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Main Street Banks Pay Up To Keep Depositors' Funds --- Zions Bancorp in Salt Lake City says some big customers have withdrawn deposits

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The smaller banks that serve a swath of America's consumers and businesses are starting to pay up to keep their deposits.

Main Street banks such as Citizens Financial Group Inc. and First Horizon Corp. said in recent first-quarter earnings reports they are having a tougher time hanging onto customer money in a world where the Federal Reserve has aggressively raised interest rates. To keep those depositors around, some lenders are paying more on savings accounts and turning to products like certificates of deposit.

Though profits rose at many banks in the first quarter, the deposit declines signal a fundamental change in their business. Deposits were plentiful in the era of superlow rates because customers had little incentive to move their money elsewhere. Banks grew to rely on them as a cheap source of funding that they could use to make loans or buy bonds and other securities.

At Zions Bancorp, deposits at the end of March were down 3% from the previous quarter and 16% from a year ago. Zions is one of the banks whose stock price has been hard hit since the banking crisis that unfolded last month.

In its earnings release late Wednesday, the Salt Lake City-based bank noted its deposits were still higher than prepandemic levels. But many of its larger customers have yanked deposits, with more than two-thirds of the declines "related to accounts with balances greater than $10 million."

The bank said its borrowings rose sharply as it faced the deposit declines on top of a slight uptick in loan growth. Its borrowed funds were up by $11.5 billion from the year-ago quarter, primarily driven by secured borrowings from the Federal Home Loan Banks.

"The fundamentally solid results that we and many other banks produced in the first quarter were overshadowed by concerns about liquidity and capital strength in the wake of two prominent bank failures in mid-March," Harris Simmons, chief executive of Zions, said in a statement.

In recent months, with the Fed continuing to raise rates, consumers and businesses at banks across the industry started moving their money from bank deposits to higher-yield offerings like money-market funds and Treasurys. Customers who used to be satisfied keeping their money in accounts that paid no interest decided they no longer were.

The collapse last month of Silicon Valley Bank and Signature Bank accelerated the shift at some firms. Both banks were felled by panicky customers pulling out their money after concerns started spreading about the banks' health. Customers at those banks and some other smaller firms across the U.S. started moving their money to the largest banks, betting they were safer even in crisis.

"The turmoil itself is going to be most challenging for the small to midsize banks," U.S. Bancorp Chief Financial Officer Terry Dolan said. "They tend to be organizations that are less diverse or concentrated in particular areas."

Another major regional bank, Citizens, said Wednesday its deposits "were broadly stable" throughout the turbulence last month. But total deposits at the bank slipped from the previous quarter, driven by a 10% decline in noninterest-bearing accounts.

"There was that kind of jolt to the system that people had to respond to," Bruce Van Saun, chief executive of Citizens, said.

Banks had underestimated the extent to which higher interest rates would pressure deposit costs, Mr. Van Saun added.

The average rate Citizens paid across deposits was 1.74%, up more than half a percentage point from the previous quarter.

Based in Memphis, Tenn., First Horizon said noninterest-bearing deposits were also down 10% from the prior quarter, while interest-bearing deposits were up 1%.

At Mississippi-based Hancock Whitney Corp., deposits rose 2% from the prior quarter, but the bank paid up to keep them. The bank paid interest on a bigger portion of its deposits, ponying up a 1.65% rate, compared with 0.96% in the prior quarter. The lender said it brought in $568 million in brokered deposits, which are typically more expensive, after the recent failures.

Chief Financial Officer Michael Achary said he believes a big portion of the bank's noninterest-bearing deposits will stick around because they belong to loyal customers who use their accounts for daily transactions. "That's a hard thing to predict, and I don't think anybody has a crystal ball," he said on a call with analysts Tuesday.

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