While you were out...” begins the pre-printed Post-It note awaiting your return from an appointment outside the office. Such a note could be found at thousands of banks across all time zones and asset sizes. It might go on to say “… Great Ideas for Cheap Funding would like for you to call.”

You may have lost contact, professionally speaking, with this old acquaintance—better known as Well-Managed Deposits—in the last three years. Here, we’ll refer to our friend as WMD, which is ironic in that our WMD is most assuredly not a weapon of mass destruction. Instead, it can lay the groundwork for years of below-market financing costs.

The reason you’ve not paid much attention to your pal is that deposits are walking in the door, without being summoned. Between 2007 and 2010, deposits as a percentage of assets at FDIC-insured banks rose from about 64 percent up to around 71 percent. And as ICBA has so effectively argued to policymakers, deposits don’t fail, assets do. Your point of interest has understandably been diverted to the loan portfolio and credit quality issues.

A trend that has emerged over the last year or so is that brokered deposits can be a very flexible tool for efficient borrowing and asset/liability management. Community banks can very quickly add fixed-rate deposits in terms of up to 10 years, at rates of 20 to 30 basis points lower than Federal Home Loan Bank advances. Brokered deposits, of course, have no collateral requirements.

It’s been ICBA Securities’ experience that term deposits of longer than 36 months are very difficult, if not impossible, to raise from your core base. With brokered deposits, the banker can name the term and the amount, and the deposit can be filled in just a few business days. I hasten to add that the bank’s liquidity policy should define the role and the amounts that brokered deposits can play in the funding picture.

FHLBank on it
FHLBank advances can also be managed for favorable outcomes. Banks that have underwater advances—those that currently cost you above-market rates—have in many cases restructured them to both lower the average cost and extend maturities. The restructured advances effectively spread the above-market rate over the term of the new advances.
Either your FHLBank contacts or ICBA Securities can consult with you to demonstrate how this can help your long-term profitability.

Also, for those who cannot handle any more margin compression due to asset sensitivity, an interest rate swap can be employed to convert a block of fixed-rate deposits into floaters. At current rates, sub-LIBOR funding can be achieved, which in some cases has resulted in a net funding cost of zero.

That is 0.00 percent. This is not a misprint.

**Take advantage**

Even though these concepts may make perfect sense to a community banker, a common objection is that the bank has plenty of liquidity and doesn’t need to borrow. The reply I would have is that you can convert some of your already-existing deposits to lower-cost alternatives by use of WMD strategies. The next biggest question is, “What would I buy?”

It’s clear that lending remains an exercise in frustration, and may be so for several years. However, one of the findings from the most recent Vining Sparks Bank Survey is that capital concerns have ebbed. Call report information indicates that most community banks still have excess capital, so balance sheet growth can be employed.

Even at these low rates, investments are obtainable to create arbitrages with decent spreads. For example, brokered deposits with longer durations can be paired with taxable munis or longer Small Business Administration fixed-rate pools known as “DCPCs.” Alternatively, if you convert some deposits into LIBOR-based funding with net costs at or near zero, either Collateralized Mortgage Obligation or SBA floaters can produce some reliable spreads.

To summarize, as 2012 gets up and running, a thorough review of the funding strategies of your community bank should be a priority. Recent product developments and favorable market dynamics can help lower your bank’s financing costs substantially.

Not all WMDs are a threat to your well-being. 

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**Why I use ICBA Securities (reason #86):**

“My ICBA Securities sales representative is very knowledgeable and so is the staff. I have brokers calling on me daily trying to start a relationship with my bank, but none of them can come close to the service we have found with ICBA Securities.”

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**Quote: Debra Miles, Dart Bank, Mason, MI**

Right now, your customers and potential customers need a strong, stable financial partner. Through ICBA Securities your community bank can access a broad range of portfolio investment solutions:

- Securities Execution Services
- Asset Liability Management
- Capital Markets
- Loan Trading
- Interest Rate Products