

DEPOSIT GROWTH LIMITATIONS AND THE IMPACT ON COMMUNITY BANKS

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with Matt Miller

Let's talk about deposit growth limitations and the impact on community banks.

- In Q4 2025 deposit growth across the industry was only 4.8% annualized
 - Only 1 of the 7 FDIC regions had deposit growth above 6%
 - And 3 of the 7 FDIC regions had deposit growth below 3%
 - Growth levels have been like this over 2024 and 2025 i.e. deposit growth has been difficult ever since the large influx of funding during COVID
- Also on FinPro's last webinar, we conducted a polling questions where the vast majority of the respondents said deposit growth in 2026 would be 5% of less

This concept of lack of deposit growth really came to a head for me when I was recently traveling in the Midwest meeting with 7 community banks:

- All of the banks were between \$2 B and \$10 B
- All of the banks were top performers with different business models –
 - Return on equity of well over 12% and strong trading multiples above 135% of TBVS
- All of the banks had the same problem:
 - Organic growth rates of less than 5%; driven by lack of low-cost deposit growth and all with the ability for 10%+ in loan growth
 - ROAE after cash dividend levels well above 10%
 - As such capital levels have increased well above a 10% tier 1 leverage ratio. They all agreed that moving from 9% to a 10% ratio was ok, but can't go higher as shareholder value is starting to get hurt (i.e. future ROAE will decline)
- All of the banks were discussing the following in their strategic plan:
 - Increasing cash dividends
 - Increasing stock repurchases (even though they had longer than desired workbacks)
 - Becoming more inquisitive and looking to acquire banks for deposit growth

So what does this mean for community banks:

1. Increase M&A activity.
2. Keep deposit rates higher even if rates decline further.
3. Utilize FinPro's Detailed Account Level Analytics ("DALA") to understand deposit trends and what is working.
4. Utilize incremental cost of funds analysis to drive decisions.
5. Create new strategies as standard strategies will not work -> new market offensives need to occur.
6. Adopt new technology to make account opening more efficient and attract new customers.
7. Pay for the right people (BDOs) that have strong business and community relationships -> Relationship is key.
8. Use brokered deposits, listing service deposits, third party deposits (change your culture).
9. Play offense not defense.
10. Remember the 7 P's of growth. Most of our clients are spending more time than ever on deposit growth strategies.

Let me know your thoughts on deposit growth for community banks in the comments or email: mmiller@finpro.us.