

Banks' latest problem: Too much liquidity

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In the most recent print edition, I wrote a story about trends in bank deposit market share. The most recent Federal Deposit Insurance Corp data shows that local deposits were up from 2010 while branching and the number of financial institutions declined.

But several sources said while corporate and retail customers are stuffing more money in bank accounts to avoid the volatile investment world, banks themselves are not being aggressive in seeking the funds.

Larger banks were primarily responsible for the increase in local bank deposits but most community banks saw either flat or shrinking deposit numbers. One such example is Hatboro, Pa.-based **Fox Chase Bancorp**, which saw local deposits decline from \$819 million in 2010 to \$695 million on June 30.

CEO Tom Petro, who is president of the Pennsylvania Bankers Association, said that in the ordinary course of business, banks receive cash by means of three main avenues — customer deposits, interest from securities portfolios and customers repaying loans. He said with the investment securities market producing low or flat yields and loan demand tepid, there are fewer places to wisely deploy capital.

“So the big problem for the industry is having too much liquidity,” Petro said.

Petro said Fox Chase is growing its profits but not as fast as it would like because it is flush with cash and is simply decreasing the size of its balance sheet by offering unattractive deposit rates

“You will see many banks doing that between the second and third quarters this year,” he said. “While shrinking, we’ve actually become more profitable but you can only do that for so long.

“So please come and borrow from me,” Petro joked.

With branching declining as Internet and mobile banking increase in popularity, smaller banks feel they might be on more of an even playing field to attract more retail customers. But do they have the technology to compete?

While most smaller banks have Internet banking and remote deposit capabilities, most are still working on developing mobile banking, which has skyrocketed in popularity over the past three years. Larger banks have all introduced mobile apps. But Valley Green Bank CEO Jay Goldstein, whose bank only has two locations, in Mount Airy and Chestnut Hill, with loan offices in Radnor and Center City, said he could not recall one customer who asked us for mobile banking.

“But things are fluid and we will all have to see if it becomes a necessary part of doing business in the future,” he said. “Branch networks are not nearly as important with direct deposit, online bill pay, ATMs and internet banking.”