

## Brokers

## Cash Sweep Data Scraper: Brokers may be done with sweep raises; LPLA surprise hike

Industry Overview

## BofA's Proprietary Broker Cash Sweep Data Scraper

We designed a data scraper that automatically pulls the cash sweep rates from the websites of retail brokers daily. This helps us track changes in cash sweep rates across our coverage real time. The effective Fed funds rate now sits at 483bps (475-500bps target range) following the +25bps hike that occurred on March 23<sup>rd</sup>.

- LPLA raised its cash sweep rate April 3<sup>rd</sup> by 5-10bps across >\$100K tier balances
- HOOD is now offering 4.4% (previously 4.15%) for Gold accounts as of March 24<sup>th</sup> leading to a sizable influx of client cash. Non-gold rate remains at 1.5%. While HOOD is growing cash, all other brokers are losing deposit cash via sorting.
- IBKR continues to offer very competitive rates for cash balances >\$10K (rate = benchmark minus 0.5%/1.5% depending on Pro/Lite tier)
- Vanguard's money market fund cash sweep option saw its rate increase to 3.25% (previously 3.10%) following 25bps hike

## Expect very low deposit betas for next hike but maybe March 23 Fed rate hike was the last one

At the beginning of the current rising interest rate cycle, we assumed that deposit betas would trend lower than previous cycles. Going forward, we estimate they will trend close to zero as most brokers have appeared to be in mutual agreement to not try and keep up with money-market rates and instead allow natural cash sorting behavior on excess cash balances, especially given the 400bps gap between the two rates.

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Glossary:

NIM = net interest margin

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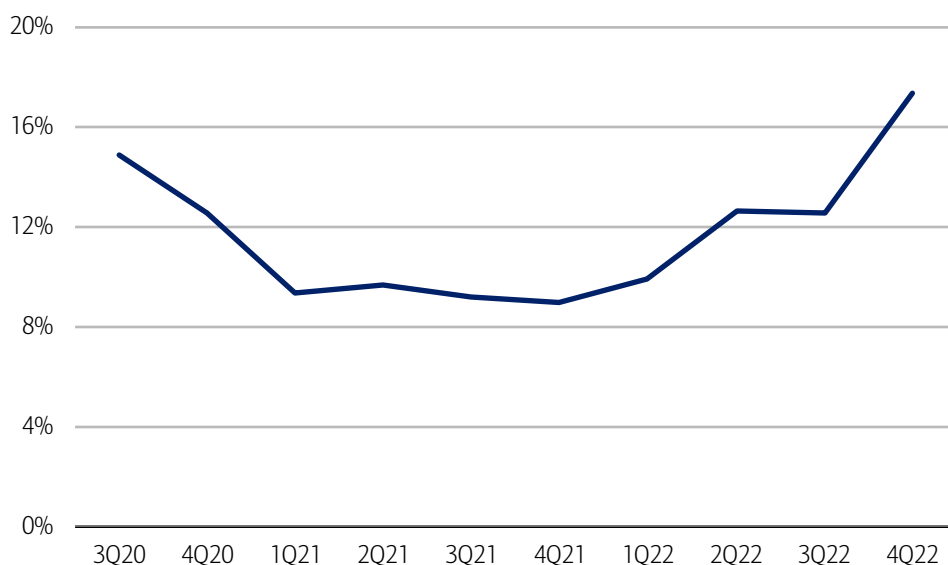
## Additional information

### HOOD is bucking the trend with reverse sorting

HOOD has seen heavy inflows of client cash driven by the broker's competitive cash sweep rates across tiers. We believe HOOD's offering is appealing both because of its competitive rates as well as high FDIC insurance (up to \$1.5M) since it sweeps each clients' balances into multiple FDIC insured bank accounts. This is an advantage HOOD shares with some banking charter-less peers (LPLA) and something that brokers with their own bank charter normally don't partake in as they prefer to sweep cash balances into their own bank with standard \$250K FDIC insurance (SCHW). Client Cash as a % AuC was reported as 17.4% as of 4Q22 (vs. 12.5% q/q) and HOOD's monthly metrics point to even more upside with its cash sweep balances reportedly increasing +38% YTD as of February. As of 3/24/23, HOOD is currently offering a 4.4% (previously 4.15%) cash sweep rate to its Gold users which keeps pace with the current effective funds rate (currently 4.83%). Although Robinhood passes on the majority of its cash sweep economics to Gold-tier membership, the membership costs \$5 a month which would mean clients would have to maintain cash balances of roughly +\$1.4K in order for the membership to pay for itself through interest revenue. Gold tier offers a high value proposition and comes with a multitude of other benefits such as lower margin rates, bigger instant deposits, market data and free access to Morningstar research which should help both attract and maintain clients on the platform in exchange for giving up some net interest revenue.

#### Exhibit 1: HOOD Client Cash as a % AuC

Client cash has flooded into HOOD as its Gold tier offers competitive rates vs. peers



Source: BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 3: US Brokerage – Cash sweep rates**

We expect deposit betas to remain almost zero for any remaining hikes

| Date                                | 2022-12-31 | 2023-01-31 | 2023-02-28 | 2023-03-31 | 2023-04-04 |
|-------------------------------------|------------|------------|------------|------------|------------|
| AMP \$0 - \$4,999                   | 0.25%      | 0.25%      | 0.25%      | 0.25%      | 0.25%      |
| AMP \$5,000 - \$24,999              | 0.25%      | 0.25%      | 0.25%      | 0.25%      | 0.25%      |
| AMP \$25,000 - \$49,999             | 0.25%      | 0.25%      | 0.25%      | 0.25%      | 0.25%      |
| AMP \$50,000 - \$99,999             | 0.25%      | 0.25%      | 0.25%      | 0.25%      | 0.25%      |
| AMP \$100,000 - \$249,999           | 0.40%      | 0.45%      | 0.45%      | 0.45%      | 0.45%      |
| AMP \$250,000 - \$499,999           | 0.55%      | 0.60%      | 0.60%      | 0.60%      | 0.60%      |
| AMP \$500,000 - \$999,999           | 0.70%      | 0.75%      | 0.75%      | 0.75%      | 0.75%      |
| AMP \$1,000,000 - \$4,999,999       | 1.50%      | 1.75%      | 1.75%      | 1.75%      | 1.75%      |
| AMP \$5,000,000+                    | 1.75%      | 2.00%      | 2.00%      | 2.00%      | 2.00%      |
| E*TRADE \$0 - \$4,999               | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| E*TRADE \$5,000 - \$24,999          | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| E*TRADE \$25,000 - \$49,999         | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| E*TRADE \$50,000 - \$99,999         | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| E*TRADE \$100,000 - \$249,999       | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| E*TRADE \$250,000 - \$499,999       | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| E*TRADE \$500,000 - \$999,999       | 0.05%      | 0.05%      | 0.05%      | 0.05%      | 0.05%      |
| E*TRADE \$1,000,000+                | 0.15%      | 0.15%      | 0.15%      | 0.15%      | 0.15%      |
| Fidelity \$0 - \$99,999             | 2.21%      | 2.21%      | 2.34%      | 2.47%      | 2.47%      |
| Fidelity \$100,000+                 | 2.21%      | 2.21%      | 2.34%      | 2.47%      | 2.47%      |
| HOOD                                | 1.5%       | 1.5%       | 1.5%       | 1.5%       | 1.5%       |
| HOOD Gold                           | 4%         | 4%         | 4.15%      | 4.4%       | 4.4%       |
| IBKR Pro \$10,000+                  | 3.83%      | 3.83%      | 4.08%      | 4.33%      | 4.33%      |
| IBKR Pro \$0 - \$10,000             | 0%         | 0%         | 0%         | 0%         | 0%         |
| IBKR Lite \$10,000+                 | 2.83%      | 2.83%      | 3.08%      | 3.33%      | 3.33%      |
| IBKR Lite \$0 - \$10,000            | 0%         | 0%         | 0%         | 0%         | 0%         |
| JPM                                 | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| LPLA DCA                            | 0.30%      | 0.30%      | 0.30%      | 0.30%      | 0.35%      |
| LPLA ICA \$0 - \$25,000             | 0.35%      | 0.35%      | 0.35%      | 0.35%      | 0.35%      |
| LPLA ICA \$25,000 - \$50,000        | 0.35%      | 0.35%      | 0.35%      | 0.35%      | 0.35%      |
| LPLA ICA \$50,000 - \$150,000       | 0.35%      | 0.35%      | 0.35%      | 0.35%      | 0.35%      |
| LPLA ICA \$150,000 - \$300,000      | 0.35%      | 0.35%      | 0.35%      | 0.35%      | 0.40%      |
| LPLA ICA \$300,000 - \$500,000      | 0.40%      | 0.40%      | 0.40%      | 0.40%      | 0.45%      |
| LPLA ICA \$500,000 - \$750,000      | 0.40%      | 0.40%      | 0.45%      | 0.45%      | 0.50%      |
| LPLA ICA \$750,000 - \$1,500,000    | 0.50%      | 0.50%      | 0.55%      | 0.55%      | 0.60%      |
| LPLA ICA \$1,500,000 - \$5,000,000  | 0.75%      | 0.75%      | 0.85%      | 0.85%      | 0.95%      |
| LPLA ICA \$5,000,000 - \$10,000,000 | 0.90%      | 0.90%      | 1.00%      | 1.00%      | 1.10%      |
| LPLA ICA \$10,000,000+              | 1.20%      | 1.20%      | 1.30%      | 1.30%      | 1.40%      |
| ML \$0 - \$250,000                  | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| ML \$250,000 - \$1,000,000          | 0.01%      | 0.01%      | 0.01%      | 0.01%      | 0.01%      |
| ML \$1,000,000 - \$10,000,000       | 0.30%      | 0.30%      | 0.30%      | 0.30%      | 0.30%      |
| ML \$10,000,000+                    | 1.06%      | 1.06%      | 1.06%      | 1.06%      | 1.06%      |
| RJF \$0 - \$100,000                 | 0.25%      | 0.25%      | 0.25%      | 0.25%      | 0.25%      |
| RJF \$100,000 - \$249,999           | 0.50%      | 0.50%      | 0.50%      | 0.50%      | 0.50%      |
| RJF \$250,000 - \$999,999           | 1.00%      | 1.00%      | 1.00%      | 1.00%      | 1.00%      |
| RJF \$1,000,000 - \$9,999,999       | 2.25%      | 2.25%      | 2.25%      | 2.25%      | 2.25%      |
| RJF \$10,000,000+                   | 3.00%      | 3.00%      | 3.00%      | 3.00%      | 3.00%      |
| SCHW                                | 0.45%      | 0.45%      | 0.45%      | 0.45%      | 0.45%      |
| UBS \$0 - \$250,000                 | 0.05%      | 0.05%      | 0.05%      | 0.05%      | 0.05%      |
| UBS \$250,000 - \$499,999           | 0.10%      | 0.10%      | 0.10%      | 0.10%      | 0.10%      |
| UBS \$500,000 - \$999,999           | 0.10%      | 0.10%      | 0.10%      | 0.10%      | 0.10%      |
| UBS \$1,000,000 - \$1,999,999       | 0.40%      | 0.40%      | 0.40%      | 0.40%      | 0.40%      |
| UBS \$2,000,000 - \$4,999,999       | 0.50%      | 0.50%      | 0.50%      | 0.50%      | 0.50%      |
| UBS \$5,000,000+                    | 1.05%      | 1.05%      | 1.05%      | 1.05%      | 1.05%      |
| Vanguard                            | 3.00%      | 3.00%      | 3.1%       | 3.25%      | 3.25%      |
| WFC \$0 - \$999,999                 | 0.15%      | 0.15%      | 0.15%      | 0.15%      | 0.15%      |
| WFC \$1,000,000 - \$1,999,999       | 0.50%      | 0.50%      | 0.50%      | 0.50%      | 0.50%      |
| WFC \$2,000,000 - \$4,999,999       | 0.75%      | 0.75%      | 0.75%      | 0.75%      | 0.75%      |
| WFC \$5,000,000 - \$9,999,999       | 0.85%      | 0.85%      | 0.85%      | 0.85%      | 0.85%      |
| WFC \$10,000,000 - \$19,999,999     | 1.25%      | 1.25%      | 1.25%      | 1.25%      | 1.25%      |

**Exhibit 3: US Brokerage – Cash sweep rates**

We expect deposit betas to remain almost zero for any remaining hikes

| Date                     | 2022-12-31 | 2023-01-31 | 2023-02-28 | 2023-03-31 | 2023-04-04 |
|--------------------------|------------|------------|------------|------------|------------|
| <b>WFC \$20,000,000+</b> | 1.30%      | 1.30%      | 1.30%      | 1.30%      | 1.30%      |
| <b>dailyRate</b>         | 4.33%      | 4.33%      | 4.57%      | 4.83%      | 4.83%      |
| <b>targetRateFrom</b>    | 4.25%      | 4.25%      | 4.50%      | 4.75%      | 4.75%      |
| <b>targetRateTo</b>      | 4.50%      | 4.50%      | 4.75%      | 5.00%      | 5.00%      |

Source: BofA Global Research

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## Transactional vs. excess client cash and how to think about sorting risk?

We think about client cash balances broken out into two segments, transactional cash and excess cash. Transactional cash levels are relatively constant or fluctuate between a tight range depending on market conditions and are a conscious allocation decision from clients that includes cash remaining on the sidelines for reinvestment or dividend income, for example. The second segment is excess cash that includes unwarranted cash or balances that would be better off earning higher rates in money market funds or other higher yielding alternative investments like fixed-income ETFs. As interest rates remain elevated, the opportunity cost of not sorting excess cash remains high and we are monitoring persistent elevated sorting activity across our coverage that will remain elevated until the reallocation finds its bottom. Most of our coverage has decided to take two approaches, either keeping deposit rates low and accepting cash sorting or raising rates dramatically to keep up with MMFs in an effort to retain deposits with few brokers falling in-between. Brokers that previously decided to extend duration and capture yield in the low-rate environment are forced into the former strategy as any increase in deposit rates would crush their NIM, unable to reinvestment their deposits into higher yielding investments until sorting slows down.

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