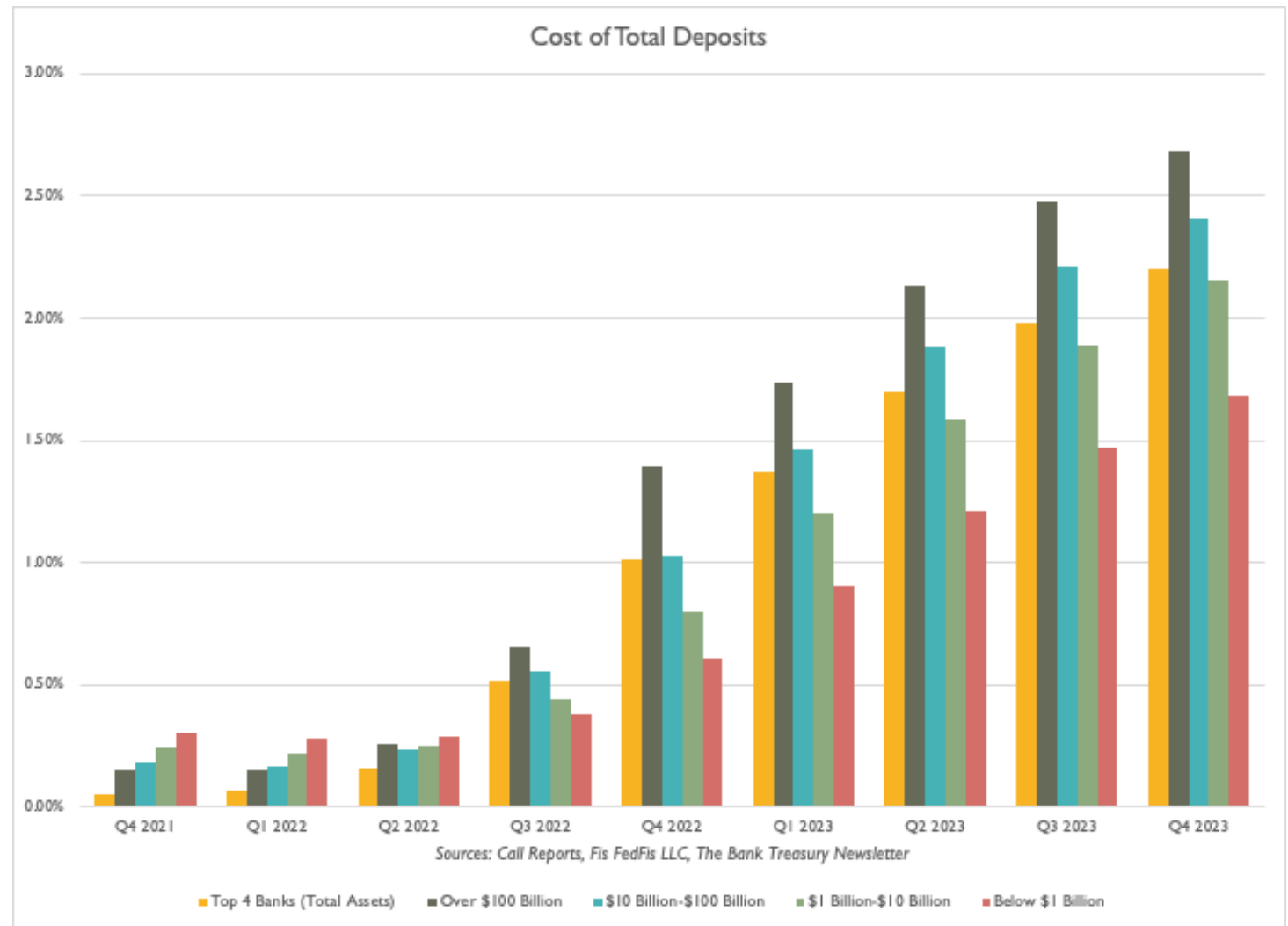
Deposits Fully Invested In Loans And Deposits

Excess balance sheet liquidity remains limited but generally stable over the last year.



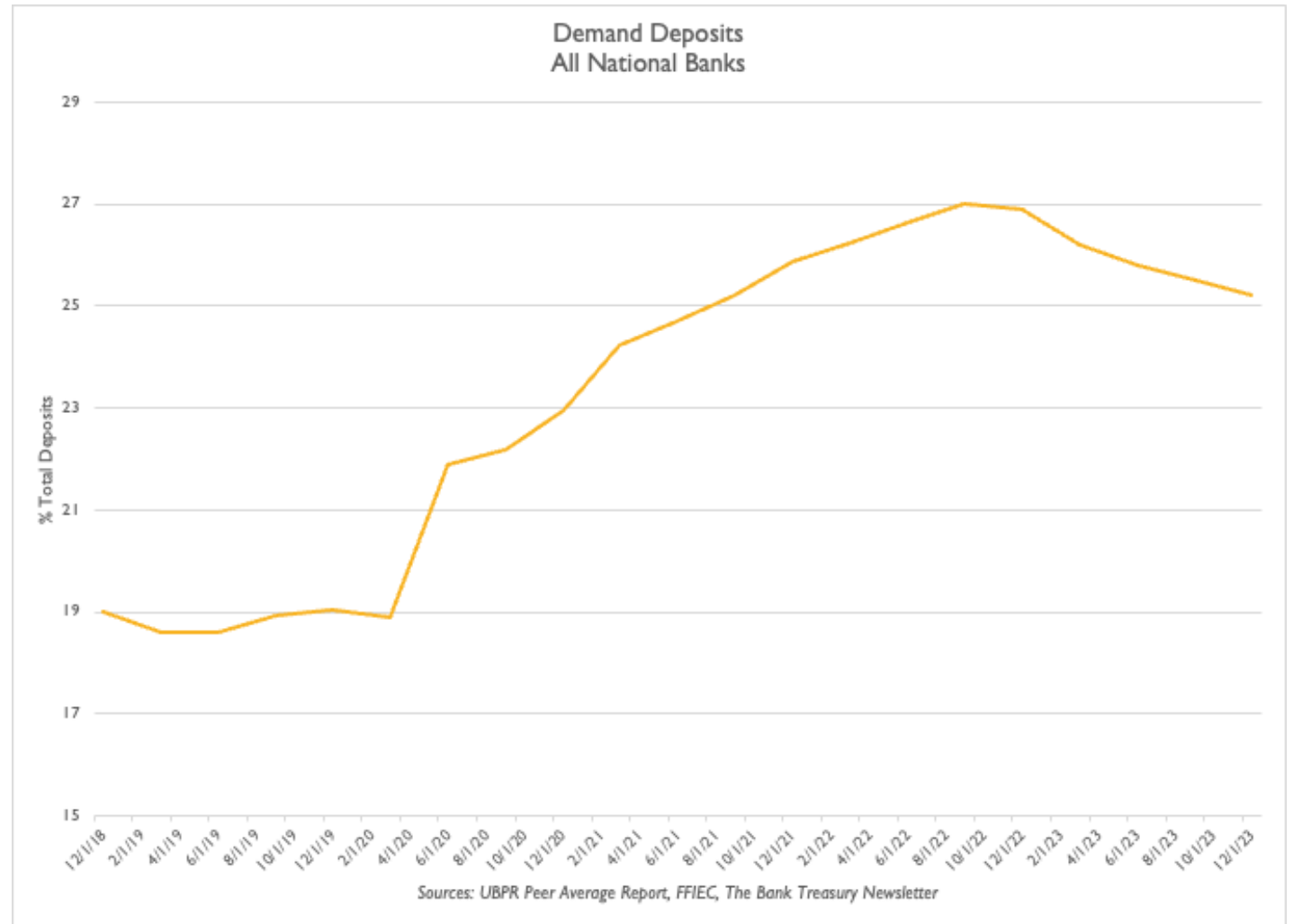
Deposit Costs Still Marching Higher

Bank treasurers expect the impending rate cuts by the Fed will help stabilize and even reduce their deposit cost expense this year when many of the CD specials will roll over.



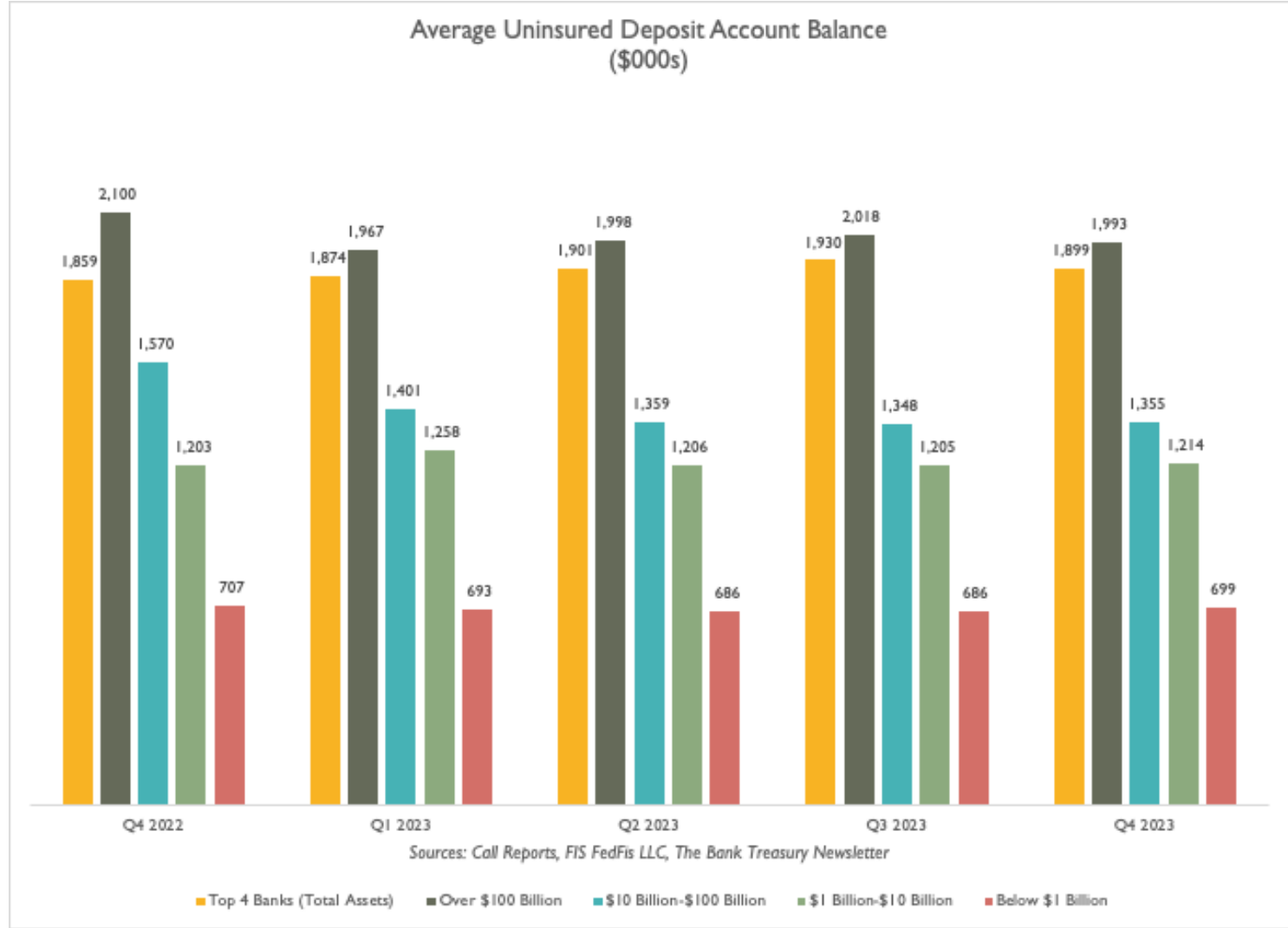
Shift Out Of Demand Into Time Deposits

Some of the higher cost of deposits over the last year reflect a shift by depositors from noninterest-bearing deposits to interest-bearing.



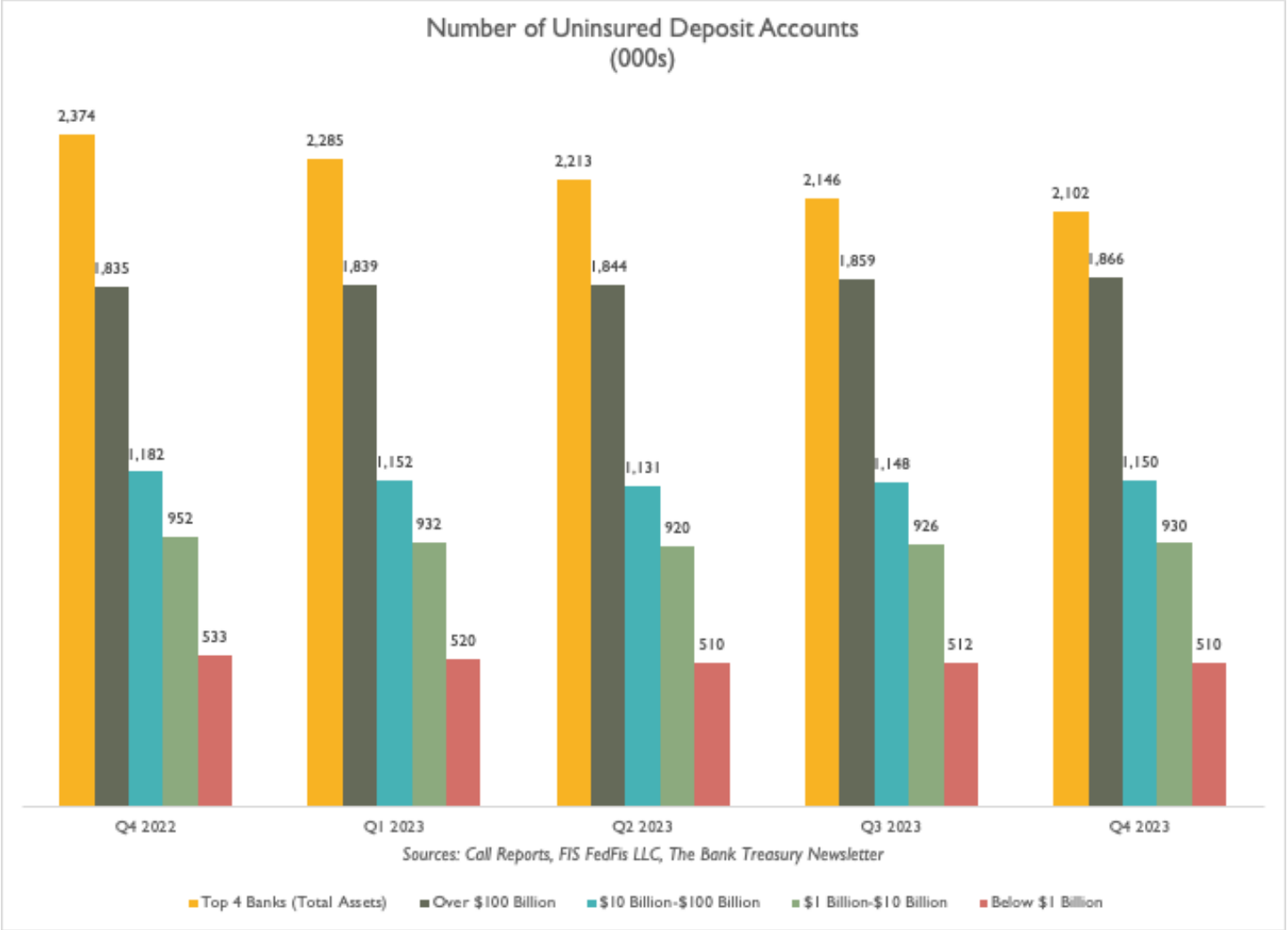
Uninsured Deposit Balances Modestly Lower

Uninsured depositors increased the number of primary banking relationships, which modestly diversified their balances kept on deposit above FDIC insurance coverage.



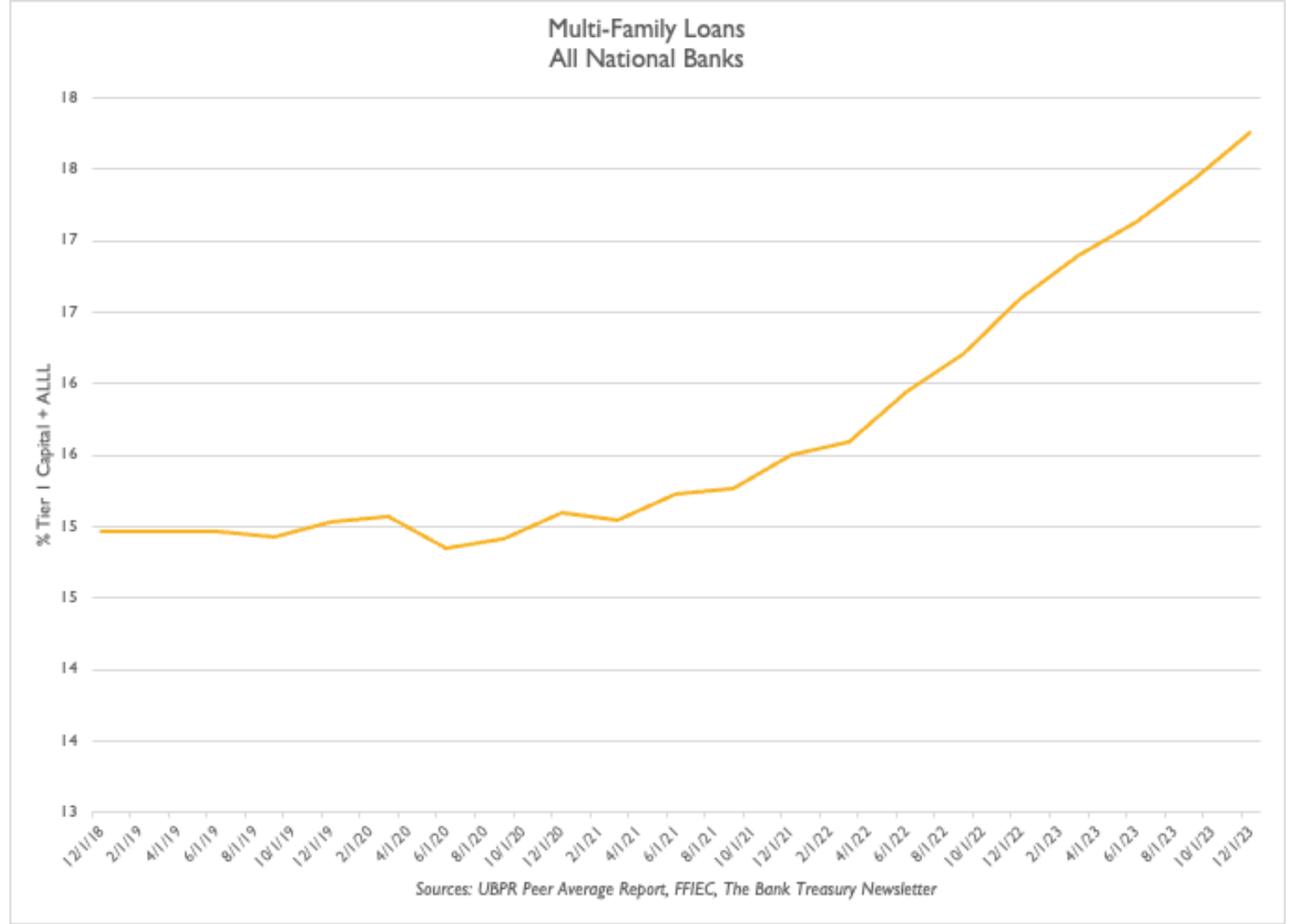
Number of Uninsured Accounts Stabilizing

The exit from banks by uninsured depositors in the wake of the bank crisis last March is largely over.



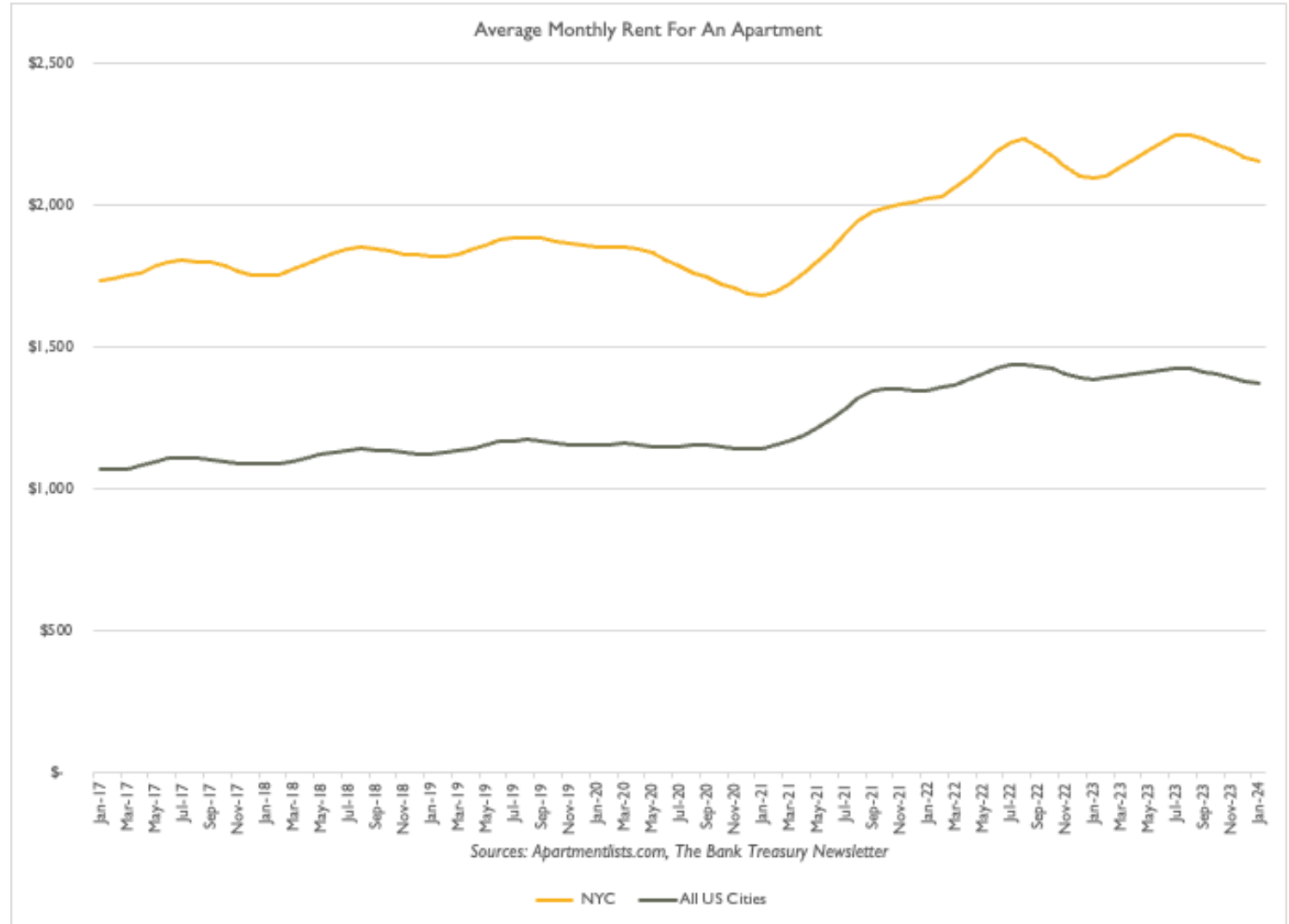
Bank Multi-Family Lending Surged Since Covid

The industry's pursuit of multi-family CRE lending is not slowing down as investors worry about a bubble and credit problems which so far have not materialized.



NYC Apartment Rents Plateau

Rents for an apartment in NYC, where a sizeable portion of the available stock are rent controlled, or rent-stabilized, have plateaued after surging in the early days of the pandemic.



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