35 Years
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Big depositors get higher interest; gains don’t trickle down

By Catherine Lackner

Though the Federal Reserve has nudged the prime rate up gradually, with three small hikes since December, average holders of interest-bearing accounts shouldn’t expect to reap higher returns anytime soon, observers say.

Though the rate increase hasn’t trickled down to grassroots accountholders, three large banks increased rates to their largest commercial depositors and high net-worth individuals in this year’s second quarter, said Adam Ingles, director of the regulatory risk solutions group of the Morrison, Brown, Argiz & Farra accounting firm in Miami.

Bank of America, PNC and Wells Fargo have increased their total interest payments on deposits “noticeably” over the past year, according to data released after their quarterly earnings calls. According to a report, which is publicly available, Wells Fargo posted $683 million in interest paid on deposits in the quarter, “more than double its outlay a year earlier and 27% more than in the previous three months. Put it another way, its average deposit costs rose to 21 basis points from 11 basis points in 12 months.”

“Deposit rates paid to commercial and more affluent, high net-worth consumer customers have started to increase, as these depositors tend to be more sophisticated and more willing to move their business around for small rate increases,” Mr. Ingles said. “High net-worth individuals and commercial depositors follow this closely.”

Deposit rates paid to retail consumer deposits tend to lag behind, because they are not as inclined to move their deposits around, he added. “So far,” he said, “the market hasn’t required it. And banks want to maximize their net interest margins by lagging behind the Fed,” he said.

“I don’t feel we will see a lot of competition for retail consumer deposits that impact rates for that segment until the effective Fed Funds rate gets up to the 2% neighborhood” from its current 1.04% level, he said.

His prediction: “The Fed will take a slow, cautious approach” to raising interest rates. “There will be small increases spread over time.”

“There’s been a disconnect” between what the Fed does and its effect on ordinary consumers, said Hal Lewis, co-founder and co-managing partner of the Pathman Lewis law firm, whose practice includes bank litigation, acquisitions and mergers. “Bank profits got squeezed significantly during the recession and they have to rebuild their profit margins.”

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Some suffered loan defaults, “which really hurt them,” he said. In the post-recession climate, the low prime rate meant they lacked the ability to charge higher rates on loans, he added.

It will take at least six months to a year before bank leaders feel comfortable raising rates for depositors, Mr. Lewis said. “There’s also not much competition between banks, though there is a natural movement of money between institutions. There has to be a return to normalcy.”

The interest rate “is moving up at a snail’s pace,” said Mason Williams, senior vice president and chief investment officer at Coral Gables Trust. “It’ll take time to filter down, probably at least six to eight months, but now it’s barely noticeable to the average saver.”

After several bad years during the recession, banks are concentrating on keeping in the net interest margin as wide as possible, he explained. “The loan side will probably be adjusted first. Banks will take a good look at their loan books.”

The possible exception would be a bank where management wants to lure more depositors, he added. “If they need deposits, they’ll raise the rates right away. It depends on their business strategy,” he said. “But for many banks, it’s not necessary to do it right now.”

“Banks vary and their customer bases vary,” Mr. Williams said. “What the competition is doing doesn’t really matter. Their business philosophy is more important.”

“Even though interest rates have gone up, savings and checking-account rates have not kept pace,” said Gregory K. Bader, attorney and practice leader of Gunster’s banking & Financial services practice. “When a bank sets rates, competition with other banks is the issue. If they are not in need of deposits, they don’t have a reason to increase interest rates. Banks can do what they want.”