Community Banking Research Conference 2025
Where Research and Policy Meet

Deposit Franchise Value and Market Power

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Banking is an ecosystem.

The banking industry comprises several unique bank business models:

- Mega banks, large banks, mid-sized banks, small/community banks

Banks serve different economic roles:

- Local focus, national focus, industry focus

Banks coexist in a local economy to facilitate the provision of finance.

Deposit-taking is a core function of banks.

These papers study the deposit market:

- The methods that banks use to obtain deposits
- The types of depositors they serve
- The effects of deposit taking on banks' business models

My goal:

- Build a cohesive narrative about bank deposits.
- Highlight what each paper can learn from the others.

Three papers form a cohesive story.

Banks' Images: Evidence from Financial Advertising

- Banks use advertising to attract local deposits.

Poverty Spreads in Deposit Markets

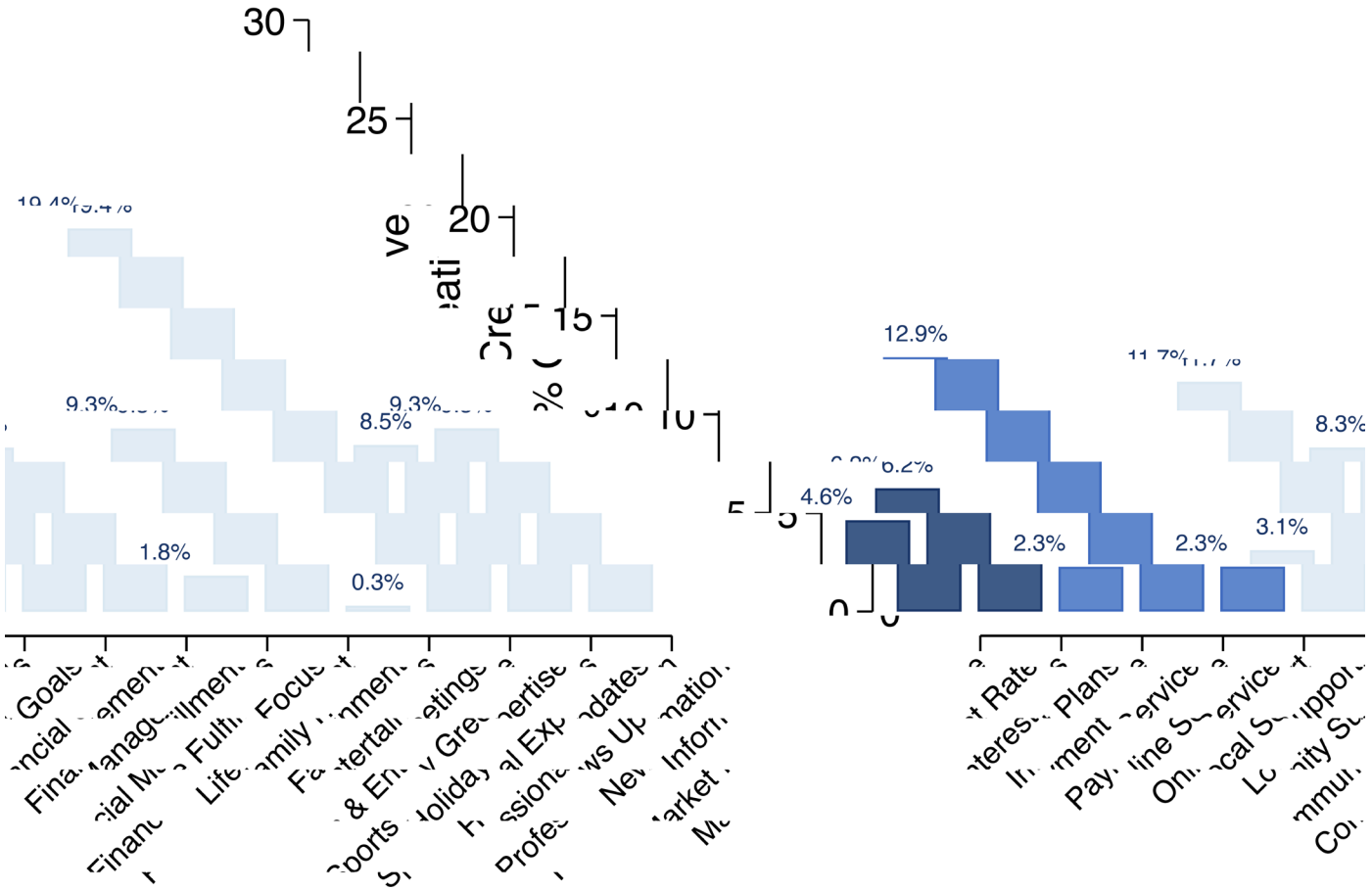
- Banks pay highest deposit rates to attract and retain wealthiest depositors.

The Decline of Branch Banking

- Banks close branches in areas dominated by such depositors.

Banks actively pursue local deposits.

Figure A.4. Overall Distribution of the Advertising Detailed Theme



Comments: Business Models of Banks

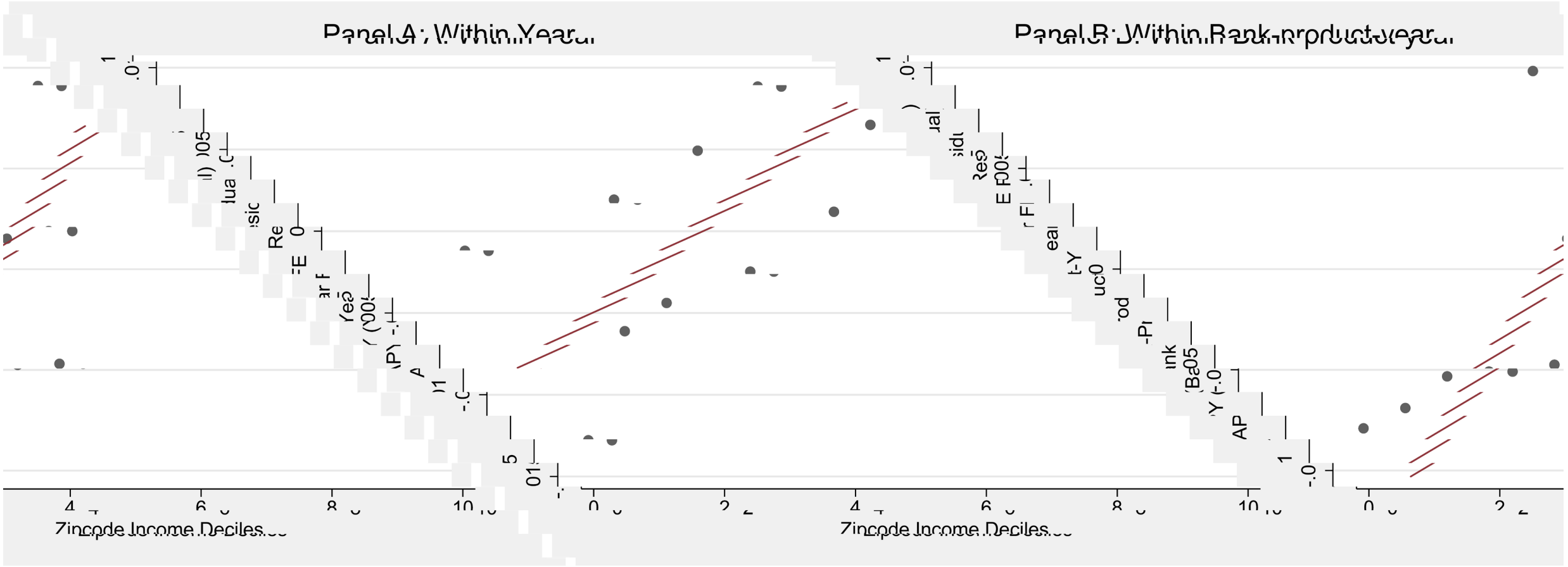
Conclusions:

- Banks with deposit concentration sell service.
- Banks with high deposit rates sell price.

Suggestions:

- Unique opportunity to categorize banks based on how they compete.
  - Characterize banks with high deposit concentration that sell service.
  - Characterize banks with high deposit rates.

Banks pay the highest deposit rates to the wealthiest depositors.



Comments: Economic Role of Banks

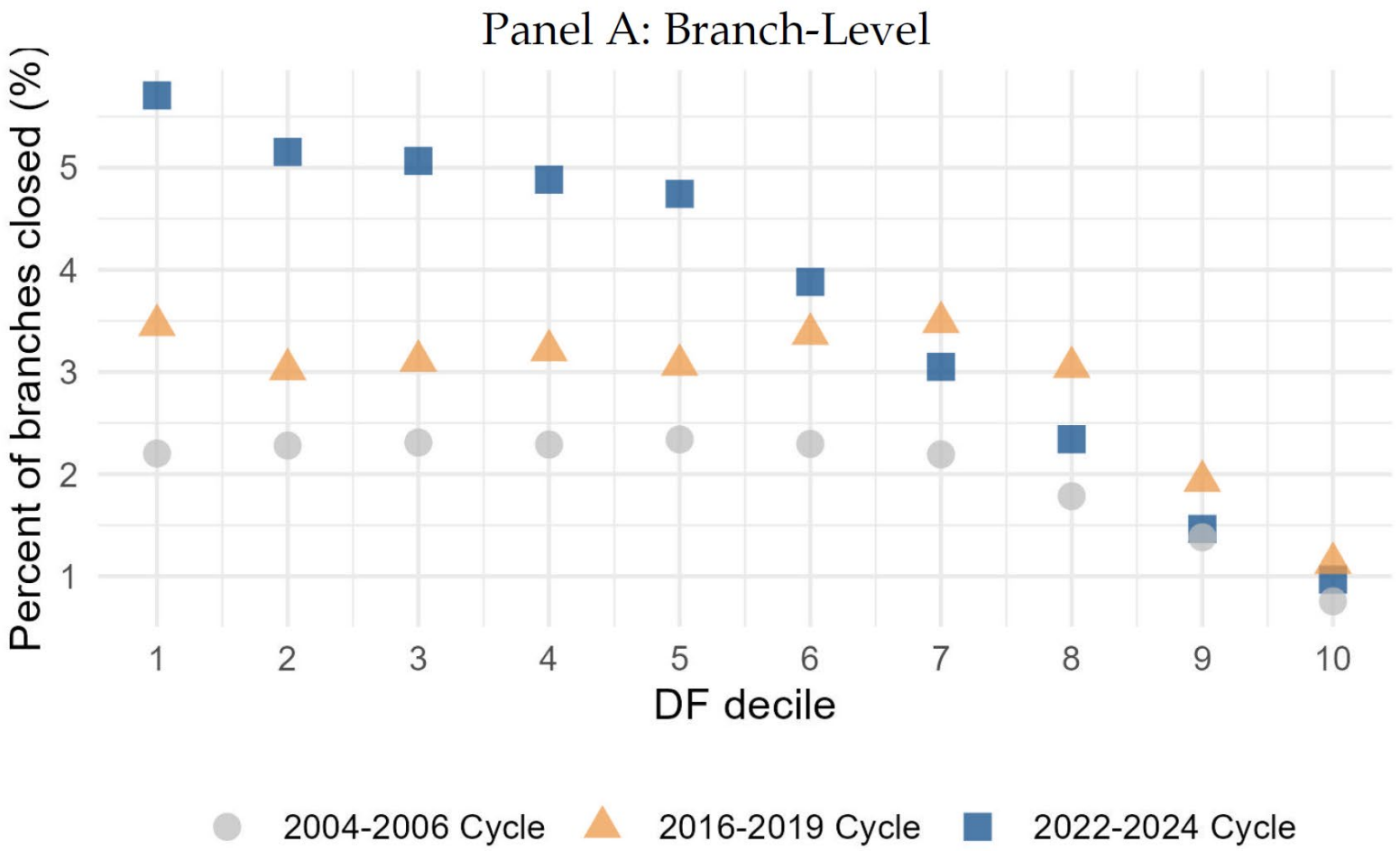
Conclusions:

- Banks compete for the wealthiest depositors, but not with other banks.
- Banks compete with the other investments that wealthy people could make.
- These deposits are highly volatile.

Suggestions:

- Explore whether this type of competition depends on a bank's role in the local economy.
- Characterize banks based on local or national focus.

Banks close branches in areas dominated by sophisticated depositors.



Comments: Economic Impact of Banks

Conclusions:

- Financially sophisticated depositors affect local banking markets.
- They reduce deposit franchise value, which drives branch closures.

Suggestions:

- Opportunity to characterize local deposits following branch exists:
  - Remaining volume of local deposits
  - Redistribution of local deposits
  - Volatility of deposits

Coming full circle:
This story has important implications.

Sophisticated and wealthy depositors reshape local banking markets:

- Promote price competition, increase deposit volatility, reduce deposit franchise value
- Lead banks (especially large banks) to close branches

Ultimately, they may reduce access to banking in local economies.

These findings highlight the crucial role of a diverse banking ecosystem to preserve and promote financial access.