

Banks sitting on larger piles of cash

By Danielle Douglas, Published: October 9

Consumers and businesses are stashing more money at local banks, showing a reluctance to spend amid continued economic uncertainty, according to newly released data from the Federal Deposit Insurance Corp.

The agency's annual [summary of deposits](#), a snapshot of holdings on June 30, revealed that deposits at metropolitan Washington banks rose \$7 billion, or 5.2 percent, from a year ago (deposits from ETrade Financial were excluded from this calculation). Across the country, meanwhile, deposits shot up 7 percent, to \$8.25 trillion from 2010 to 2011, outpacing the 2 percent deposit growth that occurred between 2009 and 2010.

Consumers have become so risk-averse that they are pulling money out of mutual funds and staying away from the gyrating stock markets to accept low returns on checking and savings accounts, said Alexandria-based banking consultant Bert Ely.

"Bank deposit interest rates are lousy," he said, "but people are looking at it from the standpoint of preservation of capital. Money in an insured bank account is as good as any to preserve principal and keep your powder dry for a better economic day."

Lew Sosnowik, a bank analyst at Koonce Securities in Bethesda, put it more bluntly:

"The public is scared; no one likes the unknown, so they are hoarding cash," he said.

An influx of deposits, meanwhile, holds little value for banks right now. Ely said banks are in a "classic liquidity trap" whereby they are flush with cash but have few investment options at attractive yields.

Many institutions complain that creditworthy borrowers are not in the market for loans, which is cutting into their profitability. Bank revenue has also taken a hit from the cap on credit card interchange fees, commonly known as swipe fees, and restrictions on overdraft fees.

This pressure on profitability may lead smaller banks to close or sell off some of their branches, said Dennis Gibney, a managing director with FinPro, a financial consulting firm.

"There are a number of institutions that are capital-constrained," he said.

Barring consolidation through mergers and acquisitions, most banks are unlikely to gain much market share nationwide, analysts said. That certainly appeared to be the case in the Washington area, where there was no change in the top 10 institutions, based on deposits.

Wells Fargo, formerly known as Wachovia, [held on to the top spot, with](#) \$20.5 billion at 152 local branches, an increase from \$19.6 billion a year ago. The San Francisco-based bank wrapped up its conversion of Wachovia, which it purchased in 2008, late last month. Deposits at runner-up Bank of America's 180 regional locations grew 8 percent to \$19.6 billion, even though the bank closed four locations.

One of the most notable gains occurred at HSBC Bank, where deposits jumped 17 percent to \$3.1 billion. The ninth-largest bank in the region has whittled down its U.S. operations in the past year, selling its Upstate New York branches to First Niagara Bank and trading its [credit card portfolio](#) to the region's fourth-largest bank, Capital One Financial of McLean.

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