Guest Experts: Customer Acquisition

Independent Banker

Driving low-cost deposits through customer acquisition

CHALLENGE: Ever-increasing deposit costs, margin compression, and a host of additional factors are combining to erode banks' profit margins.

SOLUTION: Lower cost of funds through customer acquisition.

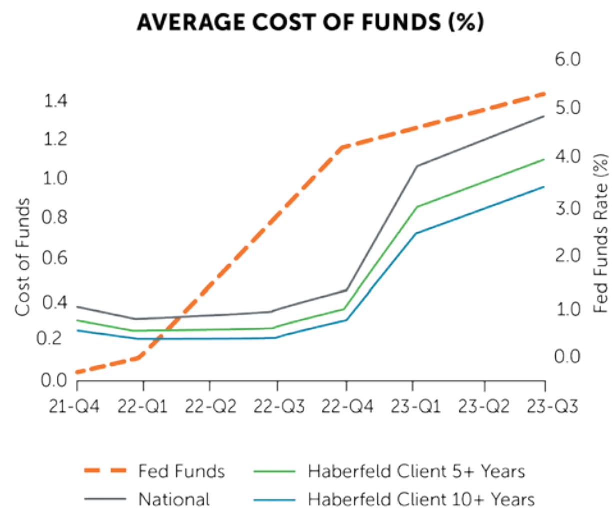
With high-interest rates as an ongoing reality for community banks, a not-so-polite fight continues to intensify for core deposits and other viable sources of low-cost funding. While the Fed is in a sit-and-hold position, the Fed funds rate rests at 5.5%. Even with rate cuts potentially beginning in Q3 2024, the importance of low-cost funding will endure throughout 2024 and beyond.

A recent Jack Henry benchmark report stated that growing core deposits was the #1 priority for financial institutions alike over the next two years. Suffice to say that rising cost of funds has become an issue across our industry.

The most effective strategy to lower cost of funds is through customer acquisition.

Acquiring core relationships to grow low-cost deposits should be of primary importance in any rate environment; however, in our current high-rate environment, it is paramount. Ultimately, outperforming your peers by 50bp+ is a feat that will be welcomed by your board and celebrated by your management team, and it absolutely can be accomplished.

When you strategically align your products, policies, processes, and people, it becomes much easier to compete for core relationships, and those $500+ offers from large banks become less effective. David will beat Goliath!



The chart above illustrates a study examining cost-of-funds trends for both Haberfeld clients (by tenure) and the overall banking industry. In it, you'll see that as the Fed aggressively increased rates (orange line), the cost of funds increased gradually before spiking dramatically between Q4 2022 and Q3 2023. Haberfeld clients were not immune, but you'll see that they began this period with a lower cost of funds and experienced less acceleration.

- Average FI: +92 bps (or .92%)
- Haberfeld overall: +87 bps
- Haberfeld tenure 5+ years: +77 bps
- Haberfeld tenure 10+ years: +72 bps

It's clear Haberfeld clients enjoy a powerful cost of funds advantage over the industry, and it only increases with tenure. This is a very significant gap: a 10-15 bps difference in cost of funds will result in about $1M to $1.5M in savings for each $1B in funding.

The Federal Reserve has rapidly increased interest rates to battle high levels of inflation, making low-cost deposits extremely valuable in the process. The High Performance Growth™ strategy helps our clients gain low-cost deposits by acquiring primary checking relationships. Our clients' advantage is clear, with long-tenured clients less impacted by this rising-rate environment.

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