Data Corner: Core Deposit Surge Drives Increase in Bank Balance Sheets

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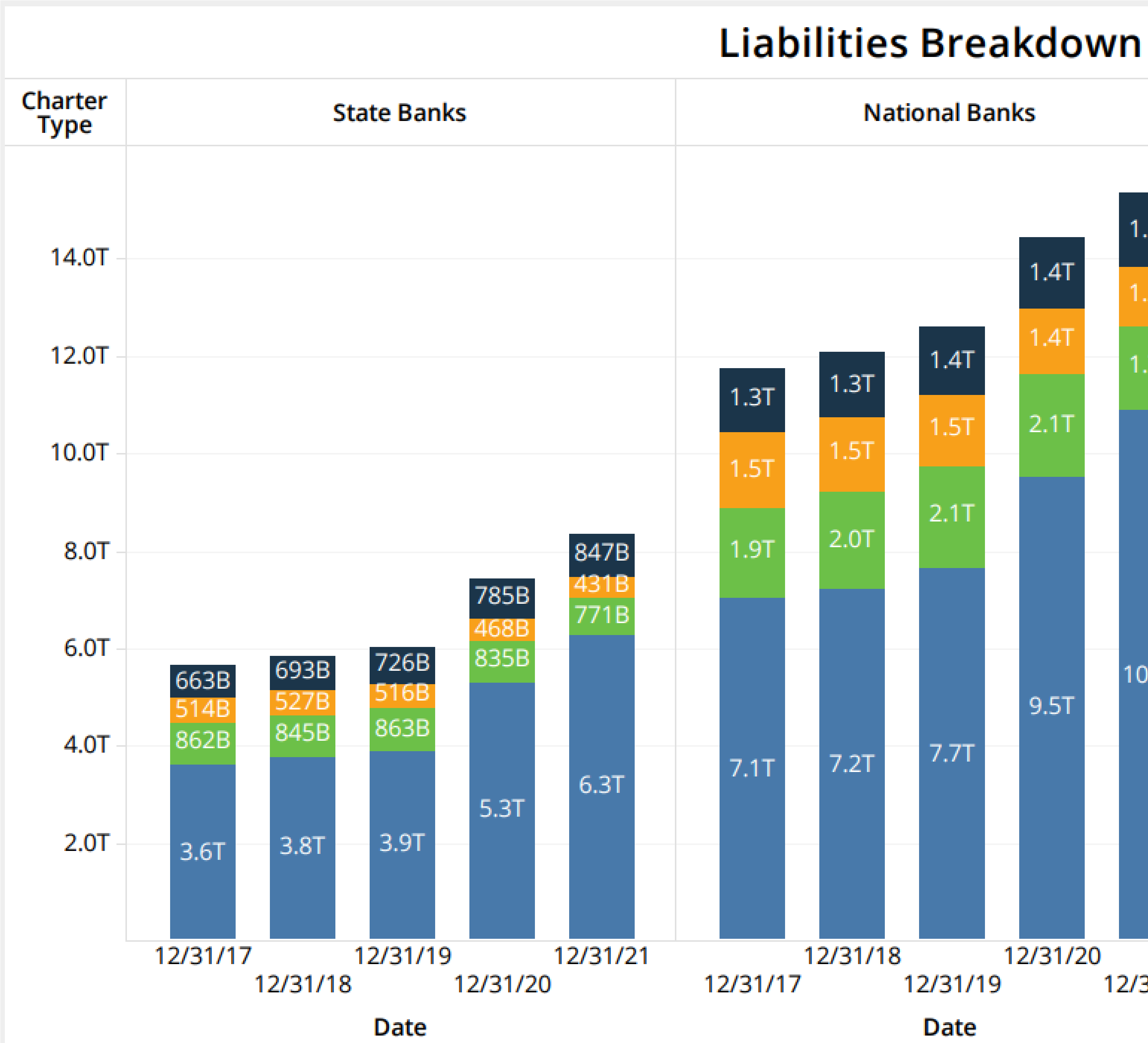
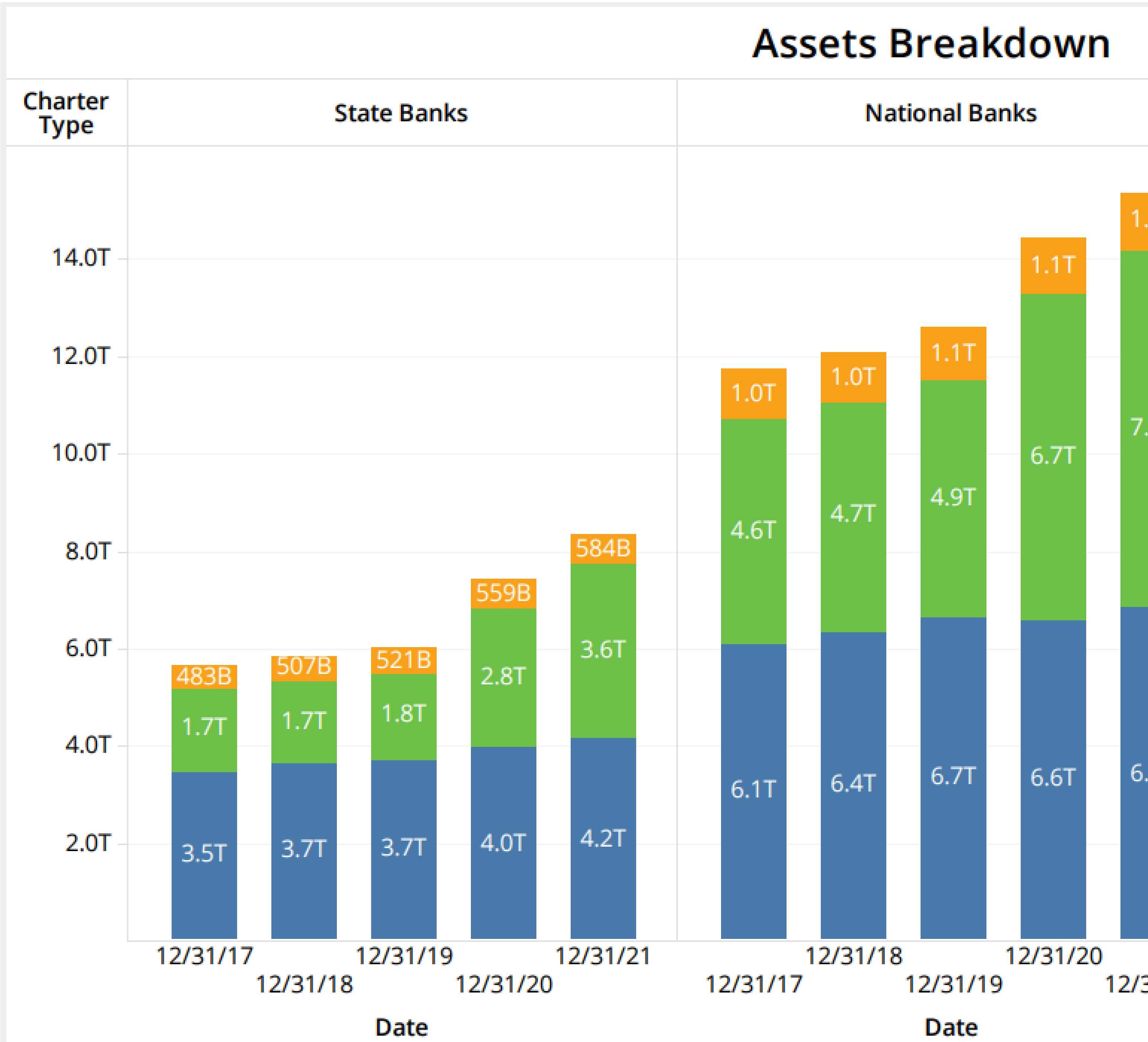
Total bank assets surged in the last two years during the COVID-19 pandemic recession and recovery, increasing at a rate higher than in previous years, according to recent analysis of fourth quarter 2021 bank call report data. This surge was driven primarily by a large increase in core deposits as consumers saved more, spent less and tapped into stimulus funds. Banks deployed the increase in funding created by the core deposit surge into investments and, to a lesser extent, loans.

Our recent analysis focuses on breaking down the balance sheets of state and national banks into broad categories (similar to how they are categorized in the Federal Financial Institutions Examination Council's Uniform Bank Performance Report) and measuring changes in these categories on both sides of the balance sheet. This analysis does not adjust for mergers or banks that may have converted their charter type over the measurement period.



We grouped liabilities (Chart 1) into four categories: core deposits, noncore deposits (green), Fed funds purchased and other borrowings and capital and minority interests. State-chartered banks saw an 18.2% increase during 2021 in core deposits, while national banks had a 14.5% increase. State-chartered banks also experienced an 8% decrease in Fed funds purchased and other borrowings, while national banks had a 9.1% decrease.

Core deposits had significant, double digit percent growth increases during 2020 and 2021 for both state-chartered and national banks. Demand deposits, a subset of core deposits, saw a two-year increase of 159.5% for state-chartered banks and 181.6% for national banks from Dec. 31, 2019, through Dec. 31, 2021.



On the asset side of the balance sheet (Chart 2), we grouped assets into three categories: Investments, net loans and leases, and other assets. State-chartered banks saw a 25.3% increase in investments during 2021 following a 59.4% increase during 2020, while national banks increased by 9.2% (2021) and 37.7% (2020). State-chartered banks saw a 4.6% increase in net loans and leases during 2021, and national banks increased by 3.9%.

The main driver of investment growth for both state and national banks was the increase in interest-bearing balances and U.S. Treasury and agency securities. Over the two-year period, state-chartered banks saw an 141.1% increase in interest bearing balances and a 94.1 % increase in U.S. Treasury and agency securities. Over the same period, national banks saw an 122.3% increase in interest bearing balances and a 57.4 % increase in U.S. Treasury and agency securities.

The increase in core deposits led to an increase in overall liquidity for many banks. Net loans and leases as a percentage of total assets fell while investments surged. Interest-bearing balances and U.S. Treasury and agency securities were the main drivers of this investment growth, signaling that many banks deployed liquidity created by the deposit surge towards stable investment options and to a lesser extent loans.

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