

# Large depositors, retail depositors, and the deposits channel of monetary policy

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I exploit differences between large and small deposits to study the role of depositor inattention in shaping the deposits channel of monetary policy. Using data on U.S. commercial banks since 1975, I document that rates on large deposits are significantly more sensitive to market rates—with implied pass-through more than double that of small deposits. Yet, large deposits flow out more strongly in response to monetary policy shocks and account for the entire aggregate deposit response. The fact that small deposits do not flow out despite the low and insensitive rates points to inattention rather than local deposit market concentration as the primary driver of the low retail deposit rate sensitivity. I provide additional evidence that local deposit market concentration plays a limited role in retail deposits' response to monetary policy. My results imply that the deposits channel works through large, attentive depositors.

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How does monetary policy transmit through the banking system? The deposits channel of monetary policy posits that banks' market power in deposit markets allows them to keep deposit rates low when monetary policy tightens, leading to deposit outflows and a contraction in bank lending (Drechsler, Savov, and Schnabl 2017). This framework has been highly influential in finance and macroeconomics; yet, the underlying drivers of this market power remain a subject of active debate. Much of the literature has focused on deposit market concentration as the source of this market power (Berger and Hannan 1991; Neumark and Sharpe 1992; Drechsler, Savov, and Schnabl 2017; Li, Loutskina, and Strahan 2023; Li, Ma, and Zhao 2025). More recently, a growing literature has emphasized depositor inattention and financial sophistication as an alternative explanation for banks' market power over deposits (Adams et al. 2021; Fleckenstein and Longstaff 2024; Lu and Wu 2025; Egan et al. 2025).

In this paper, I study how depositor inattention shapes the deposits channel of monetary policy. Conceptually, I argue that bank deposit market power arising from depositor inattention—both rational and behavioral—has different implications for the deposits channel than market power arising from local deposit market concentration.<sup>1</sup> Higher deposit market concentration leads to lower deposit rate pass-through and larger deposit outflows in response to monetary contraction. This is because depositors in more concentrated markets leave for higher-paying alternatives outside the banking system. In contrast, depositor inattention leads to lower deposit rate pass-through alongside *lower* deposit flows in response to monetary policy, as inattentive depositors do not shop around for better deposit rates and stay with the banks despite the low rates. This means that depositor inattention can lead to banks having market power over deposits without monetary policy causing deposit flows that form the “first-stage” of the deposits channel.

Empirically, I exploit heterogeneity in how large and small deposits respond to monetary policy shocks to assess the role of depositor inattention for the deposits channel. The large vs small deposits distinction is useful for this purpose because these deposits tend to be held by different agents. Large deposits are more likely to be held by corporations, non-bank financial intermediaries (NBFIs), and high-net-worth individuals, while small deposits are more likely to be held by retail households and small businesses.<sup>2</sup> As such,

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<sup>1</sup>I note that these mechanisms are not mutually exclusive. Banks may have market power over deposits arising from both depositor inattention and local deposit market concentration. This paper highlights that not all sources of deposit market power lead to deposit flows in response to monetary policy, which has important implications for the deposits channel of monetary policy.

<sup>2</sup>For example, the 2022 Survey of Consumer Finances (SCF) shows that top-1% of highest-earning households, on average, held about \$252,000 of checking deposits and \$400,000 of savings deposits, while the bottom 99% held, on average, \$14,500 and \$18,500 in checking and savings accounts, respectively (see

large depositors are likely to be less inattentive and to actively manage their money to get better rates, while the small depositors are more inattentive. These differences can come from wealthier households and corporations being more financially sophisticated ([Lusardi and Mitchell 2014, 2023; Graham 2022](#)), facing lower search costs relative to potential gains from optimizing ([Hortaçsu and Syverson 2004; Honka, Hortaçsu, and Vitorino 2017](#)), or other behavioral biases ([Gabaix 2019](#)).

I document that rates on large deposits are significantly more sensitive to market rates than rates on small deposits, with implied pass-through (“beta”) on large deposits more than twice as large as that on small deposits (0.7 vs 0.3).<sup>3</sup> Yet, I find that large deposit flows respond much more strongly to monetary policy shocks and account for the entire aggregate deposit flow response. These patterns are not driven by differences in local deposit market concentration; in fact, I show that the share of large deposits is a much stronger predictor of deposit rate sensitivities and deposit flows in the cross-section of banks relative to local deposit market concentration. These facts together point to depositor inattention as the key driver of banks’ deposit power over retail deposits. Using a quasi-experimental difference-in-differences design, I confirm that lower local deposit market concentration does not lead to higher or more policy-sensitive rates on retail deposit products. My findings imply that the deposits channel of monetary policy works primarily through large, attentive depositors even though banks’ market power over large deposits is more limited than over retail deposits.

I now describe my results in more detail. First, I show that rates on large deposits are more sensitive to market rates than rates on small deposits. Because comprehensive data on deposit rates by size are not available, I first employ an indirect empirical strategy. Using regulatory data on U.S. commercial banks (“Call Reports”), I find that banks’ total deposit betas (which are a weighted average of the large and small deposit betas) are strictly increasing in the share of large deposits across every monetary policy cycle since 1975. I show that this pattern is not driven by local deposit market concentration or deposits’ maturity structure, and holds for deposit subsets such as interest-bearing transaction deposits, savings deposits, and time deposits. Using Ratewatch offered rates, I show that

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[Table A1](#)). Similarly, [Farrell and Wheat \(2016\)](#) document that small firms held only \$12,100 in average daily cash balances in 2015; the cash holdings of large corporations are in the millions and even billions of dollars (see, e.g., Apple Inc.’s 2022 10-K).

<sup>3</sup>As a practical matter, large deposits refer to those exceeding \$100,000 before 2009Q3 and \$250,000 thereafter, unless otherwise noted. These thresholds reflect the structure of banks’ regulatory filings. In this paper, I argue that the defining characteristic of large deposits is their size and the elasticity of their holders—typically corporations, non-bank financial intermediaries, and wealthy households—rather than their lack of insurance coverage and associated default risk. That said, given the overlap between large and uninsured deposits, [subsection 4.4](#) examines the role of risk in detail.

the betas on *small retail* deposit products are similar across the distribution of the large deposits share. These facts suggest that large deposit betas are significantly higher than small deposit betas. I regress deposit betas on the share of large deposits and recover the implied large and small deposit betas of about 0.7 and 0.3, respectively.

I then provide direct evidence that large deposits get better and more market-rate-sensitive pricing. First, I use the sparse data on larger-denomination, “relationship” and “premium”, and corporate deposit products in Ratewatch and show that these products are significantly more sensitive to market rates than the retail deposit products. I supplement Ratewatch with hand-collected data on banks’ posted deposit rate schedules, gathered from banks’ websites using the Internet Archive’s Wayback Machine. I document that banks use balance-tiered deposit pricing—offering higher rates on larger deposit balances, especially when the market rates are high. As a concrete example, in March 2024, at the peak of the most recent tightening cycle, Wells Fargo (one of the three largest banks in the U.S.) offered a 0.25% APY on savings deposits below \$100,000, but 2.5% APY on deposits above \$1,000,000; in February 2022, right before this tightening cycle started, the savings rates were 0.02% APY for all balance tiers.

A key challenge in interpreting these results is that large deposits tightly overlap with uninsured deposits. As such, rates on large deposits may contain risk premia to compensate their holders for the risk of bank default. If the risk premia are large enough and positively co-move with policy rates, they can explain the higher rates on large deposits during monetary tightening even if the underlying, “risk-free” deposit betas are similar across large and small deposits. I show that risk cannot fully explain my results. First, I show that short rates and bond spreads are *negatively* correlated. Second, I show that changes in bank bond spreads over monetary policy cycles do not systematically co-move with the large deposits share. Third, I adapt the framework of [Correia, Luck, and Verner \(2025\)](#) to show that the large deposits share does not predict elevated probability of bank failures. Finally, I show that the 5 largest U.S. banks, which are commonly believed to be “too-big-to-fail” ([O’Hara and Shaw 1990](#); [Flannery 2010](#); [Strahan 2013](#)), have high shares of large deposits and high deposit betas across all monetary policy cycles since 1975. Taken together, these facts suggest that risk premia cannot be the main driver of the higher rates and betas on large deposits.

I then turn to deposit flows and show that, in aggregate, large deposits flow out (flow in) following monetary tightening (easing), while small deposits do not respond. Large deposits account for the *entire* aggregate deposit response to monetary policy, which serves as the “first-stage” of the deposits channel. This pattern holds when monetary

policy is measured as raw changes in the federal funds rate, as well as for [Romer and Romer \(2004\)](#) monetary shocks and high-frequency monetary shocks of [Bauer and Swanson \(2023\)](#), suggesting that the result is not driven by endogeneity and instead reflects deposits' response to rates. I also show that, in aggregate, small deposits rotate from demand and savings into time deposits following monetary tightening. Given that time deposits pay higher rates, this finding suggests that small depositors are not completely inattentive, but are either unable or unwilling to move funds outside the banking system into higher-yielding bonds and money market funds.

I supplement the aggregate evidence with cross-sectional analysis at the bank level. I find that banks with higher share of large deposits experience significantly more deposit outflows following monetary tightening; in contrast, local deposit market concentration is a weak predictor of deposit flows. I also show that the large deposits share is a much stronger predictor of deposit betas in the cross-section of banks than local deposit market concentration, explaining 15% of the variation in deposit betas compared to 2% for the local deposit market Herfindahl-Hirschman Index (HHI). In addition, I closely follow [Liebersohn \(2024\)](#) and use a discontinuous cutoff in bank antitrust policy as a source of quasi-exogenous variation in local deposit market concentration to study its effects on retail deposit rates and betas. Using a difference-in-differences design ([Wooldridge 2025](#)), I find that lower local deposit market concentration does not lead to higher or more policy-sensitive rates on retail deposit products, as would be expected if local deposit market concentration were an important driver of low retail deposit betas.

Finally, I show that the outflows of large deposits matter for bank lending. Following [Kashyap and Stein \(1995, 2000\)](#), I compare deposit and loan flows at large vs small banks, and banks with high vs low stock of liquid assets. I document that large deposits drive deposit outflows at both large and small banks. I find that loan contraction following monetary tightening is larger at smaller banks and banks with less liquid assets, consistent with the deposits channel of monetary policy. I also document that banks with high share of large deposits hold more commercial and industrial (C&I) loans, which are typically shorter in duration and thus provide a natural hedge to the more interest-sensitive large deposits. As such, banks with high share of large deposits are able to maintain stable net interest margins ([Drechsler, Savov, and Schnabl 2021](#)).

Overall, my findings point to a “two-tier” deposit market structure, where banks’ market power over large deposits exists but is more limited than over retail deposits. The results suggest that depositor inattention, rather than local deposit market concentration, is the key driver of low retail deposit betas and that the deposits channel of monetary policy

works primarily through large, attentive depositors. This has important implications for the strength of the deposits channel over time. I show that the share of deposits held by top 1% highest-income households has been on the rise since the 1980s; [Chen, Karabarounis, and Neiman \(2017\)](#) and [Darmouni and Mota \(2024\)](#) document that cash holdings of large corporations have increased in recent decades. If these trends continue, the composition of deposits in the U.S. will tilt further towards large, attentive deposits, likely strengthening the deposits channel. As a back-of-the-envelope calculation, my estimates imply that a 10 percentage point increase in the large deposits share would increase the aggregate deposit beta by about 0.04 (8% of the average deposit beta of 0.5). At the same time, for a 1 percentage point monetary policy tightening, deposits would contract by additional 0.60% at the 2-year horizon. Additionally, the shift towards large deposits may reduce maturity transformation capacity of the banking system, as banks tend to hedge the more interest-sensitive large deposits with shorter-duration assets.

My results also have a methodological implication for empirical work studying bank deposit pricing. A common practice in the literature is to focus on retail deposit rates from Ratewatch (e.g. [Erel et al. 2024](#); [Kundu, Muir, and Zhang 2024](#); [Lu and Wu 2025](#); [Egan et al. 2025](#)). My results show that this practice is appropriate when studying retail depositors, but not when studying banks' overall deposit funding costs.

**Related literature and contribution.** This paper contributes to several strands of the literature. First, this paper builds on and contributes to the literature on bank deposit pricing. [Berger and Hannan \(1989, 1991\)](#), [Neumark and Sharpe \(1992\)](#), [Rosen \(2002, 2007\)](#) document that banks do not fully pass through market rates into deposit rates, and that this imperfect pass-through is stronger in more concentrated deposit markets. This idea received renewed interest with the seminal work by [Drechsler, Savov, and Schnabl \(2017, 2021\)](#). [Granja and Paixao \(2024\)](#) and [Begenau and Stafford \(2025\)](#) document that deposit rates are set at the bank level, especially for the biggest U.S. banks. Relatedly, [d'Avernas et al. \(2024\)](#) and [Kundu, Muir, and Zhang \(2024\)](#) document how deposit pricing differs between small and large banks. [Erel et al. \(2024\)](#), [Koont \(2023\)](#), [Koont, Santos, and Zingales \(2024\)](#) and [Jiang, Yu, and Zhang \(2025\)](#) show how deposit pricing strategies are affected by digital banking. I study differences in deposit pricing between large and small deposits and document that large deposits are significantly more sensitive to market rates, with banks using balance-tiered and “relationship” deposit pricing. In this, my paper closely relates to and complements contemporaneous work by [Argyle et al. \(2025\)](#) and [Cirelli and Olafsson \(2025\)](#). Using detailed data on retail depositor accounts at a sample of credit unions in the U.S., [Argyle et al. \(2025\)](#) show that low-balance retail depositors are more sensitive

to interest rate changes than high-balance retail depositors. My paper complements this work by examining differences between *retail* and *large* deposits. Cirelli and Olafsson (2025) use transaction-level data from a major Icelandic bank for 2016-2024 and show that wealthier households are more responsive to deposit spreads, reallocating funds from low-rate checking accounts to high-rate savings accounts within the bank. I document the large vs small deposits heterogeneity across all U.S. banks over five decades (1975-2024) and show that this heterogeneity fundamentally shapes the deposits channel—with large deposits accounting for the entire aggregate deposit response to monetary policy. More broadly, I highlight the importance of depositor inattention relative to local deposit market concentration as the key driver of deposit betas, especially for small deposits. In this, my paper closely relates Fleckenstein and Longstaff (2024); Yankov (2024); Lu and Wu (2025) and Egan et al. (2025). My paper complements this work by showing the importance of depositor inattention for deposit pricing in the full universe of U.S. commercial banks since the 1970s.

Second, this paper is closely related to the literature on the deposits channel of monetary policy (Drechsler, Savov, and Schnabl 2017; Xiao 2020; Wang et al. 2022; Choi and Rocheteau 2023; Li, Loutskina, and Strahan 2023; Begenu and Stafford 2025; Wang 2025).<sup>4</sup> I contribute to this literature by showing that, in aggregate, the first stage of the deposits channel—that deposits flow out (flow in) following contractionary (expansionary) monetary policy shocks—is driven by large deposits.

Third, this paper connects to the broader literature on how financial sophistication, inattention, search costs and related frictions affect pricing in the financial markets. See Barber and Odean (2013), Lusardi and Mitchell (2014), Gabaix (2019), Lusardi and Mitchell (2023) for reviews. Most closely related is Brown et al. (2024), who build a quantitative dynamic model to study sources of market power in index funds market. Like this paper, they contrast small retail and large institutional investors, and document that index fund managers price discriminate between the two. In the model, they show that this is driven by differences in financial sophistication and degree of inertia, as institutional investors adjust holdings more often, face less information frictions, and exhibit higher elasticity of demand with respect to fund fees. Similarly, Hortaçsu and Syverson (2004) show that prices of institutional S&P 500 index funds are lower and less dispersed than prices of retail S&P 500 index funds, which they argue points towards higher search intensities among institutional investors. In the market for environmental, social, and

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<sup>4</sup>This strand of research is part of the vast literature on the bank lending channel of monetary policy. See, *inter alia*, Bernanke and Blinder (1988, 1992), Gertler and Gilchrist (1993), Bernanke and Gertler (1995), Kashyap and Stein (1995, 2000), Khwaja and Mian (2008), Jiménez et al. (2012, 2014), Gomez et al. (2021).

governance (ESG) oriented index funds, [Baker, Egan, and Sarkar \(2024\)](#) document that demand from institutional investors is considerably more elastic than retail demand; [Ben-David et al. \(2023\)](#) document that institutional investors are less likely to participate in high-fee specialized ETFs, consistent with them being more financially sophisticated. I document similar patterns in the market for bank deposits, which is the largest and most important source of bank funding.

Fourth, given the overlap between large deposits and uninsured deposits, this paper connects to the literature on the role of uninsured deposits in bank funding. [Egan, Hortaçsu, and Matvos \(2017\)](#) highlight the role of uninsured depositors in driving banks' fragility. [Iyer et al. \(2019\)](#) shows that “too-big-to-fail” banks are able to attract and retain uninsured deposits even as their interest rates on these deposits are lower. Relatedly, [Martin, Puri, and Ufier \(2022\)](#) show that insured and uninsured deposits behave differently at banks in financial distress. 2023 Regional Bank Crisis spawned a new literature on how interest rate risk interacts with uninsured deposits leading to financial fragility ([Metrick 2024](#); [Drechsler et al. 2024](#); [Cipriani, Eisenbach, and Kovner 2024](#); [Jiang et al. 2024](#); [Begenau, Landvoigt, and Elenev 2025](#); [Bickle et al. 2025](#); [Chang, Cheng, and Hong 2025](#)). I contribute to this strand of literature by showing that the higher sensitivity of large (uninsured) deposits to interest rate hikes is not limited to the 2023 Regional Bank Crisis, and is instead prevalent in the U.S. data since the 1970s. My work also shifts focus from the “uninsured” nature of large deposits—which implies risk as their differentiating characteristic—onto their size and the fact that large deposits are more likely to be held by less inattentive agents such as corporations, NBFIs and high-net-worth individuals. Here, this paper is also related to the nascent literature on corporate deposits ([Altavilla et al. 2022](#); [Pancost and Robatto 2023a,b](#); [Cooperman et al. 2025](#)). Most pertinent is [Cooperman et al. \(2025\)](#), who use confidential regulatory data and show that corporate deposit rates were very sensitive to market rates during COVID-19 pandemic.<sup>5</sup> I document similarly high deposit betas for corporate cash sweep accounts using Ratewatch data.

Finally, this paper contributes to the literature on bank interest risk management and complementarities between bank assets and liabilities (e.g., [Flannery 1981](#); [Berlin and Mester 1999](#); [Kashyap, Rajan, and Stein 2002](#); [Purnanandam 2007](#); [Hanson et al. 2015](#); [Hoffmann et al. 2019](#); [Di Tella and Kurlat 2021](#); [Egan, Lewellen, and Sunderam 2022](#); [DeMarzo, Krishnamurthy, and Nagel 2024](#); [Basten and Juelsrud 2025](#); [Begenau, Piazzesi, and Schneider 2025](#)). I show that banks that have high share of large deposits hold more

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<sup>5</sup>See also [European Central Bank \(2023\)](#), showing that overnight and term deposit betas on deposits of nonfinancial corporations were higher than on the household deposits in the Eurozone over the period from 2007 to 2021.

C&I loans (see also [Chang, Cheng, and Hong 2025](#)). Since C&I loans are typically shorter in duration, they provide a natural hedge to the more interest-sensitive large deposits, helping banks achieve stable net interest margins ([Drechsler, Savov, and Schnabl 2021](#)).

## 2. Conceptual framework

This section outlines a simple framework to illustrate how differences in depositor inattention and local market concentration affect deposit rate sensitivity and the deposits channel of monetary policy. A model based on [Drechsler, Savov, and Schnabl \(2017\)](#) is presented in [Appendix A](#).

Consider two types of depositors: large, attentive depositors and small, inattentive depositors. Large depositors are more willing and able to substitute between bank deposits and market alternatives, such as Treasury securities or money market funds (which I will collectively call “bonds”) than small depositors. The inattention may be rational or behavioral, and may arise from limited financial sophistication, high search costs relative to potential gains, and other cognitive biases. Large depositors are assumed to be less inattentive because they are more likely to be corporations, non-bank financial institutions such as insurance companies, or high-net-worth individuals, which are commonly found to be more financially sophisticated ([Lusardi and Mitchell 2014, 2023; Graham 2022](#)) or face lower search costs relative to potential gains from optimizing ([Hortaçsu and Syverson 2004; Honka, Hortaçsu, and Vitorino 2017](#)).<sup>6</sup>

Banks offer deposits and have some market power in deposit markets. Local market power arises from limited number of banks in a given area (concentration) and from imperfect substitutability of deposits supplied by differentiated banks. Banks set deposit rates to maximize profits, taking into account the sensitivity of depositors to changes in deposit rates. Banks can distinguish between large and small depositors and set different rates for each group.<sup>7</sup> Because of the market power, deposit rates are set below the market interest rate. But because large depositors are more willing to substitute towards bonds (they are more “elastic”), banks set a higher rate on large deposits than on small deposits.

When the central bank raises the policy rate, banks increase deposit spreads (the

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<sup>6</sup>See also [footnote 2](#).

<sup>7</sup>This price discrimination can be conceptualized as second degree price discrimination (based on quantities). It can also be thought of as third degree price discrimination (based on depositor characteristics), since banks observe whether the depositor is a corporation, observed depositor’s income when they open the account, etc. This paper is agnostic about the exact model of price discrimination. [Appendix A](#) assumes that banks know depositor types.

difference between market rate and deposit rate) as in Drechsler, Savov, and Schnabl (2017). Equivalently, deposit rate pass-through from market rates to deposit rates (“deposit beta”) is below one. But because large depositors are more elastic, banks increase rates on large deposits more than on small deposits. Large deposits beta is therefore higher than small deposits beta. This is the first prediction of this framework:

**Prediction 1:** Deposit rate pass-through (beta) is higher for large deposits than for small deposits.

Yet, because large depositors are more willing to substitute towards bonds, they are more likely to leave banks when policy rates rise. To see this, consider the extreme case when small depositors are completely inattentive and do not substitute into bonds at all. In this case, banks optimally set very low deposit betas on small deposits. Still, by assumption, small depositors do not leave when policy rates rise. Large depositors, on the other hand, leave when policy rates rise. Appendix A, Proposition A2 shows this result more generally in the setting of Drechsler, Savov, and Schnabl (2017). This is the second prediction of this framework:

**Prediction 2:** Large deposits growth is lower (higher) than small deposits growth after a monetary policy tightening (easing) shock.

Differences in local deposit market concentration cannot generate such patterns. For concreteness, assume that large depositors face lower local market concentration and hence get higher deposit betas, consistent with prediction 1. But then large deposits would not flow out more than small deposits after a monetary policy tightening: they would either flow out similarly (as in Appendix A) or large deposits would flow out *less* because they get better pricing. Differences in local market concentration cannot generate prediction 2.<sup>8</sup>

These two predictions have an important implication for the deposits channel of monetary policy: if large deposits flow out more when policy rates rise, they are more important for the “first stage” of the deposits channel (policy-induced deposit outflows that in turn prompt banks to cut lending). The composition of deposits between large and small depositors therefore matters for the strength of the deposits channel. I discuss this further in Section 7.

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<sup>8</sup>Prediction 1 can also be generated by cross-selling of other bank products, such as loans and wealth management services, to large depositors. In this case, banks would want to keep large depositors by offering them higher deposit betas (not exploiting their local deposit market power fully). But in this case, large depositors should be *less* likely to leave banks after a monetary policy tightening, contrary to Prediction 2.

### 3. Data

**Bank accounting data.** For bank balance sheet and income statement data I use the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (“Call Reports”). Call Reports cover all US depository institutions regulated by the Federal Reserve System, the Federal Deposit Insurance Corporation or the OCC at quarterly frequency (semi-annual for income statement data before 1983). My analysis focuses on commercial banks (federal- and state-chartered) for the period 1976Q1-2024Q1. The data is publicly available via [Chicago Fed](#) and [FFIEC](#) websites.

The key variables used in the analysis are balance sheet quantities—deposits, wholesale funding, total liabilities, total assets, loans, cash and securities—as well as deposit expense rates which proxy for banks’ overall interest rates across all deposit products. I compute deposit expense rate as:

$$\text{Deposit expense rate}_{it} = \frac{\text{Deposit interest expense}_{it}}{0.5(\text{Deposit balance}_{i,t-1} + \text{Deposit balance}_{i,t})},$$

where  $\text{Deposit interest expense}_{it}$  is total interest expense on deposits in domestic offices of a bank  $i$  over a reporting period  $t$  (quarter since 1983), and  $\text{Deposit balance}_{i,t}$  is the interest-bearing deposits outstanding at bank  $i$  as of the end of the reporting period  $t$ .<sup>9</sup> The deposit expense rate is computed similarly for deposit subsets, namely savings deposits, interest-bearing transaction deposits, and time deposits. The resulting deposit expense rates are available quarterly starting in 1983Q1 and semi-annually for 1976Q1-1982Q4. For regression analyses, I use linear interpolation to estimate quarterly values for the 1976Q1-1982Q4 period.

Starting in 1982Q2, Call Reports also split deposits into accounts holding \$100,000 or less and accounts holding more than \$100,000 ( $\leq \$250,000$  and  $> \$250,000$  starting in 2009Q3). I call the deposits below the aforementioned thresholds “small”, and the deposits above “large”. I compute

$$\text{Large deposits share}_{it} = \frac{\text{Large deposits}_{it}}{\text{Large deposits}_{it} + \text{Small deposits}_{it}}.$$

This variable is reported only as of June 30 each year in 1982-1990, and quarterly afterwards. I interpolate the large deposits share linearly for the period 1982Q2-1990Q4. [Figure A1](#)

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<sup>9</sup>This is a common way of proxying bank-level deposit interest rates in the literature. See, e.g., [Rice and Ors \(2006\)](#); [Drechsler, Savov, and Schnabl \(2017, 2021\)](#); [d’Avernas et al. \(2024\)](#); [Begenau and Stafford \(2025\)](#).

plots the aggregate (weighted) large deposits share over time computed from Call Reports data, as well as the share of non-household deposits from the Financial Accounts of the United States (“From-Whom-to-Whom”) data available from the Federal Reserve [website](#). The shares of large deposits and deposits held by businesses, NBFIs, and governments have risen significantly over time.<sup>10</sup> In certain analyses (e.g., [Figure 1](#)), I extend the large deposits share back to 1975 by using the share of large time deposits as a proxy, which is available since 1973.

The key challenge in using long-run Call Reports data is that accounting definitions used in this reporting change over time. Whenever possible, I construct consistent series, and drop growth rates affected by breaks otherwise. [Appendix B](#) provides further details on the data construction.

**Concentration.** I use the FDIC Summary of Deposits (SOD) data to compute local deposit market concentration. The SOD data record deposits at the branch level for all insured depository institutions in the United States, annually as of June 30. The data are publicly available since 1994. I extend this back to 1975 via a FOIA request to the FDIC. I use the branch-level deposit data to compute several measures of local deposit market concentration. First, following [Drechsler, Savov, and Schnabl \(2017\)](#) and the subsequent literature, I compute county-level Herfindahl-Hirschman index (HHI). Second, I redefine the market to be a metropolitan statistical area (MSA) if a county is part of an MSA and a county otherwise. I then compute the HHI for these markets as the measure of local deposit market concentration.<sup>11</sup> See [Appendix B](#) for additional details.

**Offered deposit rates.** The data on offered deposit rates comes from Ratewatch. This is a commercial dataset with weekly offered (advertised) rates at the bank-branch-product level. The vintage I work with starts in July 2001 and ends in May 2024.

Ratewatch data is very prominent in the banking literature. In principle, it covers a large number of deposit products (e.g., money market account with minimum balance of \$10,000, with minimum balance of \$100,000, or \$1 million, etc.) But in practice coverage of different products is very uneven. Simple small-retail products are covered best. These are: interest checking accounts with \$2,500 minimum balance, savings accounts with

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<sup>10</sup>Some of the increase in the large deposits share is mechanical, driven by economic growth and inflation pushing more deposits above the fixed \$100,000 (or \$250,000) threshold. However, the increase in the share of non-household deposits and share of deposits held by top-1% of highest-income households suggests that not all of the increase in large deposits is due to this mechanical effect. The composition of depositors has indeed shifted towards larger, attentive entities.

<sup>11</sup>This is similar to the market definition used by regulators in bank merger reviews. See, for example, [Federal Reserve FAQ on Competitive Effects in Bank Mergers and Acquisitions](#).

\$2,500 minimum balance, money market accounts with \$10,000 and \$25,000 minimum balance, and 12-month certificates of deposit (CDs) with a minimum balance of \$10,000. The literature using Ratewatch has focused exclusively on these products (Drechsler, Savov, and Schnabl 2017; d'Avernas et al. 2024; Kundu, Muir, and Zhang 2024; Begenau and Stafford 2025). I study these products, but also make use of the limited information available on other products, namely those with higher required balances, so-called “relationship” or “premium” accounts, as well as certain corporate deposit accounts.

For comparison with Call Reports, I aggregate Ratewatch data to the bank-product level by taking the average of the rates offered on a given product across all branches of a given bank at a given time. This is generally straightforward and does not result in much lost information, since banks typically have the same rate across all branches (the so-called uniform deposit pricing, see Granja and Paixao (2024), Begenau and Stafford (2025)).

**Other bank-level data.** To study risk faced by bank depositors, I supplement the bank-level data described above with the FDIC’s list of bank failures following Correia, Luck, and Verner (2025). I also collect data on banks’ bond prices from LSEG Mergent Fixed Income Securities Database (FISD) and FINRA’s TRACE dataset. Appendix B describes how these data were cleaned and merged in with the main bank data. I use Gürkaynak, Sack, and Wright (2007) estimated Treasury yield curve model to compute maturity-matched bond spreads.

**Macroeconomic data.** I obtain effective federal funds rate, 3-month T-Bill rate, 1-, 2- and 10-year Treasury yields, real GDP, consumer price index (CPI), unemployment rate, and Moody’s seasoned Baa corporate bond spread relative to 10-year Treasury from the Federal Reserve Bank of St. Louis’ FRED database. For robustness analyses, I also obtain aggregate banking sector statistics from the Federal Reserve’s H8 release, as well as Historical Bank Data from the FDIC. Finally, I collect data on monetary policy shocks. I use Romer and Romer (2004) shocks, as extended to 2018 by Miguel Acosta. I also use Bauer and Swanson (2023) high-frequency monetary policy shocks, downloaded from the San Francisco Fed’s website.

Table 1 reports summary statistics for the main bank-level variables used in the analysis, including deposit expense rates and offered rates on select retail deposit products from Ratewatch, large deposit share, growth rates of deposits and other bank balance sheet quantities, as well as local deposit market concentration measures. Table A2 reports correlations between the large deposit share and other bank-level variables. The share of large deposits is positively correlated with bank size; it is also positively correlated with

bank book equity ratio and return on assets, especially since 2000. The large deposit share is negatively correlated with HHI and bank age. [Table A3](#) shows that large deposit share is very persistent over time. Within 1 year (5 years), the probability of remaining in the top quintile is 0.81 (0.65), and the probability of remaining in the bottom quintile is 0.76 (0.58).

## 4. Pricing of large vs small deposits

### 4.1. Fact #1: Deposit betas increase with the share of large deposits across every monetary policy cycle since 1975.

Given the lack of direct comprehensive data on deposit rates by deposit balance, I first employ an indirect approach and study how deposit expense rates and betas vary with the share of large deposits at the bank level. The idea is as follows. Consider total deposit expense beta, defined for a given bank  $i$  and a given period  $[t_0, t_1]$  as:

$$\text{Deposit expense beta}_{i,t_0 \rightarrow t_1} = \frac{\text{Dep. exp. rate}_{i,t_1} - \text{Dep. exp. rate}_{i,t_0}}{\text{Short rate}_{t_1} - \text{Short rate}_{t_0}},$$

where  $\text{Dep. exp. rate}_{i,t}$  is defined in [Section 3](#) and  $\text{Short rate}_t$  is the short rate in period  $t$ , chosen to be the 3-month Treasury yield.<sup>12</sup> Total deposit expense beta is a weighted average of the small and large deposit account betas:<sup>13</sup>

$$\text{Dep. exp. beta}_{i,t_0 \rightarrow t_1} \approx (1 - \alpha_{i,t_0}^{\text{Large}}) \text{Dep. exp. beta}_{i,t_0 \rightarrow t_1}^{\text{Small}} + \alpha_{i,t_0}^{\text{Large}} \text{Dep. exp. beta}_{i,t_0 \rightarrow t_1}^{\text{Large}}.$$

Assuming for simplicity that small and large deposit betas are approximately equal across banks, we have that:

$$\begin{aligned} \text{Dep. exp. beta}_{i,t_0 \rightarrow t_1} &\approx \text{Dep. exp. beta}_{t_0 \rightarrow t_1}^{\text{Small}} \\ &+ \alpha_{i,t_0}^{\text{Large}} \left( \text{Dep. exp. beta}_{t_0 \rightarrow t_1}^{\text{Large}} - \text{Dep. exp. beta}_{t_0 \rightarrow t_1}^{\text{Small}} \right). \end{aligned} \quad (1)$$

Thus, if large deposit betas are higher than those on small deposits, we should observe a positive relationship between total deposit expense beta and the share of large deposits across banks.

I test this hypothesis using Call Reports data for the period 1975Q1-2024Q1. In the

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<sup>12</sup>The results are unchanged if I use the effective federal funds rate instead.

<sup>13</sup>There is also a third “covariance” term,  $(\alpha_{i,t_1}^{\text{Large}} - \alpha_{i,t_0}^{\text{Large}})(\text{Dep. exp. rate}_{i,t_1}^{\text{Large}} - \text{Dep. exp. rate}_{i,t_0}^{\text{Small}})/\Delta_{t_0,t_1}$  SR. This term is empirically small and is thus ignored for simplicity.

first step, I identify tightening monetary policy cycles as periods when the federal funds rate increases from its local trough to local peak (e.g., the most recent tightening cycle 2022Q1-2024Q1), and easing cycles as periods when the federal funds rate declines from its local peak to local trough.<sup>14</sup> Equipped with the cycle dates, I compute total deposit expense betas for each bank over each cycle and plot these betas against the share of large deposits.

[Figure 1](#) shows the results. It is a binscatter plot of total deposit expense betas over each monetary policy cycle against the share of large deposits at the beginning of the cycle. The figure shows a strong positive relationship between total deposit expense betas and the share of large deposits across banks in every tightening monetary policy cycle since 1975, consistent with the hypothesis that large deposit betas are higher than small deposit betas. This also holds for easing cycles, as shown in [Figure A3](#). This result is not driven by local deposit market concentration ([Figure A4](#)); the results are also similar for deposit subtypes, namely savings ([Figure A5](#)) and time deposits ([Figure A6](#)). [Figure A7](#) shows explicitly that banks with higher share of large deposits raise their deposit expense rates more during tightening cycles and end up with higher deposit expense rates at the end of tightening cycles; thus, the result in [Figure 1](#) cannot be explained only by banks with a higher share of large deposits paying *lower* deposit rates and then catching up when market rates rise.

To examine the relationship between deposit betas and the share of large deposits more formally, I run panel local projections ([Jordà 2005](#)):

$$\Delta \text{Dep. exp. rate}_{i,t-1,t+h} = \alpha_t^h + \beta^h \Delta \text{SR}_t \times \text{Lrg. dep. share}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h}, \quad (2)$$

where  $\Delta \text{Dep. exp. rate}_{i,t-1,t+h}$  is the change in deposit expense rate at bank  $i$  from  $t-1$  to  $t+h$ ,  $\alpha_t^h$  is the time fixed effect,  $\Delta \text{SR}_t$  is the change in the short rate (3-month Treasury yield) from  $t-1$  to  $t$ , and  $\text{Lrg. dep. share}_{i,t-1}$  is the share of large deposits at bank  $i$  as of  $t-1$ . The vector  $X_{i,t}$  includes 4 lags of the dependent variable and 4 lags of  $\Delta \text{SR}_t$ , all interacted with  $\text{Lrg. dep. share}_{i,t-1}$ , and interacted with controls—log of local deposit market HHI, log of bank age, share of bank's deposits that reprice within 3 months and between 3 and 12 months, book capitalization ratio, and share of liquid assets (cash and securities) in total assets, all measured as of  $t-1$ . I estimate this equation for horizons  $h = 0, 1, \dots, 8$  quarters ahead. The coefficient of interest is  $\beta^h$ , which captures how the response of deposit expense rates to changes in the short rate varies with the share of large deposits. The share of large

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<sup>14</sup>[Figure A2](#) plots the federal funds rate and highlights the identified tightening and easing cycles. [Table A4](#) lists the start and end dates of each cycle, as well as their duration and the change in the federal funds rate during each cycle.

deposits (and certain other controls interacted with the short rate change, e.g., HHI) is standardized such that a one-unit change in these variables corresponds to an increase from 25th to 75th percentile in their respective distributions within each quarter. I run these local projections both with raw changes in the short rate and instrumenting these changes with [Romer and Romer \(2004\)](#) and [Bauer and Swanson \(2023\)](#) monetary shocks in LP-IV specifications ([Jordà and Taylor 2025](#)).<sup>15</sup>

[Figure 2](#) shows the results. [Figure 2](#) Panel A plots the estimated impulse response function (IRF) of total deposit expense rates to a one percentage point increase in the short rate, *incremental* for banks at the 75th percentile vs 25th percentile of the share of large deposits. The figure shows that banks with a higher share of large deposits respond significantly more to increases in the short rate, with the difference in responses (deposit betas) between banks at the 75th and 25th percentiles of the share of large deposits reaching about 4 basis points (bps) for each 100 bps increase in the short rate after 4 quarters. This difference is economically significant and represents about 25% of the standard deviation in deposit expense betas across banks in a typical monetary policy cycle. The results are qualitatively similar (but quantitatively stronger) when using [Romer and Romer \(2004\)](#) or [Bauer and Swanson \(2023\)](#) monetary shocks as instruments for changes in the short rate (Panels B and C of [Figure 2](#)).

[Table 2](#) and [Table A5](#) report these results in tabular form, highlighting that the coefficient on the interaction between the change in the short rate and the share of large deposits is positive and statistically significant at all horizons. The results also carry over to deposit subtypes separately, namely savings and time deposits ([Figure A8](#)), and to the sample of the top-10% of banks by total assets ([Figure A9](#)).

Taken together, the results show that deposit betas are higher for banks with a higher share of large deposits across every monetary policy cycle since 1975, consistent with large deposit betas being higher than small deposit betas.

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<sup>15</sup>Given the persistence of changes in the short rate, the local projections with raw changes in the short rate do not represent the response to a one-time change. I address this issue by controlling for leads in the short rate and their interactions with the share of large deposits and other controls, as suggested by [Alloza, Gonzalo, and Sanz \(2025\)](#). Note that I do not control for leads in LP-IV specifications, as the shocks are less persistent. The results are reassuringly similar.

#### **4.2. Fact #2: Betas on small retail deposit products are low and do not vary with the share of large deposits.**

I now compare the deposit expense betas documented above to betas on *small retail* deposit products using Ratewatch data. I focus on four well-covered small retail products (see [Section 3](#) for additional discussion on Ratewatch data): interest checking accounts with \$2,500 minimum balance, savings accounts with \$2,500 minimum balance, money market accounts with \$10,000 minimum balance, and 12-month certificates of deposit (CDs) with a minimum balance of \$10,000. I compute product-level deposit betas for each bank over each monetary policy cycle in the same way as above, and plot these betas against the share of large deposits at the beginning of the cycle.

[Figure 3](#) shows the results of this exercise. The figure plots binscatters of betas on savings accounts with \$2,500 minimum balance against the share of large deposits at the beginning of the cycle, as well as the corresponding savings deposit expense betas computed from Call Reports, for all monetary policy cycles since 2001 (the start of Ratewatch data). Small savings accounts have very low deposit betas, 0.14 on average, and these betas do not vary with the share of large deposits across banks. In contrast, the corresponding Call Reports deposit expense betas are significantly higher and increase strongly with the share of large deposits. Similar findings hold for money market accounts with \$10,000 minimum balance and interest-bearing checking accounts with \$2,500 minimum balance ([Figure A10](#)): rates on these small retail deposit products have low and insensitive betas that do not vary with the share of large deposits, while the corresponding Call Reports deposit expense betas are significantly higher and increase strongly with the share of large deposits.

This result shows that banks with a higher share of large deposits do *not* pay higher and more sensitive rates on *all* deposit products. Banks with a high and low shares of large deposits have similarly low and insensitive rates on small retail deposit products. Instead, as in [Equation 1](#), the higher deposit expense betas at banks with a higher share of large deposits are most likely driven by rates on *other* (non-small-retail) deposit products being significantly more sensitive to the short rate.<sup>16</sup>

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<sup>16</sup>[Figure A10](#) Panel C shows the binscatter for 12-month CDs with \$10,000 minimum balance (12MCD10K) and the corresponding Call Reports deposit expense betas for *small* time deposits (<\$100,000 before 2010Q1, <\$250,000 thereafter). The pattern disappears: both Ratewatch and Call Report betas do not robustly increase with the share of large deposits. This is consistent with the main findings because small time deposits are (predominantly) retail deposit products. This “placebo” test further supports my hypothesis that large deposit are significantly more sensitive to market rates than small retail deposits.

I exploit this idea further and estimate the following regression:

$$\text{Dep. exp. beta}_{i,c} = \gamma_{0,c} + \gamma_{1,c} \text{Lrg. dep. share}_{i,c} + \varepsilon_{i,c},$$

where  $\text{Dep. exp. beta}_{i,c}$  is the deposit beta for bank  $i$  over cycle  $c$  and  $\text{Lrg. dep. share}_{i,c}$  is the share of large deposits at bank  $i$  as of the beginning of the cycle  $c$ . I run this regression separately for each monetary policy cycle since 2001 using Call Reports deposit expense betas.  $\gamma_{0,c}$  recovers an estimate of the average deposit beta at banks with no large deposits—i.e., an estimate of small deposit betas—while  $\gamma_{1,c}$  recovers an estimate of the difference between large and small deposit betas.  $\gamma_{0,c} + \gamma_{1,c}$  is then the average deposit beta at banks with only large deposits—i.e., an estimate of large deposit betas.

[Figure 4](#) and [Table 3](#) show the results for the monetary cycles after 2001, when Ratewatch data is available. [Figure 4](#) plots the inferred small and large deposit betas for each cycle, while [Table 3](#) reports these results in tabular form. Inferred betas on large deposits are much higher than those on small deposits in every cycle, with the difference being statistically significant in all cycles. The average inferred small deposit beta is 0.24, while the average inferred large deposit beta is 0.58, more than double that of small deposits. Note that the inferred small deposit betas are quite close to the actual betas on small retail deposit products, lending further credence to this exercise. The results are similar for savings and interest-bearing transaction deposits separately ([Figure A11](#)). They also hold further back in time, before Ratewatch data are available ([Figure A12](#)). In the full sample, the average inferred small deposit beta is 0.3, while the average inferred large deposit beta is 0.7.

#### 4.3. Fact #3: Banks use balance-tiered deposit pricing.

I now provide direct evidence that banks use balance-tiered pricing, with higher rates paid on larger deposit balances. I start with the Ratewatch data. Ratewatch covers many deposit products, including those with different minimum balance requirements. However, as discussed in [Section 3](#), the coverage of different deposit products is highly uneven. Small retail deposit products (e.g., savings accounts with minimum balance \$2,500, interest-checking accounts with minimum balance \$2,500) are well covered, while large deposit products (e.g., savings accounts with minimum balance \$250,000 or above, interest-checking accounts with minimum balance \$250,000 or above) are covered sporadically. Nevertheless, even these sparse data—ignored by previous research—helps shed light on how deposit pricing varies by balance size.

**Figure 5** plots rates on select deposit products with different minimum balance requirements at select large banks. Panel A plots money market deposit account (MMDA) rates with \$10,000, \$100,000, and \$250,000 minimum balance, as well as rates on “premium” MMDA accounts with \$100,000 minimum balance, with \$250,000 minimum balance.<sup>17</sup> Panel B plots savings account rates with \$2,500, \$100,000, and \$500,000 minimum balance as well as “relationship” accounts with \$1 million minimum balance. Rates on the high-balance products are often missing in the Ratewatch data; but whenever they are available, they are significantly higher and more responsive to monetary policy than the rates on the simple retail products. For example, at Wells Fargo, the third-largest bank in the U.S., the rate on a savings account with a \$1 million minimum balance rose from 1.1375% in 2004M09 to 4.04% in 2006M12 (beta of 0.8), while the rate on a savings account with a \$2,500 minimum balance rose from 0.1725% to 0.4% (beta of only 0.06). Similarly, at Bank of America, MMDA rates on premium \$100,000 MMDA increased from 1% to 4.25% between 2004M07 and 2006M09 (beta of 0.81), while rates on \$10,000 MMDA increased only a little, from 0.464% to 0.616% (beta of 0.04).

I supplement Ratewatch with hand-collected data on banks’ posted rate schedules, gathered from banks’ websites using the Internet Archive’s Wayback Machine.<sup>18</sup> I collect posted rate schedules for savings accounts and CDs at select large banks for 2015-2024. **Table 4** documents savings deposit rates at Wells Fargo, TD Bank and US Bank. **Figure A13** shows a screenshot of Wells Fargo’s posted rate schedule for savings accounts in March 2024 as an example. The table shows that the banks use balance-tiered pricing, paying higher rates on larger deposit balances. This is especially pronounced when the federal funds rate is high; that is, banks pay similarly low rates on all balances when the federal funds rate is low, but as the federal funds rate increases, banks start paying significantly higher rates on larger deposit balances. For example, in March 2024, at the peak of the most recent tightening cycle, Wells Fargo (one of the three largest banks in the U.S.) offered a 0.25% APY on savings deposits below \$100,000, but 2.5% APY on deposits above \$1,000,000; in February 2022, right before the tightening cycle started, the savings rates were 0.02% APY for all balance tiers. This translates into higher deposit betas on large deposits, as documented above.<sup>19</sup>

Finally, I also provide direct evidence that corporate deposit pricing is more rate-sensitive. **Figure 5**, Panel C shows rates on corporate sweep accounts with minimum

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<sup>17</sup>“Premium” and “relationship” deposit products are effectively just high-balance deposit products; see **Appendix C** for additional discussion.

<sup>18</sup><https://web.archive.org/>

<sup>19</sup> **Appendix D** discusses balance-tiered deposit pricing and CD pricing strategies in more detail.

balance of \$100,000 and \$1 million. These accounts are used by corporations to “sweep” excess cash into interest-bearing accounts overnight. The rates on these accounts are significantly higher and more sensitive to market rates than those on small retail savings deposit products. For example, at Bank of America, the rate on \$100,000 corporate sweep account increased from 1.1% in 2004M07 to 4.56% in 2006M09, for beta of 0.96.

Overall, the direct evidence from Ratewatch and posted rate schedules shows that banks use balance-tiered deposit pricing, with significantly higher and more policy-sensitive rates paid on larger deposit balances.

#### 4.4. Differences in risk cannot explain the pricing patterns.

The core challenge in interpreting the results in this section is that large deposits tightly overlap with uninsured deposits, both conceptually and as a matter of definition.<sup>20</sup> As such, one prominent difference between large and small deposits is that the former have some uninsured component and thus are potentially riskier. If depositors demand compensation for this risk, and if these risk premia are large enough and positively correlated with market rates, then the higher betas on large deposits could be due to risk, not higher “base rate” betas.

I show that risk premia cannot explain the pricing differences between large and small deposits. First, [Figure A15](#) plots monthly average Baa corporate bond spreads (Moody’s Baa corporate bond yield minus 10-year Treasury yield) and average bank bond spreads (computed from TRACE data, maturity-matched spreads between bank bond yields and Treasury yields) over 1985-2024. The figure shows that bank bond spreads (and corporate bond spreads more generally) are *negatively* correlated with the federal funds rate, not positively, as would be needed to explain my results. Second, [Figure A16](#) repeats the binscatter analysis as in [Figure 1](#), swapping deposit betas for change in bank bond spreads over monetary policy cycles. The figure shows no relationship between changes in bank bond spreads and the share of large deposits across banks, suggesting that banks with a higher share of large deposits do not become riskier during tightening cycles (they are also not riskier per se, as shown in [Figure A17](#)).

Third, I follow [Correia, Luck, and Verner \(2025\)](#) and test whether banks with a higher

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<sup>20</sup>Recall that I define large deposits from Call Reports data as deposits above \$100,000 before 2009Q3 and above \$250,000 thereafter, which roughly correspond to federal deposit insurance limits. The overlap is not perfect, as \$250,000 became the effective insurance limit in 2008Q3 (with Emergency Economic Stabilization Act of 2008, made permanent under The Dodd-Frank Act of 2010).

share of large deposits are more likely to fail. I run the following regression:

$$\text{Fail}_{i,t+h} = \alpha + \beta \text{Lrg. dep. share}_{it} + \Gamma X_{it} + \varepsilon_{it}, \quad (3)$$

where  $\text{Fail}_{i,t+h}$  is an indicator variable equal to 1 if bank  $i$  fails within  $h$  years of time  $t$ , and 0 otherwise;  $\text{Lrg. dep. share}_{it}$  is the share of large deposits of bank  $i$  at  $t$ ; and  $X_{it}$  is a vector of control variables including log total assets, log bank age, dummies for quartiles of bank's past 3-year asset growth, and past 3-year GDP growth. Following [Correia, Luck, and Verner \(2025\)](#), I aggregate the data to the annual frequency (taking year-end values) and run this regression for horizons  $h = 1, 3, 5$  years ahead.  $\beta$  captures whether banks with a higher share of large deposits are more likely to fail. The results, shown in [Table A7](#), indicate that, if anything, banks with a higher share of large deposits are *less* likely to fail in the short run, although the estimates are only marginally statistically significant.

I also run the following predictive regression:

$$\text{Fail}_{i,t+h} = \alpha + \beta_1 \text{Lrg. dep. share}_{it} + \beta_2 \text{Lrg. dep. share}_{it} \times r_t + \Gamma X_{it} + \varepsilon_{it}, \quad (4)$$

where  $r_t$  is either change in the short rate or [Romer and Romer \(2004\)](#) shock at time  $t$ . In addition to controls included in [Equation 3](#),  $X_{it}$  also includes four lags of  $r_t$  and various interactions: of lagged  $r_t$  with large deposits share, and  $r_t$  and its lags with log total assets and log bank age. The coefficient  $\beta_2$  captures whether banks with a higher share of large deposits are more likely to fail when monetary policy tightens. The data used in this specification are quarterly, and I run this regression for horizons  $h = 1, 3, 5$  years ahead. [Table A8](#) shows the results.  $\beta_2$  is mostly negative—suggesting that, if anything, banks with a higher share of large deposits are *less* likely to fail when monetary policy tightens.

Finally, I exploit the fact that the largest banks in the U.S. are considered “too-big-to-fail” and thus are thought to have a lower risk of failure due to implicit government support ([O’Hara and Shaw 1990; Flannery 2010; Strahan 2013](#)). If risk premia were driving the results, then the relationship between deposit betas and the share of large deposits should be much weaker among the largest banks. [Figure A18](#) replicates the binscatter analysis in [Figure 1](#) and [Figure 3](#), splitting out the largest 5 banks by total assets at the beginning of each monetary policy cycle into their own bin. The figure shows that the relationship between deposit betas and the share of large deposits is similar among the largest banks and other banks. The largest “too-big-to-fail” banks have a high share of large deposits and high deposit betas, consistent with the main results.

This section documents that large deposits are priced much more competitively than small deposits. Large deposits exhibit consistently higher betas across all monetary policy cycles since 1975. These pricing patterns cannot be explained by risk premia.

## 5. Deposit flows: Large vs small deposits

I now turn to testing [prediction 2](#), which says that large deposits growth is lower (higher) than small deposits growth after a monetary policy tightening (easing) shock. [Figure 6](#) plots year-over-year real growth rates for total core deposits against the year-over-year changes in the 3-month T-bill rate. The deposits data are aggregated from the Call Reports, representing total core deposits held by U.S. commercial banks. As in [Drechsler, Savov, and Schnabl \(2017\)](#), the deposit growth is strongly negatively correlated with changes in the short rate, forming the basis of the deposits channel. I split total core deposits into large core and small deposits, and plot their growth rates in [Figure 6](#) as well. The large deposits flows are strongly negatively correlated with changes in the short rate, while small deposits flows are much more muted. This suggests that *large* deposits are driving the aggregate deposit response to monetary policy, while small deposits appear much more sticky. This is consistent with [prediction 2](#).

I test this more formally using [Jordà \(2005\)](#) local projections. I estimate the following specification:

$$\Delta_{t-1,t+h} \log Y = \alpha^h + \beta^h \text{MP shock}_t + \Gamma^h X_t + \varepsilon_{t+h}, \quad (5)$$

where  $\Delta_{t-1,t+h} \log Y$  is log-change from  $t - 1$  to  $t + h$  in  $Y_t$  which is either total deposits, large deposits, or small deposits.  $\text{MP shock}_t$  is the monetary policy shock at time  $t$  (either [Romer and Romer \(2004\)](#) shock or [Bauer and Swanson \(2023\)](#) high-frequency shock).  $X_t$  is a vector of controls, including 2 lags of the dependent variable, 2 lags of the monetary shocks, as well as controls for real GDP growth and inflation, their lags, and controls for quarters (to capture seasonality) and for zero lower bound (ZLB) period. I estimate this for horizons  $h = 0, 1, \dots, 8$  quarters.

[Figure 7](#) plots the resulting impulse response functions (IRFs). Panel A confirms that total deposits growth declines following a tightening [Romer and Romer \(2004\)](#) shock, consistent with the deposits channel. Panel B shows that this response is entirely driven by large deposits, which decline sharply following the tightening shock. In contrast, small deposits (Panel C), if anything, increase slightly following the shock. This result is robust

to using high-frequency monetary policy shocks, as shown in [Figure A19](#). It also holds for different subsets of banks: [Figure A22](#) shows that the same pattern holds for both large and small banks; [Figure A23](#) shows that the same pattern holds for banks with both high and low holdings of liquid assets.

Does this mean that small deposits are completely unresponsive to monetary policy and market rates? I split both small and large deposits into non-time (demand and savings) and time deposits, and estimate [Equation 5](#) for these dependent variables. [Figure A20](#) shows that both large and small deposits *rotate* from lower-yielding non-time deposits to higher-yielding time deposits following a monetary tightening shock, but only large deposits decline overall. This suggests that even small retail depositors are not completely inattentive to interest rates; they do respond to relative rates across different deposit products, but they do not leave banks altogether. This is consistent with the framework outlined in [Section 2](#) and in [Appendix A](#) where the main difference between large and small depositors is that large depositors are better at or more willing to invest in non-deposit financial products such as bonds or money market funds.

I briefly comment on potential endogeneity of the results in this subsection. Even if monetary policy shocks are exogenous to economic conditions, differential deposit response from large and small deposits may be driven not by different rate sensitivity of their holders, but by them being affected differently by the shocks in other ways. For example, if large depositors' income is more sensitive to monetary policy shocks, this may drive their deposits response. However, [Favara, Loria, and Zakrajšek \(2025\)](#) show that low-income households are more sensitive to monetary policy shocks. For firms, [Gertler and Gilchrist \(1994\)](#) and [Crouzet and Mehrotra \(2020\)](#) show that large firms are less responsive to monetary shocks; relatedly, [Greenwald, Krainer, and Paul \(2025\)](#) shows that large firms are able to draw on the pre-arranged credit lines to smooth their cash holdings. Together, these findings suggest that if anything, small depositors should be more sensitive to monetary policy shocks, which is the opposite of what I find. Furthermore, the fact that the results are similar when using raw changes in the short rate and identified monetary policy shocks ([Romer and Romer \(2004\)](#) or [Bauer and Swanson \(2023\)](#)) also suggests that the differential large vs small deposits response is due to different *rate pass-through* and not due to other channels through which monetary policy may affect depositors.

Overall, the evidence in this section strongly supports [prediction 2](#): large deposits respond strongly to monetary policy shocks, while small deposits are much more sticky. I find that, in aggregate, large deposits account for the *entire* deposit response to monetary policy shocks, necessary for the deposits channel to operate.

## 6. Additional evidence on local deposit market concentration

The previous section shows that small deposits are sticky and do not leave the banks following monetary policy tightening shocks, despite receiving low and rate-insensitive deposit rates. This strongly points to depositor inattention as the main driver of banks' market power in retail deposit markets. In this section, I provide additional evidence on the limited role of local deposit market concentration in shaping small deposits' response to monetary policy.

### 6.1. Difference-in-differences evidence using bank mergers

In this subsection, I closely follow [Liebersohn \(2024\)](#) who studies the effect of competition in banking markets on bank lending using bank antitrust rules as source of quasi-exogenous variation in local banking market concentration. See [Liebersohn \(2024\)](#) for an in-depth discussion on the institutional background of the research design.

In the U.S., bank mergers require regulatory approval, with screening based on the expected changes to the Herfindahl-Hirschman Index (HHI) in local banking markets due to the merger. If the expected change in HHI in a given geographic market exceeds 200 and the post-merger HHI exceeds 1,800,<sup>21</sup> the merger is subject to further scrutiny. The typical remedy involves for the merging banks to divest branches in the affected markets to reduce the increase in HHI. Importantly, regulators have discretion in approving mergers even when the HHI thresholds are exceeded, and they may require divestitures even when the thresholds are not exceeded. The discretion may lead to *realized* mergers being endogenous to *future* economic conditions. The hard-coded and discontinuous review rules, however, allow us to predict *ex ante* which markets will receive the “treatment” of divestitures. These rules, therefore, create “intent-to-treat” where local markets experiencing bank mergers can be classified into “treated” vs “control” based on the predicted changes in HHI due to the merger, rather than the realized changes. This allows me to identify variation in deposit market concentration that is exogenous to future economic conditions.

Following [Liebersohn \(2024\)](#), I therefore classify markets as “treated” if the predicted change in HHI due to the merger exceeds 200 and the post-merger predicted HHI exceeds 1,800, and as “control” otherwise. I similarly limit the analysis to markets where pre-merger HHI is within 800 points of the 1,800 threshold (i.e., with pre-merger HHI of 1,000 to 2,600). I use the same sample of bank mergers and market definitions as in [Liebersohn](#)

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<sup>21</sup>HHI ranges from 0 to 10,000.

(2024).<sup>22</sup> I match these data to branch-product-level Ratewatch data on retail deposit rates. I approximate deposit betas at the branch level by dividing deposit rates by the Federal funds rate. This is because estimating betas separately before and after the treatment in the regression framework, when only a few observations are available for each period is challenging. The approximation is inspired by the Drechsler, Savov, and Schnabl (2017) model (see Appendix A). I remove branches of the merging banks and aggregate the remaining branches' deposit betas and rates to the market-year level by first averaging across months within branch-year pairs, and then averaging across branches within market-year pairs. I have 221 merger-market pairs in total, with 157 that are ever treated and 64 that are never treated.

I use staggered difference-in-differences design to compare treated and control markets before and after the mergers. To address the set of problems with staggered difference-in-differences designs (Goodman-Bacon 2021; Callaway and Sant'Anna 2021), I use the estimator of Wooldridge (2025):

$$Y_{i,t} = \sum \delta_{c(i),t} + \sum \gamma_{m(i)} + \sum_{c,t>c(i)} \beta_{c(i),t} \text{Post}_{c(i),t} \times \text{Treated}_i + \varepsilon_{i,t}, \quad (6)$$

where  $Y_{i,t}$  is either local deposit market HHI, deposit beta or deposit rate in market  $i$  at time  $t$ ,  $\delta_{c(i),t}$  are cohort-time fixed effects,  $\gamma_{m(i)}$  are market fixed effects,  $\text{Post}_{c(i),t}$  is an indicator for post-merger periods for cohort  $c(i)$  (one for each year after the merger), and  $\text{Treated}_i$  is an indicator for treated markets. The estimation window is limited to 10 years before and 10 years after each merger. I cluster standard errors at the market level.

This regression effectively compares treated and control markets within each merger cohort, thereby not relying on comparisons across cohorts that may be invalid if treatment effects are dynamic or vary across cohorts (Baker, Larcker, and Wang 2022). The parameters of interest are the  $\beta_{c(i),t}$  which capture the treatment effects for each cohort  $c(i)$  at time  $t$  relative to the merger year. I aggregate these treatment effects across cohorts by taking weighted averages, with weights proportional to the number of observations in each cohort. The treatment effects are aggregated over time similarly.

I test for pre-trends following Wooldridge (2025) by estimating a similar regression but replacing the  $\text{Post}_{c(i),t}$  dummies with indicators for pre-merger periods and limiting the sample to periods before mergers. Table A9 reports the results of these tests. I find no evidence of differential pre-trends in deposit market HHI, deposit rates, or deposit betas

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<sup>22</sup>These data are taken from the replication files of Liebersohn (2024), available [here](#).

between treated and control markets.

**Figure 8** plots the estimated dynamic treatment effects from [Equation 6](#). Panel A shows that local deposit market HHI decreases significantly in treated markets following the mergers, confirming that the breaching the antitrust thresholds, on average, predicts decreases in local deposit market concentration due to divestitures. Panel B shows that deposit rates on select retail deposit products (interest-bearing checking accounts with minimum balance \$2,500, savings accounts with minimum balance \$2,500, money market accounts with minimum balance \$10,000, and 12-month CDs with minimum balance \$10,000) do not change significantly in treated markets following the mergers. Panel C shows that deposit betas similarly do not change significantly in treated markets following the mergers. [Table 5](#) reports the average treatment effects across all post-merger years. The results confirm that while local deposit market concentration decreases significantly in treated markets following the mergers, there is no significant change in deposit rates or deposit betas on retail deposit products.

## 6.2. Local deposit market concentration is a weak predictor of rate and flow betas

In this subsection, I provide additional evidence that local deposit market concentration is a weak predictor of deposit rates and deposit flows' sensitivity to market rates. First, I run panel local projections of the following form:

$$\Delta Y_{i,t-1,t+h} = \alpha_t^h + \beta_1^h \text{MP shock}_t \times \text{Lrg. dep. share}_{i,t-1} \quad (7)$$

$$+ \beta_2^h \text{MP shock}_t \times \log \text{HHI}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h}, \quad (8)$$

where  $\Delta Y_{i,t-1,t+h}$  is the change in the outcome variable (either deposit expense rate or log real deposits) at bank  $i$  from  $t - 1$  to  $t + h$ ,  $\alpha_t^h$  is the time fixed effect,  $\text{MP shock}_t$  is monetary policy shock in  $t$ ,  $\text{Lrg. dep. share}_{i,t-1}$  is the share of large deposits at bank  $i$  as of  $t - 1$ , and  $\log \text{HHI}_{i,t-1}$  is the log of the local deposit market HHI (aggregated as described in [Section 3](#)) for bank  $i$  as of  $t - 1$ . The vector  $X_{i,t}$  includes 4 lags of the dependent variable and 4 lags of the monetary shock, all interacted with  $\text{Lrg. dep. share}_{i,t-1}$  and  $\log \text{HHI}_{i,t-1}$ , and interacted with controls—log of bank age, share of bank's deposits that reprice within 3 months and between 3 and 12 months, book capitalization ratio and share of liquid assets (cash and securities) in total assets, all measured as of  $t - 1$ . I estimate this equation for horizons  $h = 0, 1, \dots, 8$  quarters ahead. The coefficients of interest are  $\beta_1^h$  and  $\beta_2^h$ , which capture how the response of deposit expense rates to changes in the short rate varies with the share of large deposits and log HHI, respectively. The share of large deposits and log

HHI are standardized such that a one-unit change in these variables corresponds to an increase from 25th to 75th percentile in their respective distributions within each quarter.

[Figure 9](#) plots the resulting impulse response functions. Panel A shows that banks with a higher share of large deposits increase their deposit expense rates significantly more following a monetary policy tightening shock, as shown in [Section 4](#). In contrast, local deposit market HHI is not a robust predictor of deposit expense rate sensitivity to monetary policy shocks (see also [Table A5](#)). Not only are the IRFs on log HHI statistically insignificant at all horizons, they are also smaller in magnitude than the IRFs on the share of large deposits and the initial decline in deposit expense rates for banks with higher HHI reverses within a few quarters. Similarly, Panel B shows that banks with a higher share of large deposits experience significantly larger deposit outflows following monetary policy tightening shocks, but this is not true when conditioning on local deposit market HHI. The IRFs on log HHI are statistically insignificant at all horizons after  $h = 0$  and are smaller in magnitude than the IRFs on the share of large deposits. [Table 6](#) reports the estimated deposit flow IRFs in tabular form.

I also compare the explanatory power of local deposit market HHI and large deposits share for deposit expense betas and retail deposit betas across banks. I use the same definition of monetary cycles and the same procedure for calculating deposit expense betas and retail deposit betas as in [Section 4](#). I then regress the resulting betas on either local deposit market HHI or large deposits share and compare the resulting  $R^2$ . [Figure 10](#) Panel A shows that local deposit market HHI explains very little of the cross-sectional variation in total deposit expense betas, with  $R^2$  below 5% in all monetary cycles and about 2% on average. In contrast, large deposits share explains about 15% of the variation in deposit betas across banks on average. [Figure A25](#) shows similar results for savings deposits. [Figure 10](#) Panel B shows that local deposit market HHI similarly explains very little of the cross-sectional variation in retail deposit betas. In fact, the explanatory power of HHI for retail deposit betas is even lower than for total deposit expense betas, with  $R^2$  below 1% in all monetary cycles.<sup>23</sup>

Overall, the evidence in this section further supports the conclusion that local deposit market concentration plays a limited role in shaping retail deposit rates and flows.

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<sup>23</sup>The retail deposit betas are computed from Ratewatch data and aggregated from deposit product-bank level to bank level using savings, time and interest-bearing transaction deposit shares from Call Reports as weights. [Figure A26](#) plots  $R^2$  for these retail deposit products separately.

## 7. Implications and discussion

### 7.1. Bank lending

I now provide suggestive evidence that the monetary-policy-driven outflows of large deposits documented in [Section 5](#) propagate into bank lending. I follow [Kashyap and Stein \(1995, 2000\)](#) and study differential lending response to monetary policy shocks between large and small banks, and between small banks that have more vs less liquid assets. The idea is that large banks have better access to non-deposit funding and are therefore able to substitute monetary-policy-induced deposit outflows with other funding and avoid cutting lending. Similarly, banks with more liquid balance sheet (i.e., more cash and marketable securities) can reduce their liquid holdings rather than cut lending when deposits flow out. To the extent that deposit outflows lead to lending cuts, we should see stronger lending response to monetary policy shocks among small banks and among banks with less liquid assets.

I estimate [Equation 5](#) with  $Y$  being either deposits (total, large and small) or other balance sheet variables (wholesale funding, total liabilities, total assets, loans, liquid assets) to trace the impact of monetary shock through the bank balance sheet. The data are aggregated across all commercial banks, split into different groups based on bank size or liquid assets share. For size, I split banks into large (top 5% by total assets) and small (bottom 95%). For liquid assets, I split small banks into high-liquid (top 50% by liquid assets share in total assets) and low-liquid (bottom 50%). To prevent banks switching groups from affecting the results, I calculate the growth rates for each group sequentially. For each quarter  $t$ , I first sort banks into groups based on their total assets or liquid assets share as of  $t - 1$ , then keep the set of banks present both in  $t - 1$  and  $t$  (also excluding any banks that experienced a large merger in  $t$ ), and then sum up the balance sheet variables across the banks within each group to get total balance sheet variables for each group in  $t - 1$  and  $t$ . I then calculate growth rates in these aggregated balance sheet variables.

[Figure A22](#) and [Figure A23](#) show the deposit growth IRFs for large vs small banks and for small banks with high vs low liquid assets, respectively. The total deposit IRFs are qualitatively and quantitatively similar across all groups: deposits contract following monetary tightening shocks. For all groups, this contraction is driven entirely by large deposits, while small deposits are sticky. [Figure A24](#) shows the IRFs for other balance sheet variables. Panel A shows that small banks cut their assets and loans significantly more than large banks following monetary tightening shocks. This is because large banks substitute lost deposits with wholesale funding, while small banks do not. Panel B shows

that among small banks, those with less liquid assets cut their assets and loans more following monetary tightening shocks. Consistent with the substitution story, small banks with more liquid assets run down their holdings of liquid assets following monetary tightening shocks, while small banks with less liquid assets do not have this option and cut lending instead.

The results in this subsection are consistent with deposit outflows leading to lending cuts. However, this is purely suggestive, as I cannot rule out that the differential lending response is driven by differential loan demand response to monetary policy shocks across bank types. This is particularly true for small vs large banks, as, for example, small banks are more likely to work with small firms, and small firms' loan demand may be more sensitive to monetary policy shocks (Gertler and Gilchrist 1994; Crouzet and Mehrotra 2020). For banks with more vs less liquid assets, however, the potential differential response in loan demand is more subtle and can go either way. On the one hand, banks with more liquid assets may be more risk-averse and thus lend to less rate-sensitive borrowers, leading to *weaker* loan demand response among banks with more liquid assets. On the other hand, banks with more rate-sensitive borrowers may hold more liquid assets as a precautionary buffer, leading to *stronger* loan demand response among banks with more liquid assets. In the former case, my results would overstate the role of deposit outflows in driving lending cuts, while in the latter case, my results would underestimate it. Overall, the results in this subsection should be interpreted with caution.

## 7.2. Maturity transformation

Section 4 shows that banks with more large deposits have more rate-sensitive deposit rates. Does this mean that income of banks with more large deposits goes down more following monetary tightening shocks, as their deposit rates rise more? In this section, I show that this is not the case, as banks with more large deposits match their more rate-sensitive deposit rates with more rate-sensitive assets, thereby stabilizing their net interest margins following monetary policy shocks (Drechsler, Savov, and Schnabl 2021).

First, I show that banks' net interest margins (NIMs) response to monetary policy does not vary with the share of large deposits. I estimate panel local projections similar to Equation 2:

$$\Delta Y_{i,t-1,t+h} = \alpha_t^h + \beta^h \text{MP}_t \times \text{Lrg. dep. share}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h},$$

where  $\Delta Y_{i,t-1,t+h}$  is change in either the interest expense rate, interest income rate, or

NIM for bank  $i$  over the horizon  $h$ , and  $MP_t$  is the monetary policy measure at time  $t$  (either change in short rate or one of the monetary policy shocks). Interest expense rate is defined as total interest expense over a given period (quarter) divided by average total assets outstanding at the beginning and end of that quarter; interest income is defined similarly. NIM is the difference between interest income and interest expense rates. Other variables are as in [Equation 2](#). The coefficients of interest are  $\beta^h$  which capture how the response of the outcome variable to monetary policy varies with the share of large deposits.

[Figure A27](#) plots the estimated impulse response functions. Panel A shows that banks with more large deposits increase their interest expense rates more following monetary tightening shocks, indicating that the higher deposit betas documented in [Section 4](#) translate into higher overall interest expense sensitivity. However, Panel B shows that banks with more large deposits also increase their interest income rates more following monetary tightening shocks. As a result, Panel C shows that NIMs do not respond differentially to monetary policy shocks based on the share of large deposits. [Figure A28](#) confirms this result using [Romer and Romer \(2004\)](#) monetary policy shocks. Thus, banks with more large deposits appear to match their more rate-sensitive deposits with more rate-sensitive assets, stabilizing their NIMs following monetary policy shocks.

One way to match more rate-sensitive deposit rates with more rate-sensitive assets is to hold more commercial and industrial (C&I) loans, which tend to have floating interest rates or short maturities relative to other types of bank loans. Indeed, I find that banks with more large deposits hold more C&I loans. [Figure A29](#) plots the relationship between banks' share of large deposits and their share of C&I loans in total loans. There is a clear positive relationship: banks with higher share of large deposits tend to have higher share of C&I loans. [Table A10](#) confirms this relationship in a regression framework for select years between 1985 and 2023, without controls and controlling for bank size, local deposit market concentration, bank age, and capitalization ratio. The positive relationship between large deposits share and C&I loan share is economically meaningful and statistically significant in all years. Furthermore, the explanatory power of the large deposits share is substantial, with  $R^2$  between 5% and 20% across years.<sup>24</sup>

Overall, the results in this subsection suggest that banks with more large deposits engage in *less* maturity transformation by holding more rate-sensitive assets to match their

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<sup>24</sup>The match between large deposits on the liability side of the banks' balance sheet and C&I loans on the asset side is also consistent with (some) of the large deposits coming from corporations and the importance of banking relationships for lending ([Petersen and Rajan 1994; Berger and Udell 1995; Bolton et al. 2016](#)). This also echoes the findings on cross-selling in [Basten and Juelsrud \(2023\)](#).

rate-sensitive large deposits. This helps banks achieve more stable net interest margins over monetary policy cycles.

### 7.3. Implications for the deposits channel of monetary policy

The results in this paper suggest that large, attentive depositors drive the deposits channel of monetary policy. This has important implications for the strength of the deposits channel over time. [Figure A30](#) shows that the share of deposits held by top 1% and top 5% of highest-income households has been rising since the 1980s, consistent with the growing income and wealth inequality in the U.S. documented in the literature ([Piketty, Saez, and Zucman 2018; Saez and Zucman 2020; Smith, Zidar, and Zwick 2023](#)).<sup>25</sup> Similarly, [Chen, Karabarbounis, and Neiman \(2017\)](#) and [Darmouni and Mota \(2024\)](#) document rising corporate cash holdings in the U.S. and globally. Together, these trends suggest that large, attentive depositors are likely to account for an increasing share of total deposits over time (see also [Figure A1](#)). Given that my results show that large deposits drive the deposits channel of monetary policy, this implies that the deposits channel is likely to strengthen over time.

As a back-of-the-envelope calculation, I estimate that 100bps monetary tightening is associated with about 600bps decline in *large* deposits over two years, based on [Figure 7](#). For small deposits, I estimate no response over the same horizon. As shown in [Appendix A](#), the total deposits response is a weighted average of large and small deposits responses. If the share of large, attentive deposits increases by 10 percentage points (e.g. from the current 50% to 60%), this would increase the total deposits response to a 100bps monetary tightening by about 60bps over two years. This is an economically meaningful increase in the strength of the deposits channel of monetary policy.<sup>26</sup>

Similarly, the results in the previous subsection indicate that banks match the more rate-sensitive large deposits with more rate-sensitive assets, thereby stabilizing their net interest margins following monetary policy shocks. This implies that as the share of large deposits rises, banks may tilt their asset composition towards shorter-duration assets such as C&I loans and away from real estate loans and MBS. Thus, as the share of large deposits

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<sup>25</sup>[Catherine, Miller, and Sarin \(2025\)](#) show that wealth inequality in the U.S. has not increased if social security is properly accounted for as additional asset in households' wealth. The argument in this section, however, is about *financial* wealth only.

<sup>26</sup>Banks are most likely able to substitute some of the lost deposits with other funding sources, so lending response is likely to increase by less than 60bps. Still, it may be plausible to assume that lending response is approximately proportional to deposit response. So, in this example, as monetary-policy-driven deposits response increases by 10% (from 600bps to 660bps), lending response would increase by about 10% as well.

rise, the maturity transformation capacity of the banking sector may decline.

## 8. Conclusion

This paper uses heterogeneity in how large and small deposits respond to monetary policy shocks to study how depositor inattention shapes the deposits channel of monetary policy. Large deposit rates are significantly more sensitive to market rates than small deposit rates (betas of 0.7 versus 0.3). Banks use balance-tiered pricing, offering higher rates on larger balances especially when market rates are high. Large deposits account for the entire aggregate deposit flow response to monetary policy, while small deposits do not leave despite the low rates. I provide additional evidence that local deposit market concentration plays a limited role in shaping deposits' response to monetary policy. These findings point to a two-tier deposit market structure where inattention—rather than local concentration—is the key driver of low retail deposit betas. The deposits channel of monetary policy works primarily through large, attentive depositors.

My findings have significant implications for understanding monetary policy transmission and bank balance sheet management. With rising wealth and income inequality and increasing corporate cash holdings, the composition of deposits is likely to tilt further towards large deposits in the near future. My estimates imply that this shift would increase both the aggregate deposit beta and the sensitivity of deposit flows to monetary policy shocks. At the same time, the shift towards large deposits may reduce maturity transformation capacity of the banking system, as banks seek to hedge the more interest-sensitive large deposits with shorter-duration assets. Methodologically, my results highlight that focusing exclusively on retail deposit rates (e.g., Ratewatch) may be appropriate when studying retail depositors, but not when studying banks' overall deposit funding costs.

A few caveats are in order. First, this paper does not attempt to quantify the relative importance of inattention versus local deposit market concentration as drivers of deposit betas. Such an exercise would require a fully specified quantitative model that incorporates both mechanisms and is left for future investigation. Instead, I provide reduced-form evidence that inattention plays a central role in explaining deposit pricing and flows, particularly for small deposits. Second, this paper does not provide direct causal evidence that deposit outflows lead to lending cuts. I present suggestive evidence consistent with this channel, but cannot rule out that it is driven by differential loan demand. However, this paper shows that *if* the deposits channel works, it works primarily through large, attentive depositors.

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## Figures and tables

Figure 1. Deposit expense betas by share of large deposits, 1975-2024

This figure plots a binscatter of total deposit expense betas over monetary policy *tightening* cycles against the share of large deposits at banks. The banks are grouped into bins by large deposits share at the following percentiles: [0%, 30%), [30%, 40%), ..., [80%, 90%), [90%, 95%), [95%, 100%]. The dots represent the average deposit expense beta and the average share of large deposits within each bin. The deposit expense betas are computed over each monetary policy cycle as the change in total deposit interest expense rate divided by the change in the 3-month Treasury yield over that cycle. See main text for additional details on data construction. The shaded regions represent 95% confidence intervals based on Cattaneo et al. (2024).

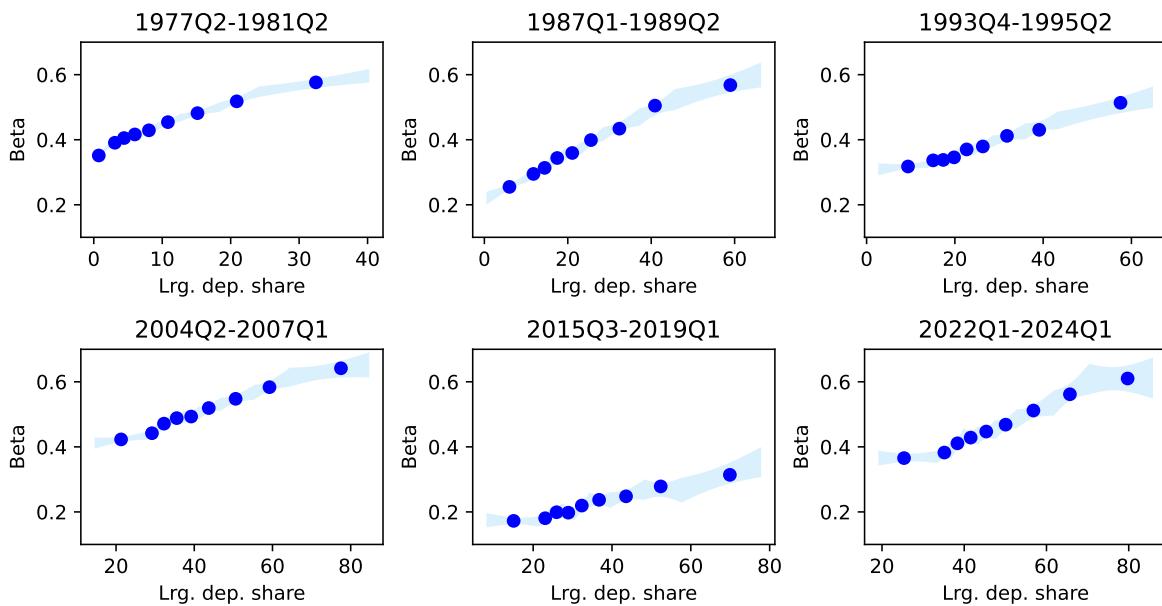


Figure 2. Impulse response function of total deposit expense rates to a short rate change by share of large deposits

This figure plots the IRF from estimating the following local projections:

$$\Delta \text{Dep. exp. rate}_{i,t-1,t+h} = \alpha_t^h + \beta^h \Delta \text{SR}_t \times \text{Lrg. dep. share}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h}, \quad h = 0, \dots, 8,$$

where  $\Delta \text{Dep. exp. rate}_{i,t-1,t+h}$  is the change in deposit expense rate at bank  $i$  from  $t - 1$  to  $t + h$ ,  $\alpha_t^h$  is the time fixed effect,  $\Delta \text{SR}_t$  is the change in the short rate (3-month Treasury yield) from  $t - 1$  to  $t$ , and  $\text{Lrg. dep. share}_{i,t-1}$  is the share of large deposits at bank  $i$  as of  $t - 1$ . The vector  $X_{i,t}$  includes 4 lags of the dependent variable and 4 lags of the short rate, all interacted with  $\text{Lrg. dep. share}_{i,t-1}$  and interacted with controls—log of local deposit market HHI, log of bank age, share of bank's deposits that reprice within 3 months and between 3 and 12 months, book capitalization ratio and share of liquid assets (cash and securities) in total assets, all measured as of  $t - 1$ . Panel A plots the IRF from the simple LP, Panels B and C plot the IRFs from LP-IV where  $\Delta \text{SR}_t$  is instrumented with [Romer and Romer \(2004\)](#) and high-frequency shocks ([Bauer and Swanson 2023](#)), respectively. The figure plots the estimates of  $\beta^h$  (solid blue line) along with 90% (dashed blue lines) and 95% (shaded blue area) confidence intervals based on standard errors double clustered by bank and time. The share of large deposits is standardized such that a one-unit change in this variable corresponds to an increase from 25th to 75th percentile in its distribution within each quarter. The sample is all U.S. commercial bank over the period 1985Q1-2024Q1.

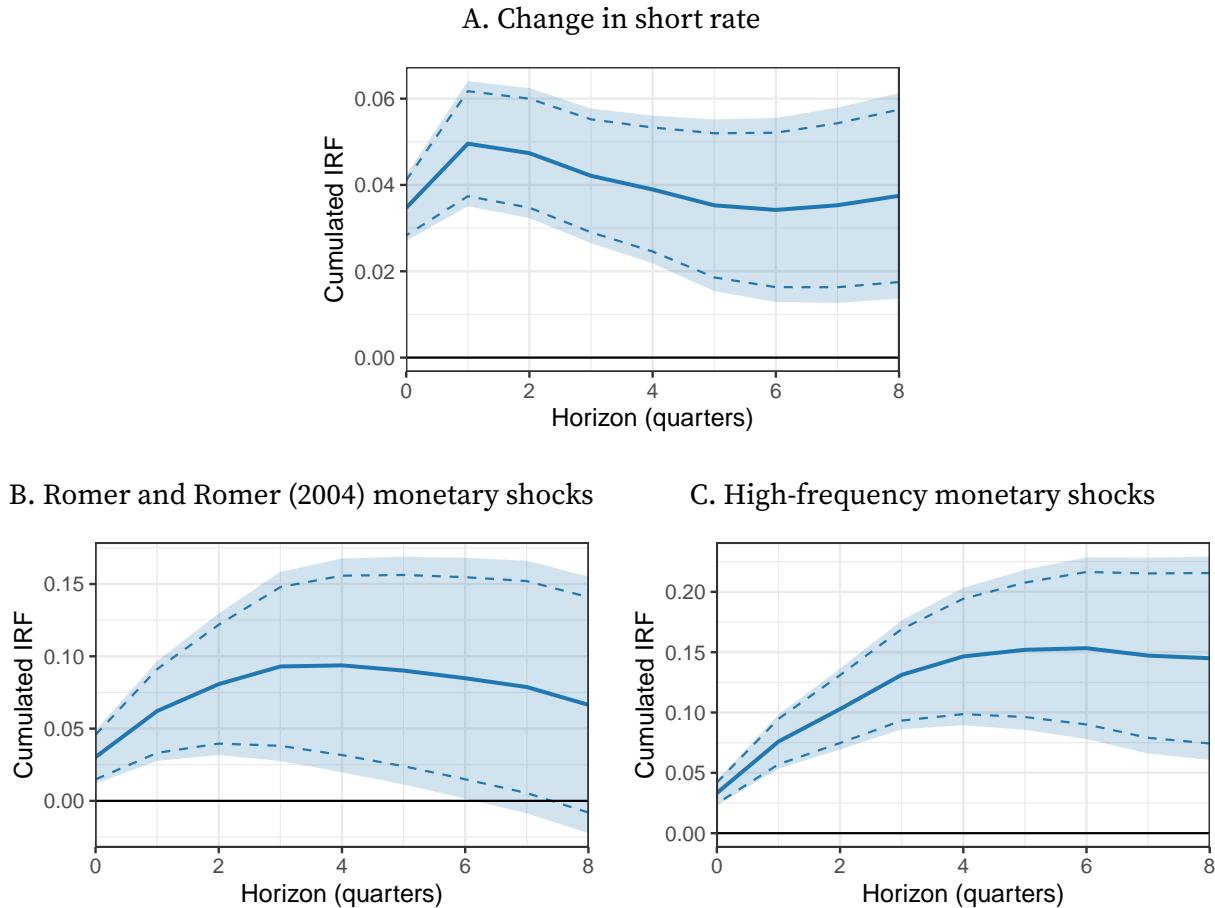


Figure 3. Call report deposit expense betas vs Ratewatch small deposit betas by share of large deposits

This figure plots binscatters of savings deposit betas over monetary policy cycles since 2001. Blue dots represent savings deposit expense betas computed from Call Reports, while green dots represent betas on savings accounts with \$2,500 minimum balance. The banks are grouped into bins by large deposits share at the following percentiles: [0%, 30%), [30%, 40%), ..., [80%, 90%), [90%, 95%), [95%, 100%]. The figure plots betas over all tightening (2004Q2-2007Q1, 2015Q3-2019Q1, 2022Q1-2024Q1) and easing (2007Q2-2009Q4, 2019Q2-2021Q2) cycles since 2001, when Ratewatch data becomes available. Ratewatch offered rates are aggregated to quarterly frequency by averaging within each quarter for each bank. See main text and the caption to [Figure 1](#) for additional details.

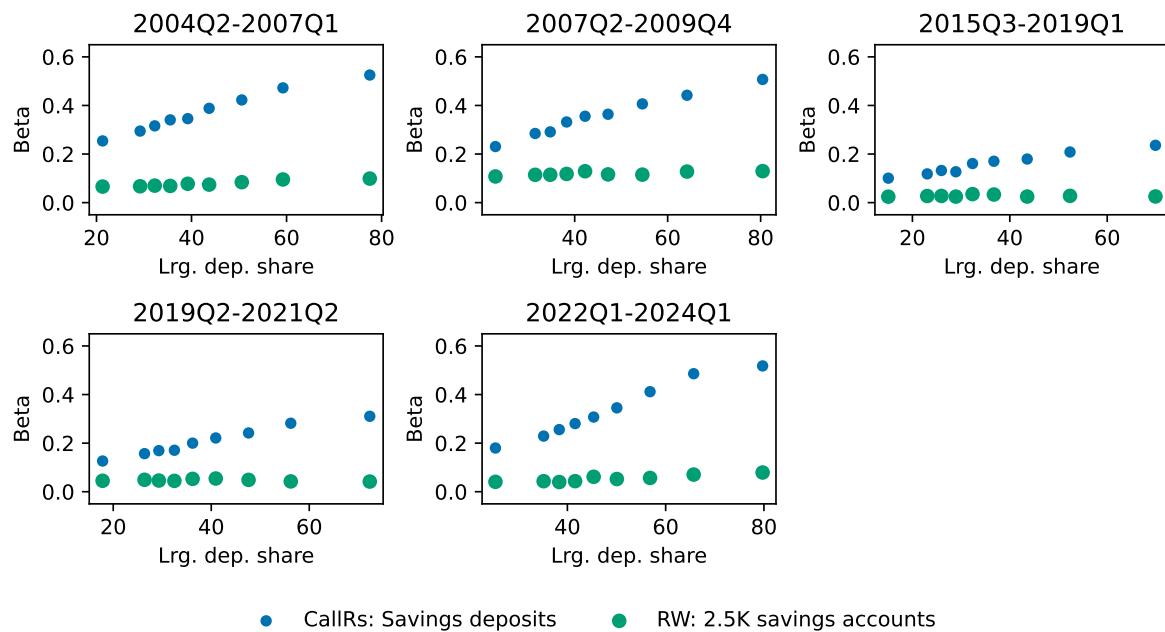


Figure 4. Inferred deposit expense betas for small and large deposits by monetary policy cycle

This figure plots inferred deposit expense betas for small and large deposits over each monetary policy cycle since 2001. The inferred small and large deposit betas are obtained by estimating the following regression for each cycle  $c$ :

$$\text{Dep. exp. beta}_{i,c} = \gamma_{0,c} + \gamma_{1,c} \text{Lrg. dep. share}_{i,c} + \varepsilon_{i,c},$$

where  $\text{Dep. exp. beta}_{i,c}$  is the total deposit expense beta for bank  $i$  over cycle  $c$  and  $\text{Lrg. dep. share}_{i,c}$  is the share of large deposits at bank  $i$  as of the beginning of the cycle  $c$ . The sample is all U.S. commercial banks over the period 2001-2024.  $\gamma_{0,c}$  recovers an estimate of small deposit betas,  $\gamma_{1,c}$  recovers an estimate of the difference between large and small deposit betas.  $\gamma_{0,c} + \gamma_{1,c}$  thus recovers an estimate of large deposit betas. The figure plots these inferred small (blue dots) and large (orange dots) deposit expense betas. For comparison, the figure also plots average deposit betas for four small retail deposit products from Ratewatch (see main text for details). Confidence bands based on heteroskedasticity-consistent standard errors are very small and therefore not shown.

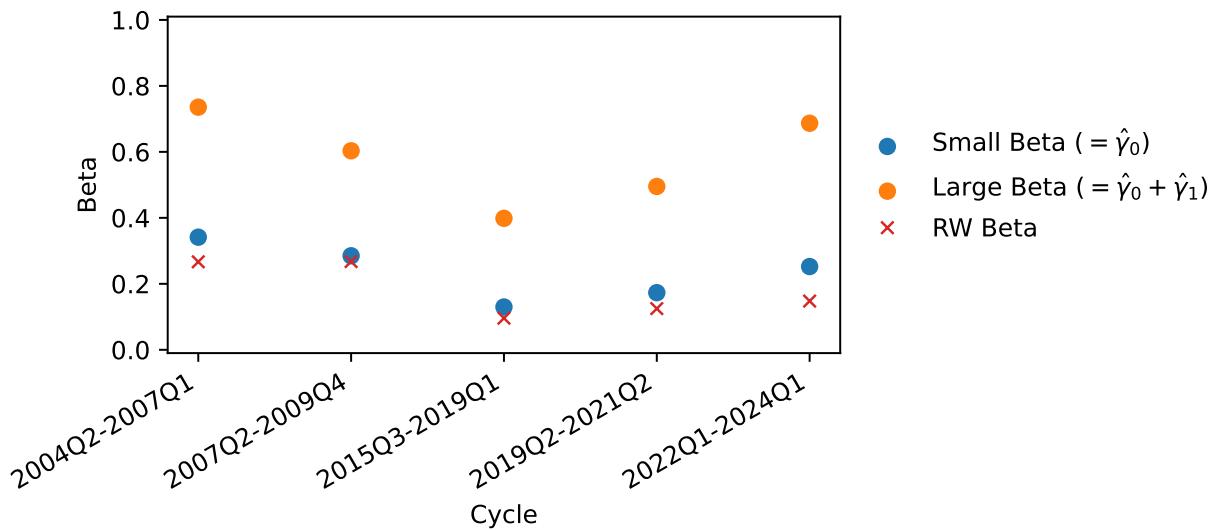
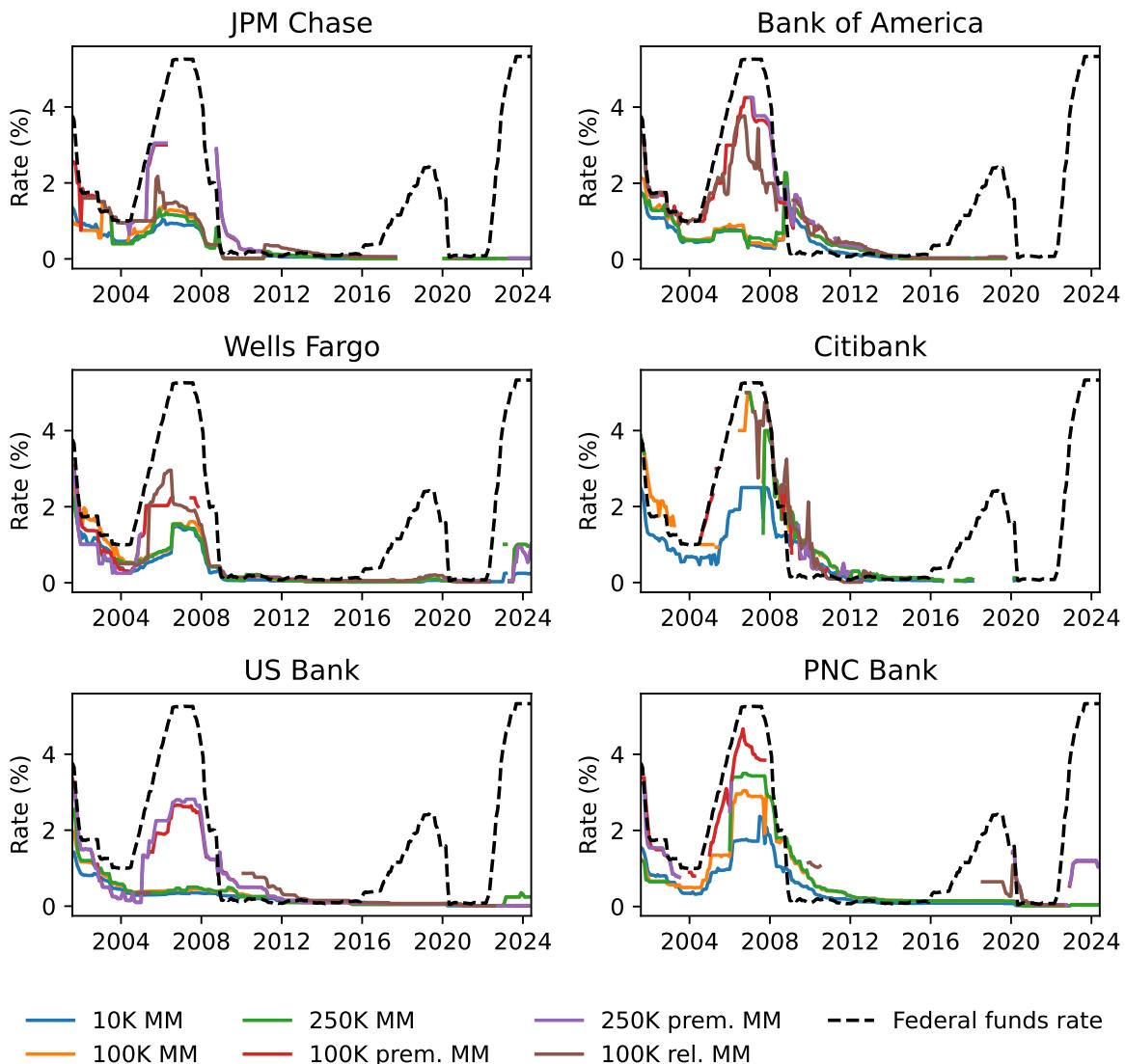


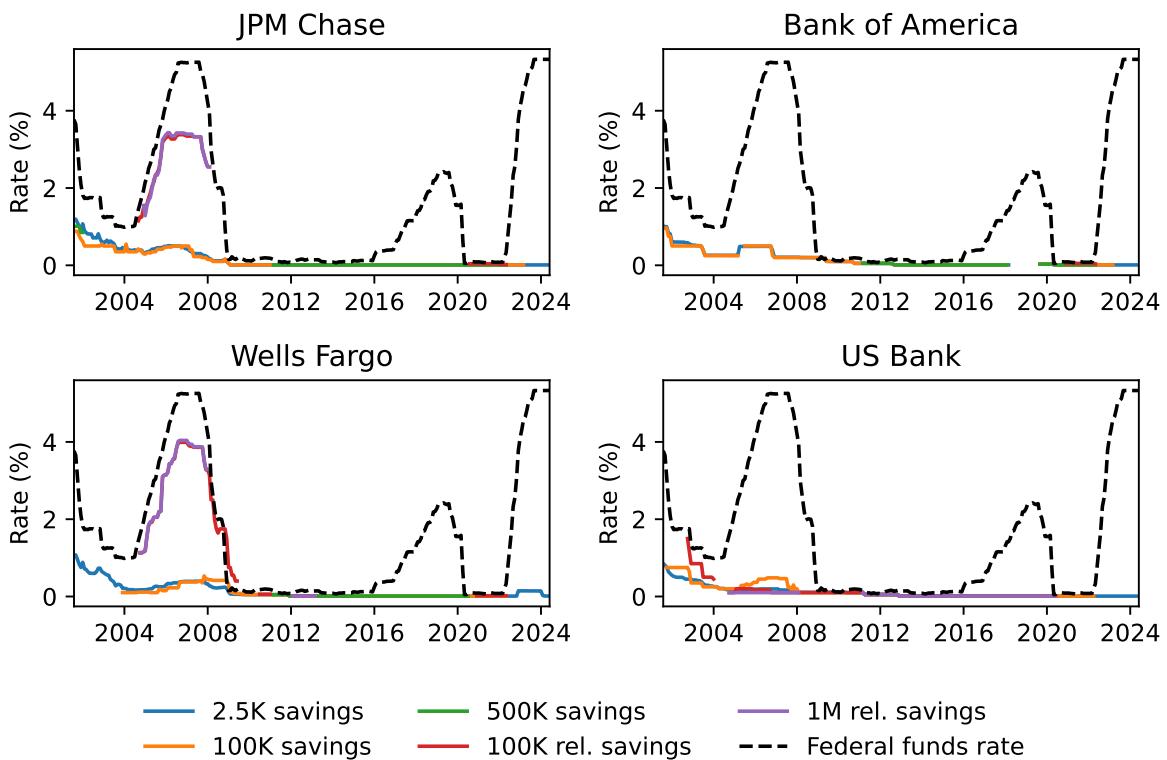
Figure 5. Rates on small and large deposit products at select banks

This figure plots rates on select deposit products at select large banks. Data are from Ratewatch. Panel A plots money market deposit account (MMDA) rates with \$10,000, \$100,000, and \$250,000 minimum balance, as well as “premium” accounts with \$100,000 minimum balance, and with \$250,000 minimum balance. Panel B plots savings account rates with \$2,500, \$100,000, and \$500,000 minimum balance as well as “relationship” accounts with \$1 million minimum balance. Panel C shows rates on corporate sweep accounts with minimum balance of \$100,000 and \$1 million, as well as \$2,500 savings accounts for comparison. All charts plot savings deposit expense rate calculated from Call Reports (thick black line) and the federal funds rate (dashed black line) for reference. The Ratewatch data are monthly (month-end offered rates), 2001M07-2024M05. Call Report data are quarterly. See main text for additional details.

#### A. Money market deposit accounts



#### B. Savings accounts



### C. Corporate sweep accounts

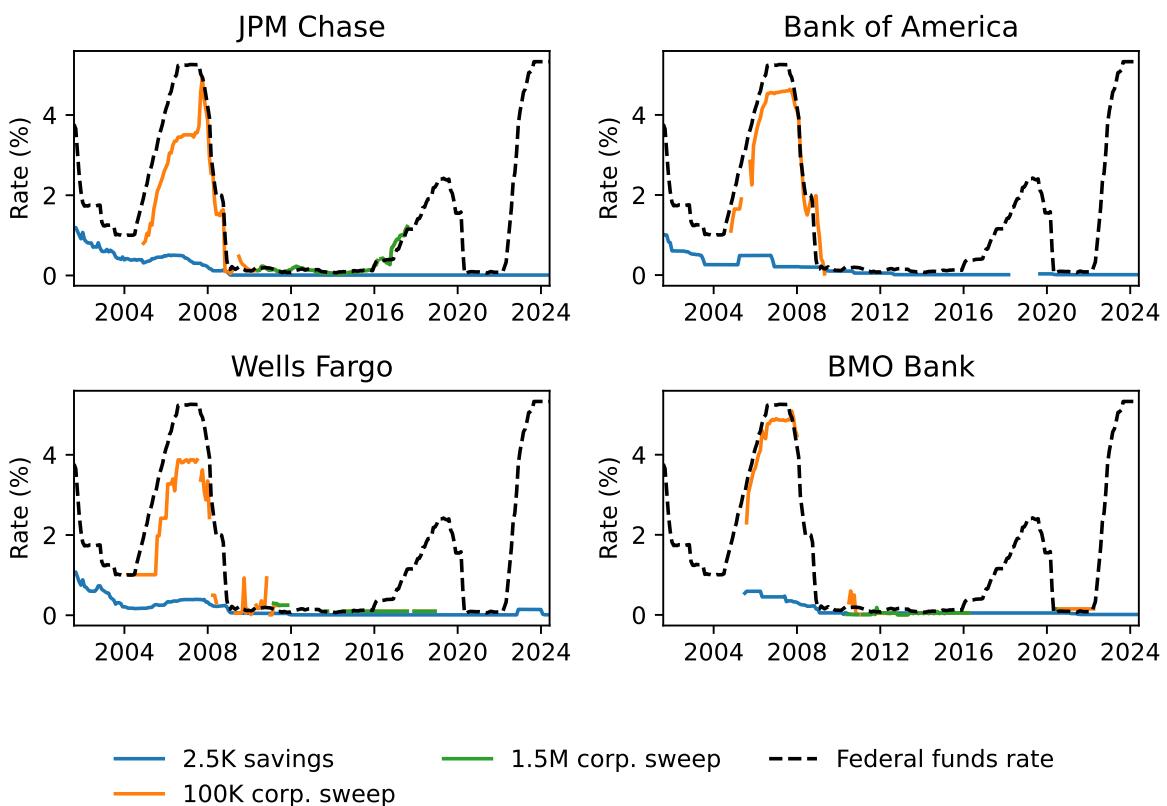


Figure 6. Deposit growth decomposed: Small vs large deposits

This figure plots year-on-year log-growth in real core deposits (blue line) and splitting it into growth in small deposits (orange line) and large non-time deposits (red line). Deposit growths are plotted on the left y-axis. On the right y-axis, the figure plots the short rate (3-month Treasury yield, black dashed line). Deposit data are aggregated from all U.S. commercial banks in Call Reports. The sample is 1985Q1-2024Q1. The missing data in 2010 for small and large non-time deposits is due to the change in definition of large deposits in Call Reports (see main text for details).

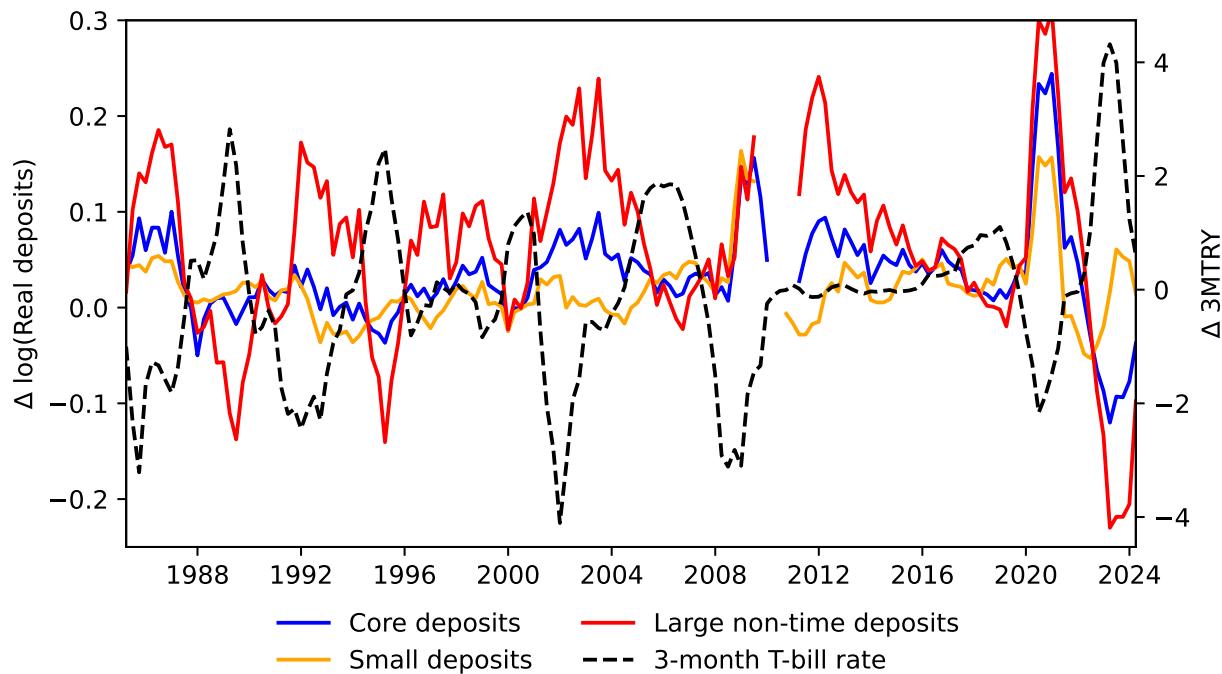
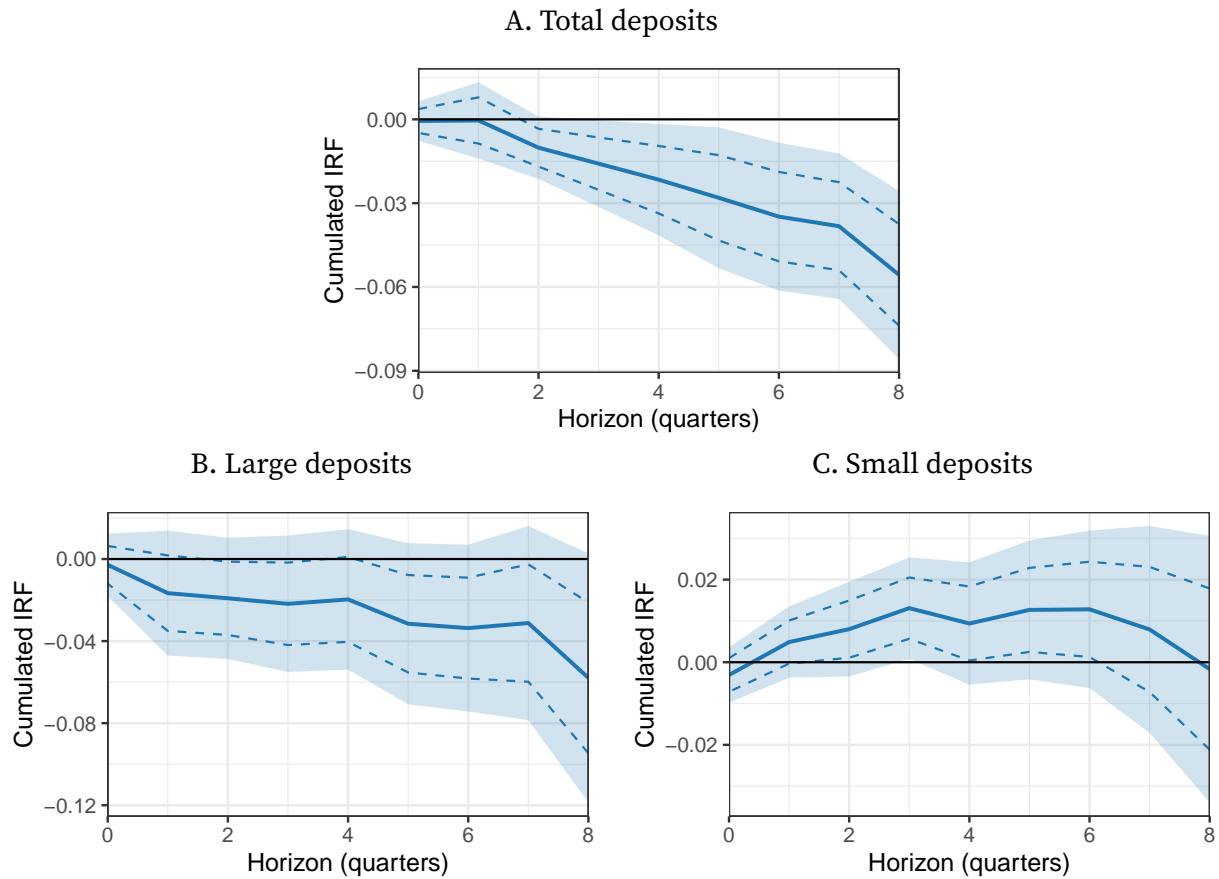


Figure 7. Aggregate deposit flow response to monetary policy shocks: Large vs small deposits

This figure plots impulse response functions (IRFs) of aggregate deposit flows to monetary policy shocks, estimated using the following local projections:

$$\Delta_{t-1,t+h} \log Y = \alpha^h + \beta^h \text{MP shock}_t + \Gamma^h X_t + \varepsilon_{t+h},$$

where  $\Delta_{t-1,t+h} \log Y$  is the log-change in  $Y$  (total deposits, large deposits, or small deposits) from  $t - 1$  to  $t + h$ . MP shock $_t$  is [Romer and Romer \(2004\)](#) monetary policy shock. Controls  $X_t$  include two lags of the dependent variable and monetary shocks, real GDP growth and inflation (and their lags), as well as indicators for quarter and the zero lower bound period. IRFs are estimated for horizons  $h = 0, 1, \dots, 8$  quarters. The sample covers all U.S. commercial banks, 1985Q1-2024Q1. Confidence intervals (CI) are based on Newey-West standard errors with bandwidth 8 quarters. 90% CI are plotted as blue shaded regions and 68% CI are plotted as dashed blue lines.



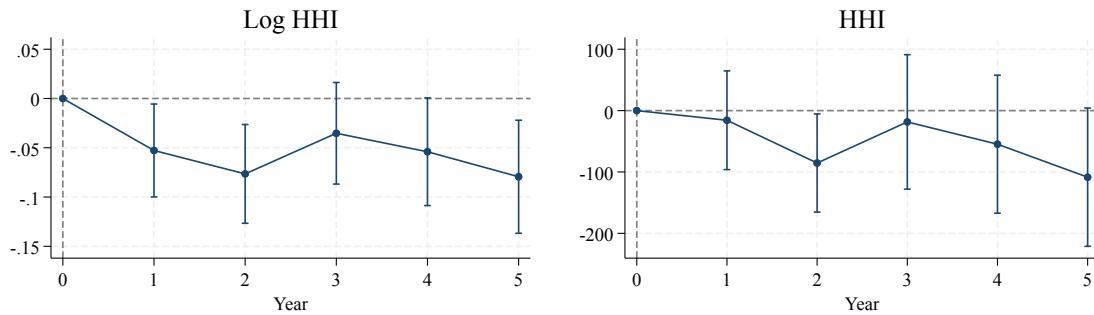
**Figure 8. Difference-in-differences evidence on deposit pricing: Dynamic effects**

This figure plots dynamic effects from estimating the following difference-in-differences regression:

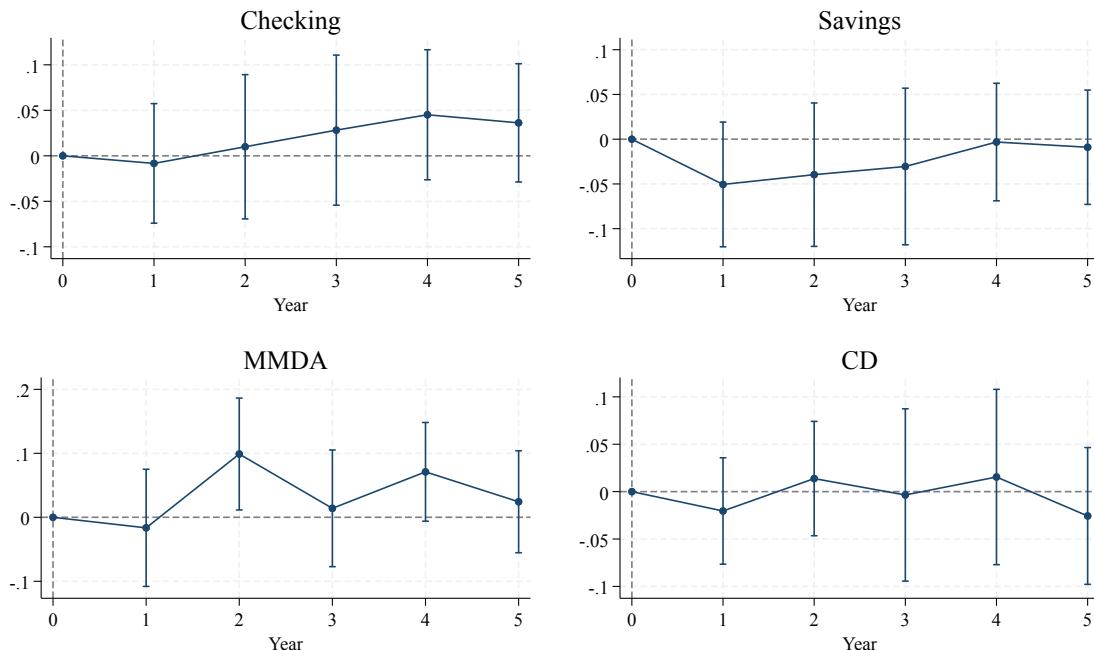
$$Y_{i,t} = \sum \delta_{c(i),t} + \sum \gamma_{m(i)} + \sum_{c,t>c(i)} \beta_{c(i),t} \text{Post}_{c(i),t} \times \text{Treated}_i + \varepsilon_{i,t},$$

where  $Y_{i,t}$  is either deposit market HHI (Panel A), APY on select deposit products (Panel B), or deposit betas (Panel C).  $\text{Post}_{c(i),t}$  is an indicator for whether  $t$  is after the merger in cohort  $c(i)$ , and  $\text{Treated}_i$  is an indicator for whether market-merger pair  $i$  is in the treatment group. The figure plots the coefficients on the interaction term  $\text{Post}_{c(i),t} \times \text{Treated}_i$  aggregated for each year relative to the merger as in Wooldridge (2025), along with 95% (spiked lines) confidence intervals based on standard errors clustered at the banking market level. Panels B and C report results for APYs and betas on the following retail deposit products: “checking” (interest-bearing checking accounts with minimum balance \$2,500), “savings” (savings accounts with minimum balance \$2,500), “MMDA” (money market accounts with minimum balance \$10,000) and “CD” (1-year certificates of deposit with minimum balance \$10,000). See main text for additional details.

**A. Deposit market concentration**



**B. Retail deposit rates**



### C. Retail deposit betas

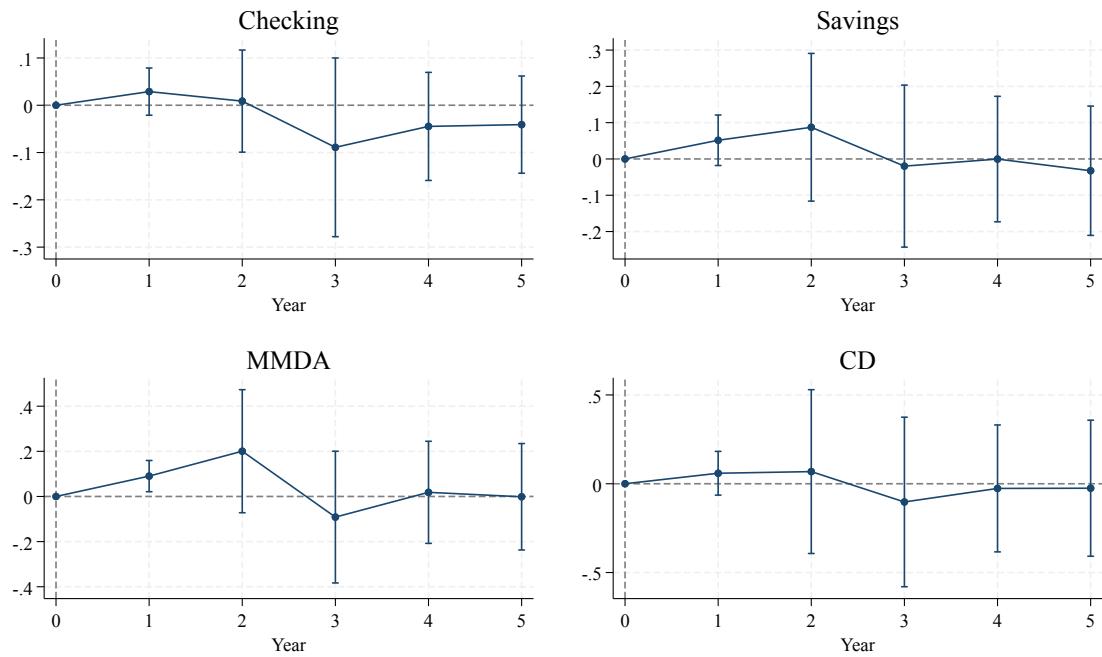


Figure 9. Deposits response to monetary policy shocks by large deposit share and market concentration

This figure plots estimated IRFs from the following local projections:

$$\Delta Y_{i,t-1,t+h} = \alpha_t^h + \beta_1^h \text{RR shock}_t \times \text{Lrg. dep. share}_{i,t-1} + \beta_2^h \text{RR shock}_t \times \log \text{HHI}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h},$$

where  $\Delta Y_{i,t-1,t+h}$  is the change in the outcome variable (deposit expense rate in Panel A and log real deposits in Panel B) at bank  $i$  from  $t-1$  to  $t+h$ ,  $\alpha_t^h$  is the time fixed effect, RR shock $_t$  is Romer and Romer (2004) shock in  $t$ , Lrg. dep. share $_{i,t-1}$  is the share of large deposits at bank  $i$  as of  $t-1$ , and log HHI $_{i,t-1}$  is the log of the local deposit market HHI for bank  $i$  as of  $t-1$ . The vector  $X_{i,t}$  includes 4 lags of the dependent variable and 4 lags of the monetary shock, all interacted with Lrg. dep. share $_{i,t-1}$ , log HHI $_{i,t-1}$  and controls—log of bank age, share of bank's deposits that reprice within 3 months and between 3 and 12 months, book capitalization ratio and share of liquid assets (cash and securities) in total assets, all measured as of  $t-1$ . I estimate this equation for horizons  $h = 0, 1, \dots, 8$  quarters ahead. The figure plots the estimates of  $\beta_1^h$  and  $\beta_2^h$  along with 90% (dashed blue lines) and 95% (shaded blue area) confidence intervals based on standard errors double clustered by bank and time. The share of large deposits and log HHI are standardized such that a one-unit change in these variables correspond to an increase from 25th to 75th percentile in their respective distributions within each quarter. The sample is all U.S. commercial bank over the period 1985Q1-2024Q1.

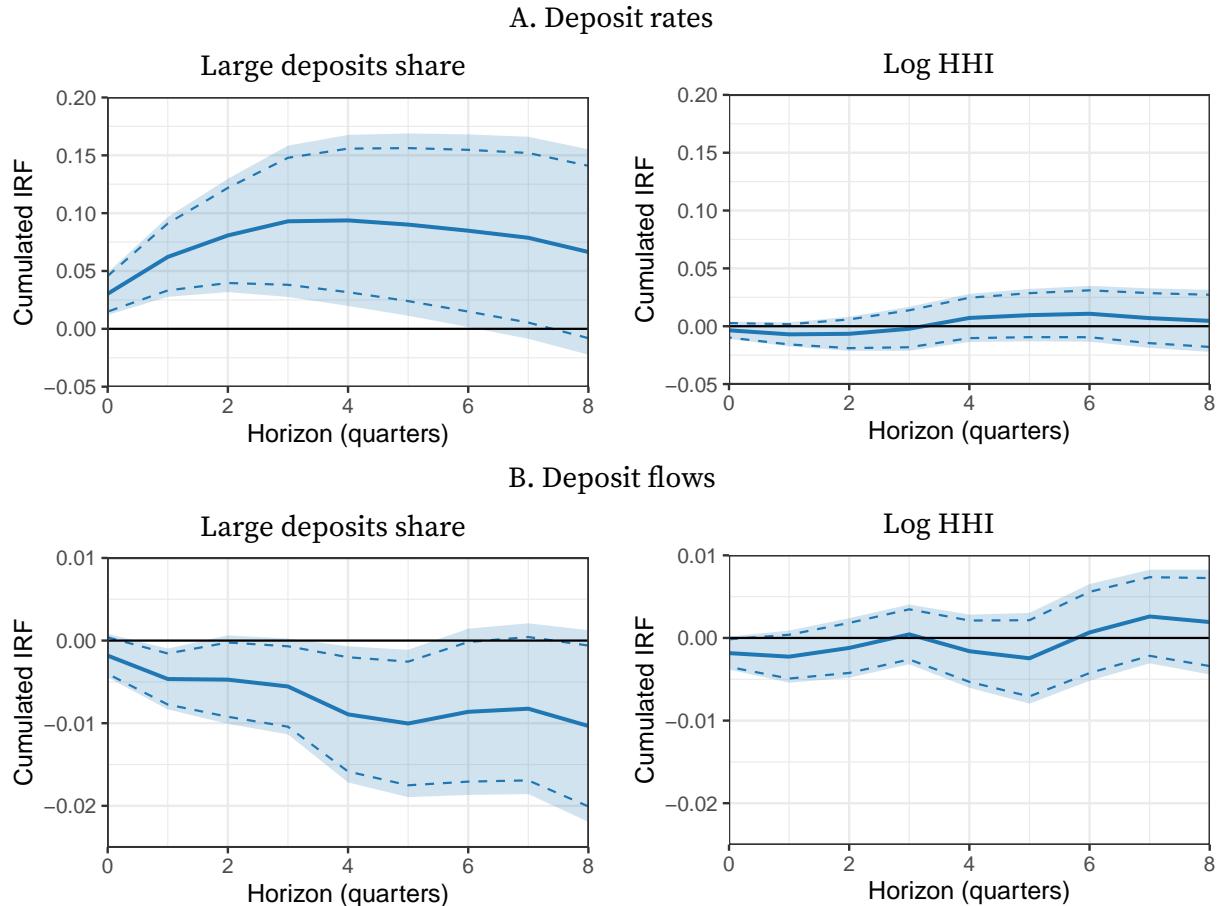


Figure 10. Large deposits share is more important than market concentration in explaining deposit pricing

Panel A of this figure plots the R-squared values from regressing total deposit expense betas over each cycle (see [Section 4](#)) on either large deposit share or local deposit market HHI at the beginning of that cycle. Panel B plots R-squared values from regressing total deposit expense betas calculated from Call Reports and retail deposit expense betas calculated from Ratewatch on local deposit market HHI at the beginning of each cycle.

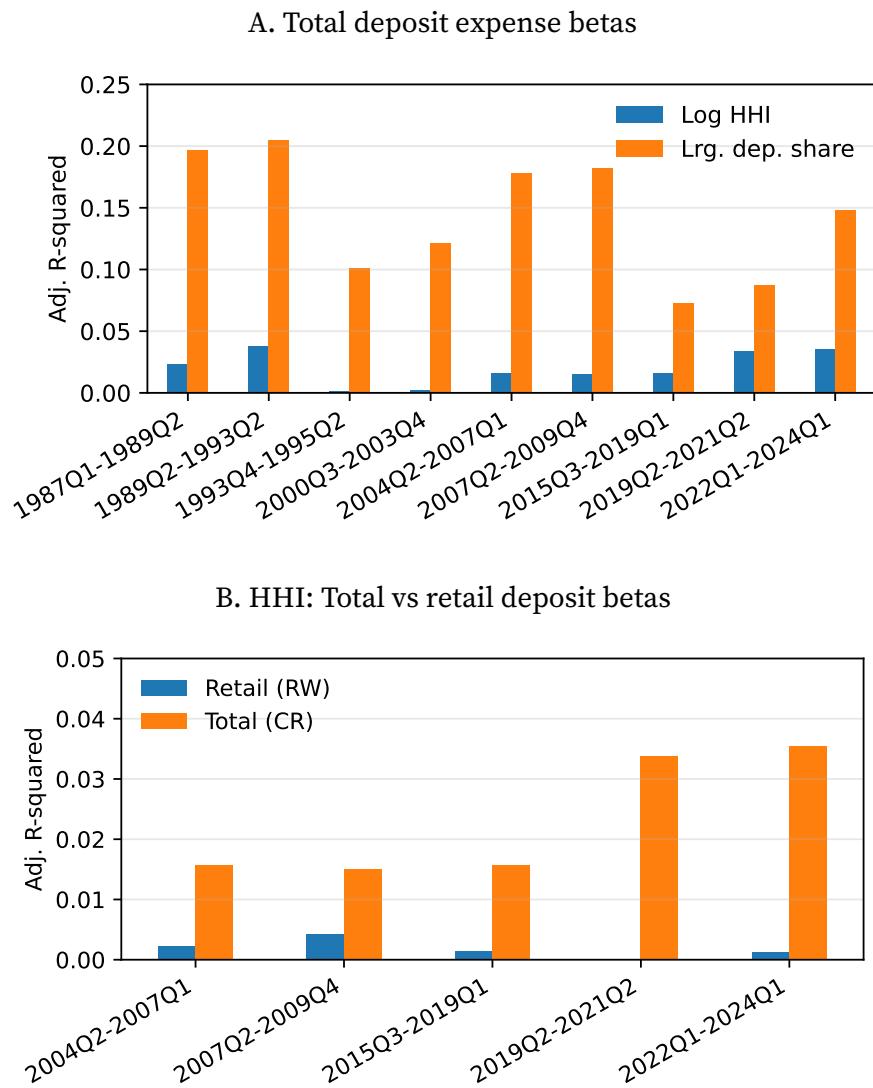


Table 1. Summary statistics

This table presents summary statistics for key variables used in the analysis. The sample is all U.S. commercial banks over the period 1975Q1-2024Q1. See main text for variable definitions. All rate and share variables are in percent. Growth rate are annualized quarter-on-quarter log changes deflated by CPI.

A. Bank-level rate variables

| Variable                   | N         | Mean | SD   | p5   | p25  | p50  | p75  | p95   |
|----------------------------|-----------|------|------|------|------|------|------|-------|
| Total deposit rate         | 1,653,797 | 4.59 | 2.81 | 0.44 | 2.18 | 4.49 | 6.61 | 9.30  |
| Savings deposit rate       | 1,211,403 | 2.59 | 1.94 | 0.15 | 0.71 | 2.56 | 3.95 | 5.79  |
| Time deposit rate          | 1,218,238 | 4.23 | 2.30 | 0.73 | 2.10 | 4.48 | 5.85 | 7.90  |
| Interest expense rate      | 1,664,805 | 3.42 | 2.11 | 0.32 | 1.67 | 3.34 | 5.01 | 6.98  |
| Interest income rate       | 1,661,708 | 7.26 | 2.35 | 3.48 | 5.43 | 7.36 | 9.00 | 11.00 |
| Net interest margin        | 1,661,527 | 3.86 | 0.97 | 2.41 | 3.27 | 3.81 | 4.38 | 5.45  |
| 12-month 10K CD rate       | 485,166   | 1.54 | 1.33 | 0.19 | 0.40 | 1.10 | 2.36 | 4.28  |
| 10K MMDA rate              | 462,062   | 0.66 | 0.71 | 0.05 | 0.15 | 0.35 | 1.00 | 2.10  |
| 2.5K savings account rate  | 482,709   | 0.48 | 0.53 | 0.05 | 0.10 | 0.25 | 0.70 | 1.51  |
| 2.5K checking account rate | 464,539   | 0.32 | 0.40 | 0.02 | 0.05 | 0.15 | 0.45 | 1.08  |

B. Bank-level quantity variables

| Variable             | N         | Mean  | SD    | p5    | p25   | p50   | p75   | p95   |
|----------------------|-----------|-------|-------|-------|-------|-------|-------|-------|
| Deposit market HHI   | 1,900,776 | 1736  | 1390  | 239   | 840   | 1399  | 2231  | 4256  |
| Large deposits share | 1,524,830 | 26.07 | 16.75 | 4.88  | 13.98 | 23.13 | 34.66 | 57.28 |
| C&I loans share      | 1,912,934 | 18.10 | 13.36 | 1.70  | 8.83  | 15.18 | 24.18 | 44.07 |
| Total asset growth   | 1,900,482 | 0.05  | 0.34  | -0.26 | -0.07 | 0.02  | 0.13  | 0.42  |
| Total deposit growth | 1,899,433 | 0.06  | 0.51  | -0.29 | -0.09 | 0.02  | 0.14  | 0.47  |
| Large deposit growth | 1,023,196 | 0.09  | 0.99  | -1.11 | -0.25 | 0.07  | 0.42  | 1.37  |
| Small deposit growth | 1,025,233 | 0.06  | 0.61  | -0.27 | -0.08 | 0.00  | 0.10  | 0.52  |
| Total loans growth   | 1,888,830 | 0.07  | 0.56  | -0.31 | -0.08 | 0.03  | 0.16  | 0.49  |
| C&I loans growth     | 1,844,348 | 0.06  | 1.02  | -0.97 | -0.25 | 0.01  | 0.31  | 1.20  |
| Liquid assets growth | 1,887,957 | 0.03  | 0.73  | -0.87 | -0.26 | -0.00 | 0.29  | 1.04  |

Table 2. Local projections of deposit expense rates on short rate changes and share of large deposits

This table shows the results of estimating the following local projections:

$$\Delta \text{Dep. exp. rate}_{i,t-1,t+h} = \alpha_t^h + \beta^h \Delta \text{SR}_t \times \text{Lrg. dep. share}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h}, \quad h = 0, \dots, 8,$$

where  $\Delta \text{Dep. exp. rate}_{i,t-1,t+h}$  is the change in deposit expense rate at bank  $i$  from  $t - 1$  to  $t + h$ ,  $\alpha_t^h$  is the time fixed effect,  $\Delta \text{SR}_t$  is the change in the short rate (3-month Treasury yield) from  $t - 1$  to  $t$ , and  $\text{Lrg. dep. share}_{i,t-1}$  is the share of large deposits at bank  $i$  as of  $t - 1$ . The vector  $X_{i,t}$  includes 4 lags of the dependent variable and 4 lags of the short rate, all interacted with  $\text{Lrg. dep. share}_{i,t-1}$  and interacted with controls—log of local deposit market HHI, log of bank age, share of bank's deposits that reprice within 3 months and between 3 and 12 months, book capitalization ratio and share of liquid assets (cash and securities) in total assets, all measured as of  $t - 1$ . The table shows only select interaction terms with  $\Delta \text{SR}_t$ , the coefficients on other variables are omitted for exposition. The share of large deposits and log HHI are standardized such that a one-unit change in this variable corresponds to an increase from 25th to 75th percentile in its distribution within each quarter. The sample is all U.S. commercial bank over the period 1985Q1-2024Q1. Standard errors (in parentheses) are double clustered by bank and time. \*, \*\*, \*\*\* denote statistical significance at 10%, 5% and 1% levels, respectively.

|  | Horizon, quarters    |                     |                      |                      |                      |
|--|----------------------|---------------------|----------------------|----------------------|----------------------|
|  | $h = 0$              | $h = 2$             | $h = 4$              | $h = 6$              | $h = 8$              |
| $\text{Lrg. dep. share}_{i,t-1} \times \Delta \text{SR}_t$ | 0.035***<br>(0.004)  | 0.047***<br>(0.008) | 0.039***<br>(0.009)  | 0.034***<br>(0.011)  | 0.037***<br>(0.012)  |
| $\log(\text{HHI}_{i,t-1}) \times \Delta \text{SR}_t$       | 0.002<br>(0.003)     | -0.003<br>(0.007)   | 0.006<br>(0.007)     | -0.002<br>(0.008)    | -0.008<br>(0.008)    |
| $\log(\text{Bank age}_{i,t-1}) \times \Delta \text{SR}_t$  | -0.008***<br>(0.003) | -0.014**<br>(0.007) | -0.015***<br>(0.004) | -0.015***<br>(0.004) | -0.019***<br>(0.005) |
| Time FE  | ✓                    | ✓                   | ✓                    | ✓                    | ✓                    |
| Controls   | ✓                    | ✓                   | ✓                    | ✓                    | ✓                    |
| $N$  | 919,249              | 919,249             | 919,249              | 919,249              | 919,249              |
| Within $R^2$   | 0.074                | 0.146               | 0.197                | 0.227                | 0.248                |

Table 3. Inferred deposit expense betas for small and large deposits

This table shows the results of estimating the following regression for each monetary policy cycle  $c$ :

$$\text{Dep. exp. beta}_{i,c} = \gamma_{0,c} + \gamma_{1,c} \text{Lrg. dep. share}_{i,c} + \varepsilon_{i,c},$$

where  $\text{Dep. exp. beta}_{i,c}$  is the total deposit expense beta for bank  $i$  over cycle  $c$  and  $\text{Lrg. dep. share}_{i,c}$  is the share of large deposits at bank  $i$  as of the beginning of the cycle  $c$ . The sample is all U.S. commercial banks over the period 2001-2024.  $\gamma_{0,c}$  recovers an estimate of small deposit betas,  $\gamma_{1,c}$  recovers an estimate of the difference between large and small deposit betas.  $\gamma_{0,c} + \gamma_{1,c}$  thus recovers an estimate of large deposit betas. The table reports the estimates of  $\gamma_{0,c}$  (Constant) and  $\gamma_{1,c}$  (Lrg. dep. share) for each cycle along with heteroskedasticity-consistent standard errors in parentheses. The table also reports the average deposit beta (RW Beta) from Ratewatch for four small retail deposit products (see main text for details) over each cycle for comparison. \*, \*\*, \*\*\* denote statistical significance at 10%, 5% and 1% levels, respectively.

|                          | Cycle               |                     |                     |                     |                     |
|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                          | 2004Q2 -<br>-2007Q1 | 2007Q2 -<br>-2009Q4 | 2015Q3 -<br>-2019Q1 | 2019Q2 -<br>-2021Q2 | 2022Q1 -<br>-2024Q1 |
| Constant $_c$            | 0.341***<br>(0.005) | 0.285***<br>(0.004) | 0.130***<br>(0.005) | 0.173***<br>(0.006) | 0.252***<br>(0.008) |
| Lrg. dep. share $_{i,c}$ | 0.394***<br>(0.012) | 0.318***<br>(0.010) | 0.269***<br>(0.016) | 0.322***<br>(0.018) | 0.434***<br>(0.020) |
| RW Beta                  | 0.267               | 0.268               | 0.096               | 0.125               | 0.148               |
| Small Beta               | 0.341               | 0.285               | 0.130               | 0.173               | 0.252               |
| Large Beta               | 0.736               | 0.603               | 0.399               | 0.495               | 0.687               |
| $R^2$                    | 0.178               | 0.182               | 0.073               | 0.087               | 0.148               |
| Observations             | 7043                | 6599                | 5305                | 4857                | 4477                |

Table 4. Select examples of balance-tiered savings deposit pricing, 2015-2024

This table shows rates on flagship savings products on select dates for 2015-2024. Panel A shows rates at Wells Fargo, Panel B at TD Bank, and Panel C at US Bank. The rates are hand-collected from banks' websites and <https://www.depositaccounts.com> using Internet Archive's Wayback Machine. The table also presents the effective federal funds rate (FFR) on each date for reference. The table shows that banks use balance-tiered deposit pricing, paying higher rates on larger balances when the FFR is high, but often paying the same rate on all balances when the FFR is low.

A. Wells Fargo

| Date       | Rates (APY)  | FFR, % |
|------------|--|--------|
| 2015-09-05 | 0.06% on all balances  | 0.14   |
| 2017-04-08 | 0.06% on all balances  | 0.91   |
| 2019-04-21 | 0.05% on \$0-\$25K, 2.1% on >\$25K   | 2.44   |
| 2020-08-11 | 0.01% on all balances  | 0.10   |
| 2021-06-15 | 0.02% on all balances  | 0.06   |
| 2022-02-13 | 0.02% on all balances  | 0.08   |
| 2022-12-02 | 0.25% on \$0-\$100K, 1.01% on \$100K-\$500K, 1.5% on \$500K-\$1M, 2.0% on >\$1m. | 3.83   |
| 2023-11-28 | 0.25% on \$0-\$100K, 1.01% on \$100K-\$500K, 2% on \$500K-\$1M, 2.5% on >\$1m.   | 5.33   |
| 2024-05-19 | 0.25% on \$0-\$100K, 1.01% on \$100K-\$500K, 2% on \$500K-\$1M, 2.5% on >\$1m.   | 5.33   |

B. TD Bank

| Date       | Rates (APY)  | FFR, % |
|------------|--|--------|
| 2015-09-07 | 0.05% on \$0-\$50K, 0.5% on >\$50K   | 0.14   |
| 2017-04-08 | 0.1% on \$0-\$15K, 0.35% on \$15K-\$25K, 0.45% on \$25K-\$50K, 0.5% on >\$50K  | 0.91   |
| 2020-08-03 | 0.1% on \$0-\$20K, 0.35% on \$20K-\$50K, 0.5% on \$50K-\$100K, 0.6% on \$100K-\$250K, 0.75% on >\$250K                         | 0.10   |
| 2021-07-26 | 0.01% on \$0-\$20K, 0.02% on \$20K-\$50K, 0.03% on \$50K-\$100K, 0.04% on \$100K-\$250K, 0.05% on >\$250K                      | 0.10   |
| 2022-05-16 | 0.01% on \$0-\$20K, 0.02% on \$20K-\$50K, 0.03% on \$50K-\$100K, 0.04% on \$100K-\$250K, 0.05% on >\$250K                      | 0.83   |
| 2023-02-05 | 0.01% on \$0-\$10K, 1.5% on \$10K-\$25K, 1.75% on \$25K-\$50K, 2.00% on \$50K-\$100K, 2.50% on \$100K-\$250K, 3.00% on >\$250K | 4.58   |
| 2024-06-13 | 0.01% on \$0-\$10K, 2.00% on \$10K-\$25K, 2.25% on \$25K-\$50K, 2.50% on \$50K-\$100K, 4.00% on >\$100K                        | 5.33   |

C. US Bank

| Date       | Rates (APY)   | FFR, % |
|------------|---|--------|
| 2015-09-07 | 0.05% on \$10K-\$50K, 0.10% on >\$50K   | 0.14   |
| 2018-12-18 | 0.05% on \$0-\$10K, 0.30% on \$10K-\$50K, 1.41% on \$50K-\$500K, 1.44% on >\$500K   | 2.20   |
| 2019-09-10 | 0.05% on \$0-\$10K, 0.25% on \$10K-\$50K, 0.30% on \$50K-\$500K, 0.45% on >\$500K   | 2.13   |
| 2020-09-28 | 0.01% on \$0-\$100K, 0.05% on >\$100K   | 0.09   |
| 2021-07-27 | 0.01% on all balances   | 0.10   |
| 2022-05-19 | 0.01% on all balances   | 0.83   |
| 2023-02-04 | 0.01% on \$0-\$25K, 0.25% on \$25K-\$500K, 0.75% on >\$500K for retail MMDA; 1.76% on \$25K-\$50K, 1.88% on \$50K-\$250K, 2.06% on >\$250K on business MMDA | 4.58   |
| 2024-06-20 | 0.01% on \$0-\$25K, 4.25% on >\$25K   | 5.33   |

Table 5. Retail deposit pricing and market concentration: Evidence from bank mergers

This table reports the results of the difference-in-differences regression following [Wooldridge \(2025\)](#):

$$Y_{i,t} = \sum \delta_{c(i),t} + \sum \gamma_i + \sum_{c,t>c(i)} \beta_{c(i),t} \text{Post}_{c(i),t} \times \text{Treated}_i + \varepsilon_{i,t},$$

where  $Y_{i,t}$  is either deposit market HHI (Panel A), APY on select deposit products (Panel B), or deposit betas (Panel C),  $c(i)$  indexes the cohort of the merger,  $t$  indexes time (year), and  $i$  indexes deposit market-merger pair.  $\text{Post}_{c(i),t}$  is an indicator for whether  $t$  is after the merger in cohort  $c(i)$ , and  $\text{Treated}_i$  is an indicator for whether market  $i$  is in the treatment group. The table reports the coefficient on the interaction term  $\text{Post}_{c(i),t} \times \text{Treated}_i$ , aggregated to a single effect using cohort counts. Panels B and C report results for APYs and betas on the following retail deposit products: “checking” (interest-bearing checking accounts with minimum balance \$2,500), “savings” (savings accounts with minimum balance \$2,500), “MMDA” (money market accounts with minimum balance \$10,000) and “CD” (12-month CDs with minimum balance \$10,000). See Section X for additional detail. Standard errors are clustered at the banking market level. \*, \*\*, and \*\*\* indicate significance at 10%, 5%, and 1% levels, respectively.

#### A. Market concentration

|                | (1)<br>HHI          | (2)<br>Log HHI         |
|----------------|---------------------|------------------------|
| Post × Treated | -109.4**<br>(44.94) | -0.0808***<br>(0.0239) |
| N              | 2786                | 2786                   |
| Cohort-Year FE | ✓                   | ✓                      |
| Merger FE      | ✓                   | ✓                      |

#### B. Rates on select deposit products

|                | (1)<br>Checking    | (2)<br>Savings      | (3)<br>MMDA        | (4)<br>CD          |
|----------------|--------------------|---------------------|--------------------|--------------------|
| Post × Treated | 0.0246<br>(0.0292) | -0.0131<br>(0.0285) | 0.0285<br>(0.0324) | 0.0175<br>(0.0229) |
| N              | 2783               | 2783                | 2785               | 2786               |
| Cohort-Year FE | ✓                  | ✓                   | ✓                  | ✓                  |
| Merger FE      | ✓                  | ✓                   | ✓                  | ✓                  |

C. Deposit betas

|                | (1)                  | (2)                | (3)                | (4)                |
|----------------|----------------------|--------------------|--------------------|--------------------|
|                | Checking             | Savings            | MMDA               | CD                 |
| Post × Treated | -0.00780<br>(0.0385) | 0.0483<br>(0.0713) | 0.0751<br>(0.0904) | -0.0358<br>(0.160) |
| <i>N</i>       | 2783                 | 2783               | 2785               | 2786               |
| Cohort-Year FE | ✓                    | ✓                  | ✓                  | ✓                  |
| Merger FE      | ✓                    | ✓                  | ✓                  | ✓                  |

Table 6. Local projections of deposit flows on Romer and Romer (2004) monetary shocks by select bank characteristics

This table shows the results of estimating the following local projections:

$$\Delta \log \text{Deposits}_{i,t-1,t+h} = \alpha_t^h + \beta^h \text{RR shock}_t \times \text{Lrg. dep. share}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h}, \quad h = 0, \dots, 8,$$

where  $\Delta \log \text{Deposits}_{i,t-1,t+h}$  is the change in log deposits at bank  $i$  from  $t - 1$  to  $t + h$ ,  $\alpha_t^h$  is the time fixed effect, RR shock $_t$  is the [Romer and Romer \(2004\)](#) shock in  $t$ , and Lrg. dep. share $_{i,t-1}$  is the share of large deposits at bank  $i$  as of  $t - 1$ . The vector  $X_{i,t}$  includes 4 lags of the dependent variable and 4 lags of the shock, all interacted with Lrg. dep. share $_{i,t-1}$  and interacted with controls—log of local deposit market HHI, log of bank age, and log total assets, all measured as of  $t - 1$ . The share of large deposits, log HHI, and log assets are standardized such that a one-unit change in this variable corresponds to an increase from 25th to 75th percentile in its distribution within each quarter. The sample is all U.S. commercial bank over the period 1985Q1-2024Q1. Standard errors (in parentheses) are double clustered by bank and time. \*, \*\*, \*\*\* denote statistical significance at 10%, 5% and 1% levels, respectively.

|  | Horizon, quarters  |                     |                     |                    |                    |
|--|--------------------|---------------------|---------------------|--------------------|--------------------|
|  | $h = 0$            | $h = 2$             | $h = 4$             | $h = 6$            | $h = 8$            |
| Lrg. dep. share $_{i,t-1} \times \text{RR shock}_t$          | -0.002<br>(0.001)  | -0.005*<br>(0.003)  | -0.009**<br>(0.004) | -0.009*<br>(0.005) | -0.010*<br>(0.006) |
| $\log(\text{HHI}_{i,t-1}) \times \text{RR shock}_t$          | -0.002*<br>(0.001) | -0.001<br>(0.002)   | -0.002<br>(0.002)   | 0.001<br>(0.003)   | 0.002<br>(0.003)   |
| $\log(\text{Total assets}_{i,t-1}) \times \text{RR shock}_t$ | 0.004**<br>(0.002) | 0.007***<br>(0.002) | 0.008***<br>(0.003) | 0.004<br>(0.004)   | 0.001<br>(0.004)   |
| $\log(\text{Bank age}_{i,t-1}) \times \text{RR shock}_t$     | -0.002*<br>(0.001) | -0.004**<br>(0.002) | -0.007**<br>(0.003) | -0.006<br>(0.004)  | -0.006<br>(0.005)  |
| Time FE  | ✓                  | ✓                   | ✓                   | ✓                  | ✓                  |
| Controls   | ✓                  | ✓                   | ✓                   | ✓                  | ✓                  |
| $N$  | 932,690            | 932,690             | 932,690             | 932,690            | 932,690            |
| Within $R^2$   | 0.135              | 0.167               | 0.174               | 0.190              | 0.188              |

## Appendix A. Model

I adapt the model of Drechsler, Savov, and Schnabl (2017), modifying it to allow for depositors with different elasticity of substitution between bonds and deposits. The model is static and there is no risk. Households maximize utility over final wealth,  $W$ , and liquidity services,  $l$ :

$$u(W_0) = \max \left( W^{\frac{\rho-1}{\rho}} + \lambda l^{\frac{\rho-1}{\rho}} \right)^{\frac{\rho}{\rho-1}} \quad (\text{A1})$$

where  $\rho$  is the elasticity of substitution between wealth and liquidity services, and  $\lambda$  is a parameter that governs the relative weight of liquidity services in utility. I assume that there are two types of households, with different values of  $\rho = \{\rho_L, \rho_H\}$ , where  $\rho_L < \rho_H$ . Households with low  $\rho$  do not substitute from liquid assets into wealth easily. As in DSS (2017), wealth and liquidity services are complements, so  $\rho_L < \rho_H < 1$ . The population weights of the two types are  $\alpha_L$  and  $\alpha_H$ , with  $\alpha_L + \alpha_H = 1$ .

Liquidity services are derived from cash,  $M$ , and deposits,  $D$ , in the same way for both types of households:

$$l(M, D) = \left( M^{\frac{\epsilon-1}{\epsilon}} + \delta D^{\frac{\epsilon-1}{\epsilon}} \right)^{\frac{\epsilon}{\epsilon-1}} \quad (\text{A2})$$

where  $\epsilon$  is the elasticity of substitution between cash and deposits, and  $\delta$  is a parameter that governs the relative weight of deposits in liquidity services. Cash and deposits are substitutes, so  $\epsilon > 1$ .

For each depositor type  $j \in \{L, H\}$ , deposits are a composite good produced by a set of  $N$  banks:

$$D_j = \left( \frac{1}{N} \sum_{i=1}^N D_{ji}^{\frac{\eta-1}{\eta}} \right)^{\frac{\eta}{\eta-1}}, \quad j \in \{L, H\} \quad (\text{A3})$$

where  $D_{ji}$  are deposits of type  $j$  at bank  $i$ , and  $\eta$  is the elasticity of substitution between banks,  $\eta > 1$ . I assume for simplicity that  $\eta$  is the same for both types of depositors.

Households also invest in bonds, which pay market rate  $f$ . The budget constraint is:

$$W_j = W_0(1 + f) - M_j f - D_j s_j, \quad j \in \{L, H\} \quad (\text{A4})$$

where  $s_j \equiv \frac{1}{N} \sum_{i=1}^N \frac{D_{ji}}{D_j} s_{ji}$  is the deposit spread (the difference between market rate and the deposit rate) for depositor type  $j$ , deposit-weighted across banks with  $s_{ji}$  is the spread at bank  $i$  for depositor type  $j$ .

From households' optimization problem, we obtain deposit demand elasticity for each depositor type  $j$ :<sup>27</sup>

$$-\frac{\partial D_j}{\partial s_j} \frac{s_j}{D_j} = \left[ \frac{1}{1 + \delta^\epsilon \cdot \left( \frac{f}{s_j} \right)^{\epsilon-1}} \right]^\epsilon + \left[ \frac{\delta^\epsilon \cdot \left( \frac{f}{s_j} \right)^{\epsilon-1}}{1 + \delta^\epsilon \cdot \left( \frac{f}{s_j} \right)^{\epsilon-1}} \right] \rho_j, \quad j \in \{L, H\}. \quad (\text{A5})$$

The elasticity of demand for deposits of type  $j$  at a given bank  $i$  is given by:

$$-\frac{\partial D_{ji}}{\partial s_{ji}} \frac{s_{ji}}{D_{ji}} = \frac{1}{N} \left( -\frac{\partial D_j}{\partial s_j} \frac{s_j}{D_j} \right) + \eta \left( 1 - \frac{1}{N} \right), \quad j \in \{L, H\}. \quad (\text{A6})$$

Note that for a given aggregate spread  $s_j$ , deposit demand elasticity at a given bank  $i$  is greater for depositor type  $H$  than for depositor type  $L$ :

$$-\frac{\partial D_{Hi}}{\partial s_{Hi}} \frac{s_{Hi}}{D_{Hi}} > -\frac{\partial D_{Li}}{\partial s_{Li}} \frac{s_{Li}}{D_{Li}}. \quad (\text{A7})$$

Banks raise deposits from both types of households and invest in bonds. Their profit maximization problem is:

$$\pi = \max_{s_L, s_H} \alpha_L D_L(s_L) s_L + \alpha_H D_H(s_H) s_H. \quad (\text{A8})$$

I now show that it is optimal for banks to price discriminate between the two depositor types, i.e. to set different spreads  $s_L$  and  $s_H$ .

**Lemma A1 (Price discrimination).** *It is optimal for banks to set different deposit spreads for each depositor type, i.e.,  $s_L > s_H$ , whenever  $\rho_L < \rho_H$ .*

**PROOF.** Assume by contradiction that all banks set the same spread for both depositor

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<sup>27</sup>I follow DSS (2017) and let  $\lambda \rightarrow 0$  to obtain a closed-form solution. This removes the impact of cost of liquidity on total wealth. In unreported results, I solve the model more generally with  $\lambda > 0$  and show numerically that the results are similar.

types, i.e.  $s_L = s_H = s$ . Then the bank's profit maximization problem becomes:

$$\pi = \max_s \alpha_L D_L(s)s + \alpha_H D_H(s)s,$$

where I omit subscript  $i$  because all banks are symmetric. The first-order condition is:

$$\left[ \alpha_L \frac{\partial D_L}{\partial s} + \alpha_H \frac{\partial D_H}{\partial s} \right] s^* + (\alpha_L D_L + \alpha_H D_H) = 0.$$

Rearranging:

$$\frac{\partial D_L}{\partial s} \frac{s^*}{D_L} \cdot \frac{\alpha_L D_L}{\alpha_L D_L + \alpha_H D_H} + \frac{\partial D_H}{\partial s} \frac{s^*}{D_H} \cdot \frac{\alpha_H D_H}{\alpha_L D_L + \alpha_H D_H} = -1$$

This is a weighted average of the elasticities of deposit demand for the two depositor types, with weights  $\frac{\alpha_j D_j}{\alpha_L D_L + \alpha_H D_H}$  for  $j \in \{L, H\}$ . Since these weights are positive and sum to 1, the weighted average elasticity must lie between the two elasticities. But from (A7), the elasticity for type  $H$  is strictly greater than that for type  $L$ . Therefore, we have:

$$-\frac{\partial D_L}{\partial s} \frac{s^*}{D_L} < 1 < -\frac{\partial D_H}{\partial s} \frac{s^*}{D_H}$$

This implies that  $s^*$  is set on “inelastic” side of the type  $L$  deposit demand curve and on “elastic” side of the type  $H$  deposit demand curve. A bank can increase its profit by slightly increasing  $s_L$  above  $s^*$  and slightly decreasing  $s_H$  below  $s^*$ . Hence, it is optimal for any bank  $i$  to deviate from the pooling equilibrium. It is optimal to set  $s_L > s_H$ .  $\square$

Under price discrimination, spreads are set as:

$$\frac{\partial D_{ji}}{\partial s_{ji}} \frac{s_{ji}}{D_{ji}} = -1, \quad j \in \{L, H\}. \quad (\text{A9})$$

As in DSS (2017), combining (A6) and (A9) yield the following equilibrium condition:

$$-\frac{\partial D_j}{\partial s_j} \frac{s_j}{D_j} = 1 - (\eta - 1)(N - 1) \equiv \mathcal{M}, \quad j \in \{L, H\}, \quad (\text{A10})$$

where  $\mathcal{M}$  is what DSS (2017) call “market power of the banking sector as a whole”, and I will call “market concentration” parameter. Note that  $\mathcal{M}$  is the same for both depositor types in this model.

Combining Equation A5 and Equation A10, we obtain the following result, as in DSS

(2017), but now for each depositor type  $j$ .

**Proposition A1 (Deposit spreads and betas).** *If  $\mathcal{M} < \rho_j$ , then the equilibrium deposit spread  $s_j$  is 0. Otherwise,*

$$s_j = \delta^{\frac{\epsilon}{\epsilon-1}} \left( \frac{\mathcal{M} - \rho_j}{\epsilon - \mathcal{M}} \right)^{\frac{1}{\epsilon-1}} f, \quad j \in \{L, H\}. \quad (\text{A11})$$

The deposit spread beta,  $\partial s_j / \partial f$ , is increasing in market concentration  $\mathcal{M}$  and decreasing in  $\rho_j$ . In particular, if  $\rho_L < \rho_H$ , then  $s_L > s_H$  and  $\partial s_L / \partial f > \partial s_H / \partial f$ .

**Proposition A1** shows that the more elastic depositors  $H$  get higher pass-through of market rates to deposit rates, than the less elastic depositors  $L$ .

I now show how depositor flows respond to changes in market rates. From the households' optimization problem, I obtain:<sup>28</sup>

$$D_j = s_j^{-\rho_j} \cdot \delta^{-\frac{\epsilon(1-\rho_j)}{\epsilon-1}} \cdot \left( 1 + \delta^{-\epsilon} \cdot \left( \frac{s_j}{f} \right)^{\epsilon-1} \right)^{-\frac{\epsilon-\rho_j}{\epsilon-1}}, \quad j \in \{L, H\}.$$

Substituting for  $s_j/f$  from [Equation A11](#) and differentiating with respect to  $f$ , I obtain the following result.

**Proposition A2 (Deposit flows).** *The semielasticity of deposits of type  $j$  with respect to market rate  $f$  is:*

$$-\frac{\partial D_j}{\partial f} \frac{1}{D_j} = \frac{1}{f} \rho_j, \quad j \in \{L, H\}. \quad (\text{A12})$$

Following an increase in the market rate  $f$ , deposits decrease as long as  $\rho_j > 0$ . The semielasticity is increasing in  $\rho_j$ :

$$\frac{\partial}{\partial \rho_j} \left( -\frac{\partial D_j}{\partial f} \frac{1}{D_j} \right) = \frac{1}{f} > 0. \quad (\text{A13})$$

In particular, since  $\rho_L < \rho_H$ , deposits of type  $L$  respond less to changes in market rates than

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<sup>28</sup>Again, I let  $\lambda \rightarrow 0$  to obtain a closed-form solution. For the results on flows, I follow DSS (2017) and scale deposits by  $\lambda^\rho W$ . In unreported results, I solve the model more generally with  $\lambda > 0$  and show numerically that the results are similar.

deposits of type  $H$ :

$$-\frac{\partial D_L}{\partial f} \frac{1}{D_L} < -\frac{\partial D_H}{\partial f} \frac{1}{D_H}. \quad (\text{A14})$$

Together, [Proposition A1](#) and [Proposition A2](#) show the key prediction of this model: inattention (modeled in reduced form as low elasticity of substitution between liquidity and wealth) leads to lower deposit betas and lower deposit outflows in response to monetary rate hikes. This is not the case for concentration ( $\mathcal{M}$ ), which leads to lower deposit betas but does not affect deposit outflows.<sup>29</sup>

One implication of [Proposition A2](#) is that the composition of low- vs high-elasticity depositors matters for the aggregate deposit response to changes in market rates. The more deposits are held by low-elasticity depositors, the lower the aggregate deposit response to changes in market rates, as the following corollary shows.

**Corollary A1 (Aggregate deposits response to rate changes).** *The semielasticity of aggregate deposits with respect to market rate  $f$  is:*

$$-\frac{\partial D}{\partial f} \frac{1}{D} = \frac{1}{f} \left( \frac{\alpha_L D_L}{D} \rho_L + \frac{\alpha_H D_H}{D} \rho_H \right). \quad (\text{A15})$$

Given that  $\rho_L < \rho_H$ , the semielasticity is increasing in the population weight of high-elasticity depositors  $\alpha_H$ .

Corollary [A1](#) shows that if more deposits are held by high-elasticity depositors, then aggregate deposits respond more strongly to changes in market rates and, therefore, the deposits channel of monetary policy is stronger.

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<sup>29</sup>The result that equilibrium deposit flow semielasticity with respect to monetary rate does not depend on market concentration  $\mathcal{M}$  is specific to this model; in more general models, deposit outflows can depend on market concentration. In particular, allowing banks to invest in loans with positive but diminishing lending spreads over monetary rate  $f$  (as in DSS (2017) Section IV.B) makes deposit outflows depend on market concentration, with larger outflows in more concentrated markets. I show this numerically in unreported results.

## Appendix B. Data construction

**Income statement data.** Income statement data is reported cumulatively year-to-date. That means, for example, that the total interest expense reported in 1995Q3 is interest paid in January-September of 1995. I convert these year-to-date values to quarterly interest expenses as follows:

$$\text{Interest expense}_{it}^{Qrt} = \text{Interest expense}_{it}^{ytd} - \text{Interest expense}_{i,t-1}^{ytd}.$$

I convert all other income statement variables to quarterly frequency in the same way. This approach is generally robust and popular in the literature (Drechsler, Savov, and Schnabl 2017, 2020; d'Avernas et al. 2024), but it may result in unreasonably large or low implied rates because of the lumpy nature of certain interest income and expense items (e.g., interest on time CD is payed only at maturity). This can be problem, especially for the smaller banks. I deal with this by using an algorithm that determines abnormal 1-quarter drops or hikes in the income/expense rates (where abnormal is defined as one-quarter increase/decrease above 2 percentage points) and replacing the abnormal values with the average of the two neighboring values.

**Concentration.** I compute local deposit concentration at the holding company level, keeping all depository institutions (i.e., commercial banks, savings banks, savings and loan associations, cooperative banks). Before computing local market concentration, I remove the largest branches of banks that have a lot of brokered deposits (2 standard deviations above the average), as well as the branches of banks that have a lot of deposits per branch (2 standard deviations above the average). The idea is to filter out branches that do not, in reality, source deposits in that particular market. For example, Wells Fargo Bank NA (3rd largest bank in the US as of 2023) is headquartered in Sioux Falls, SD—a city with population of 209,289 people as of 2023. Yet, Wells Fargo's Sioux Falls branch posted \$295.8 billion deposits in that branch (22% of its total deposits) in 2023. This can happen under the SOD instructions if, for example, these are corporate deposits which Wells Fargo assigns to headquarters for “compensation or similar purposes”<sup>30</sup>. Similarly, there are online banks or credit card banks or similar institutions which source mainly wholesale deposits from outside the area their branches are located in. My approach accounts for this in computing local deposit market concentration.

As a baseline, I compute concentration measures at the “market” level, meaning either

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<sup>30</sup><https://www.fdic.gov/resources/bankers/call-reports/summary-of-deposits/2023-sod-instructions.pdf>

MSA if a county belongs to an MSA or a county if it does not. Since MSA boundaries change substantially over time, I use provided latitude and longitude of bank branches (and geocode these for the 1975-1993 historical SOD data), together with MSA maps from the Nation Historical Geographic Information System (NHGIS) to assign branches to historically accurate MSAs. For robustness, I compute a county-level HHI using banks (not bank holding companies) as the aggregation units.

**Bank bond data.** I use FISD to obtain the initial sample of corporate bonds issued by banks. I use TRACE-CRSP crosswalk from Wharton Research Data Services (WRDS) to assign PERMCOs to FISD, and use the CRSP-FRB Link from the Federal Reserve Bank of New York<sup>31</sup> to merge in bank regulatory ID numbers. I focus on the subset of bonds thus matched as the set of bonds issued by banks. I then retrieve pricing data on these bonds from TRACE, following the cleaning routine of Scheuch et al. (2024)<sup>32</sup>. I aggregate the resulting date to daily frequency using trading volume as weights. For each bond, I compute yield to maturity (YTM) given bond characteristics, and then subtract maturity-matched Treasury yield computed from the estimated model of [Gürkaynak, Sack, and Wright \(2007\)](#). I aggregate the resulting spreads to monthly and quarterly levels by taking means and medians, checking that the results are robust to either one of these choices.

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<sup>31</sup>[https://www.newyorkfed.org/research/banking\\_research/crsp-frb](https://www.newyorkfed.org/research/banking_research/crsp-frb)

<sup>32</sup>Scheuch, C., Voigt, S., Weiss, P., & Frey, C. (2024). Tidy Finance with Python (1st ed.). Chapman and Hall/CRC <https://www.tidy-finance.org>

## **Appendix C. Premium and relationship deposit products**

Banks use “premium” and “relationship” deposit products to attract high-value customers and deepen engagement across multiple financial services. Premium deposit accounts reward customers for meeting high minimum balance requirements, offering benefits such as lower or waived fees, higher interest rates, and enhanced services. These products target affluent customers with balance thresholds ranging from \$20,000 to \$250,000: HSBC Premier requires \$100,000 in deposits and investments, Wells Fargo Premier requires \$250,000, and Citigold requires \$200,000 in combined balances. Benefits include waived foreign exchange and wire transfer fees, loan interest rate discounts, and relationship rates on linked savings accounts and CDs.<sup>33</sup>

For depositors with large balances, these premium and relationship requirements are effectively non-binding. A customer maintaining \$1 million in deposits would automatically qualify for premium status at any major bank, as the highest thresholds (\$250,000) represent only one-quarter of such balances. Similarly, relationship banking requirements—maintaining multiple accounts with the same institution—are naturally satisfied by large-balance customers who typically hold checking, savings, and investment accounts.<sup>34</sup> Consequently, when comparing accounts across balance levels—such as a \$1 million account versus a \$2,500 account—the relevant distinction is the balance itself rather than the nominal “premium” or “relationship” designation.

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<sup>33</sup><https://www.cnbc.com/select/best-premium-checking-accounts/>  
<https://www.wellsfargo.com/premier/>  
<https://account.chase.com/sapphire/brand>

<sup>34</sup><https://www.chase.com/personal/banking/education/basics/relationship-banking>

## **Appendix D. Discussion of banks' deposit pricing strategies**

In addition to balance-tiered pricing discussed in the main text, banks use highly discontinuous pricing strategies for their CDs. [Figure A14](#) shows screenshots of posted CD rates at select large banks as of early 2024 and at Bank of America in late 2018. The screenshots show that banks post a few discrete rates for CDs with different maturities, and these rates are highly discontinuous across balance tiers. For example, as of July 2024, JPMorgan Chase posted a CD rate (APY) of 4.25% for “featured terms” of 2 months and 9 months; but a rate of 2% on 12-month CDs. Similarly, in December 2018 Bank of America posted a 37-month CD rate of 2.2%, but a rate of 0.55% on all other tenors between 36 and 47 months.

These highly abrupt and discontinuous patterns cannot be explained by varying term premia or yield curve shape. Instead, they might reflect banks’ strategic decisions to attract deposits at specific maturities that align with their asset-liability management needs, as well as exploiting inattention of certain depositors to these discontinuities.

## Appendix E. Additional figures and tables

Figure A1. Large deposits and non-household deposits shares over time

This figure plots the share of large deposits (left panel) and non-household deposits (right panel) over time. The sample is all U.S. commercial banks for the period 1982Q2-2024Q1. Large deposits are defined in [Section 3](#). Non-household deposits are defined as total deposits minus household deposits, with data from Financial Accounts of the United States available from [the Federal Reserve](#).

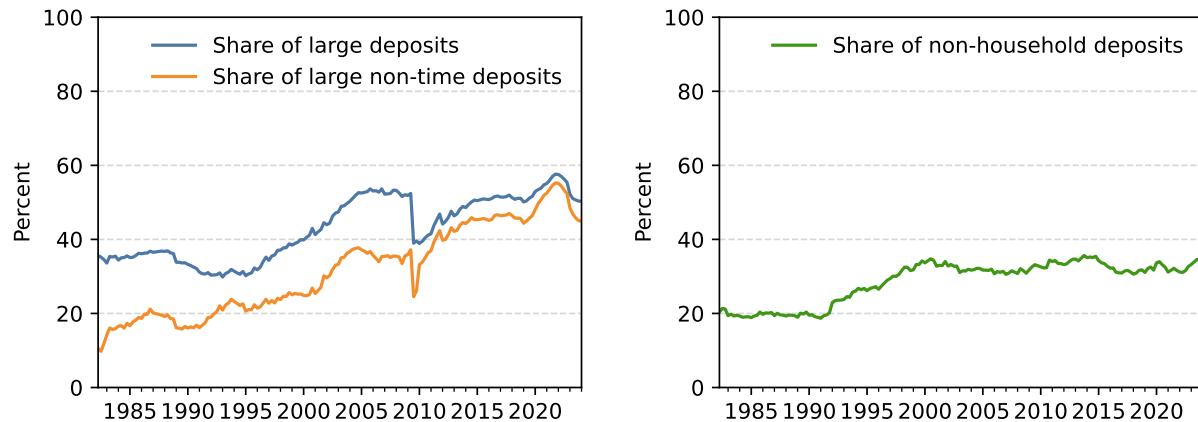


Figure A2. Effective federal funds rate and monetary policy cycles

This figure plots the quarterly average of the effective federal funds rate from 1975Q1 to 2024Q1. The red areas highlight monetary policy tightening cycles, defined as periods when the federal funds rate increases from a local trough to a local peak. The green areas highlight monetary policy easing cycles, defined as periods when the federal funds rate decreases from a local peak to a local trough.

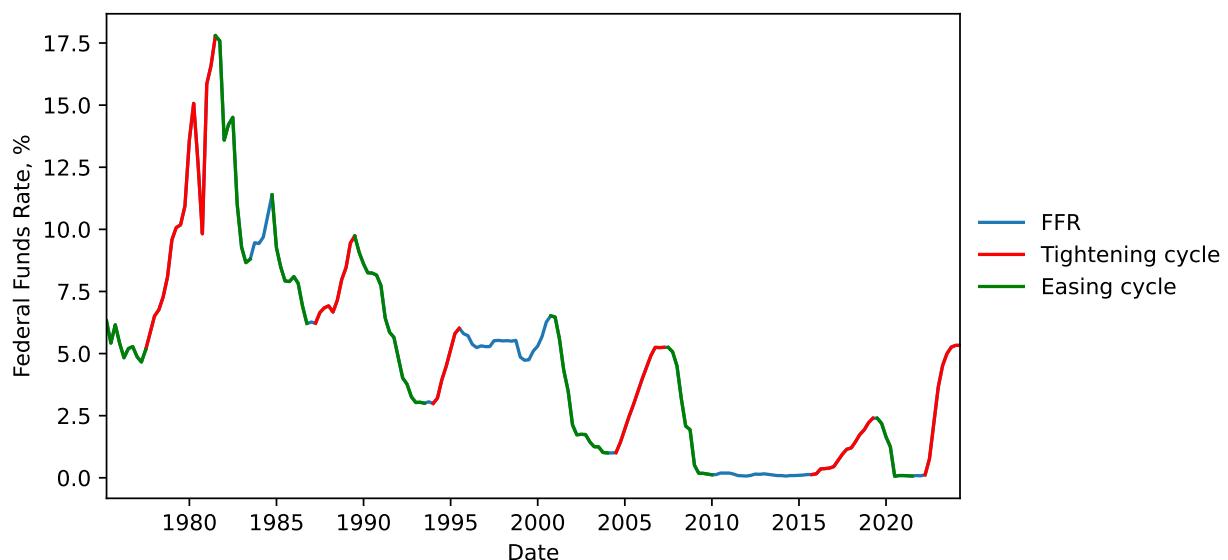


Figure A3. Deposit expense betas by share of large deposits, 1975-2024: Easing cycles

This figure is similar to [Figure 1](#), but for monetary policy easing cycles. The sample is all U.S. commercial banks for the period 1975Q1-2024Q1.

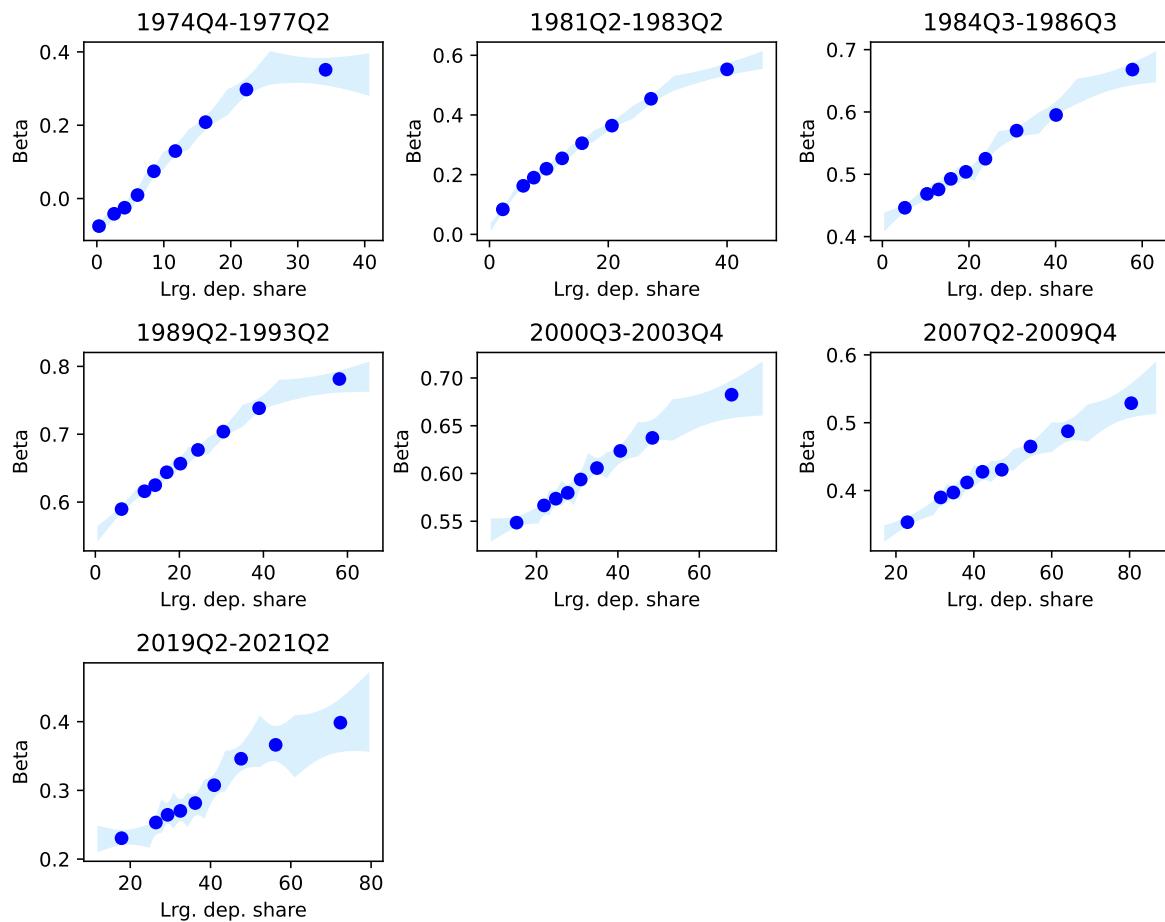


Figure A4. Deposit expense betas by share of large deposits, 1975-2024: Controlling for local deposit market concentration and age

This figure is similar to [Figure 1](#), but controls for bank age and local deposit market concentration as measured by HHI.

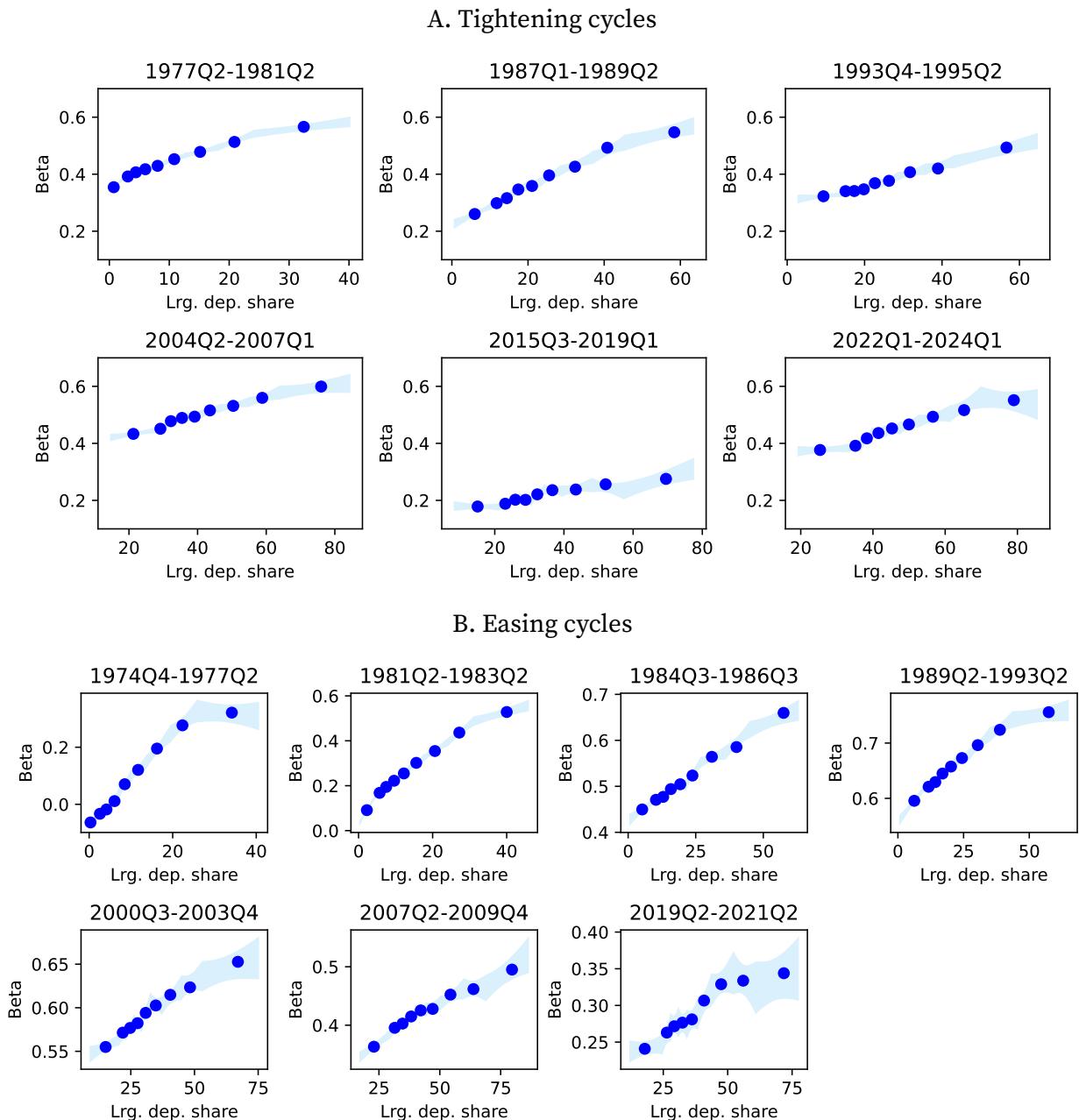


Figure A5. Savings deposit expense betas by share of large deposits

This figure is similar to [Figure 1](#), but for savings deposits expense betas. The sample is all U.S. commercial banks for the period 1987Q1-2024Q1 because interest expense on savings deposits is reported only since 1987Q1.

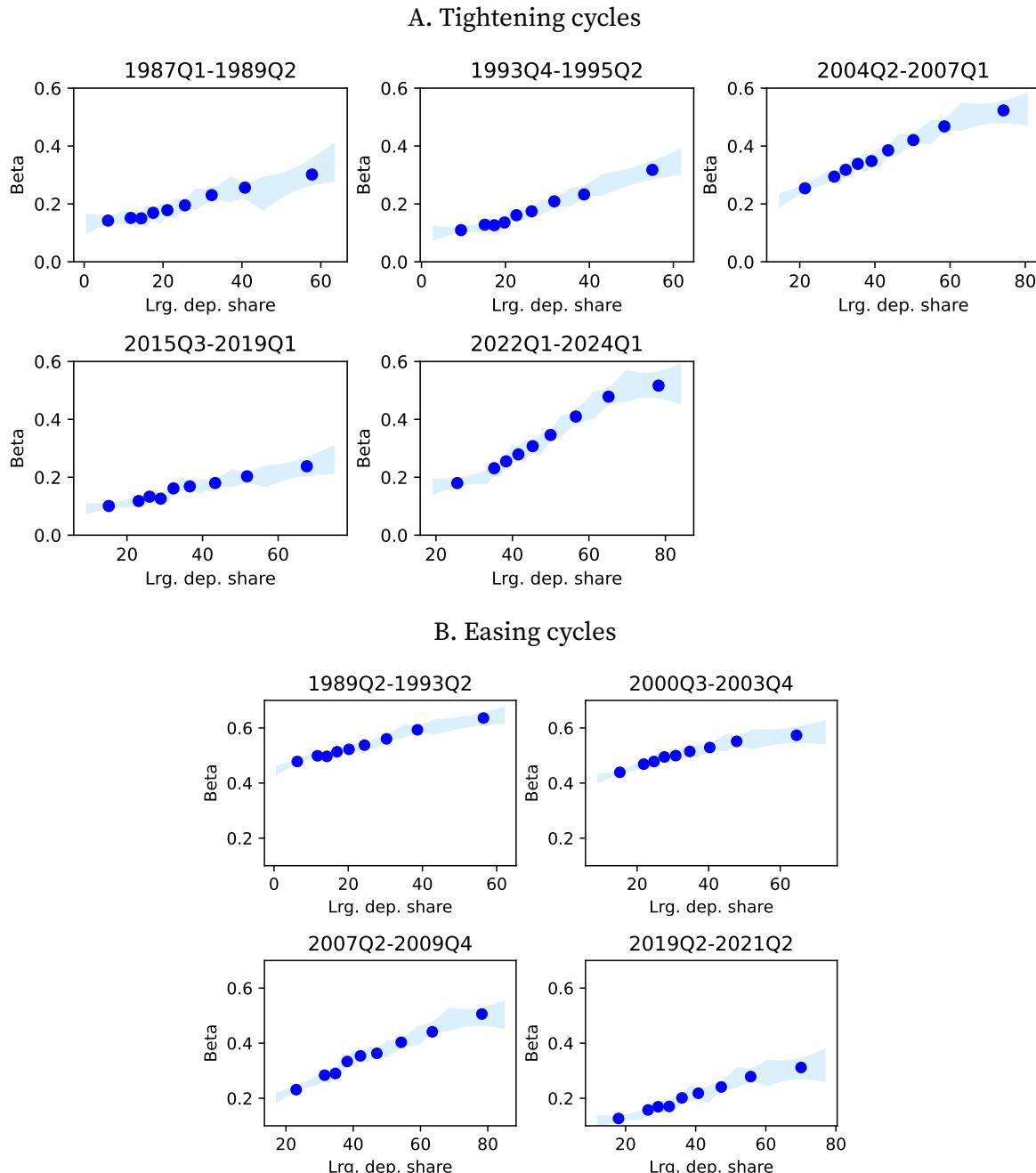


Figure A6. Time deposit expense betas by share of large deposits

This figure is similar to [Figure 1](#), but for time deposits expense betas. The sample is all U.S. commercial banks for the period 1987Q1-2024Q1 because interest expense on time deposits is reported only since 1987Q1.

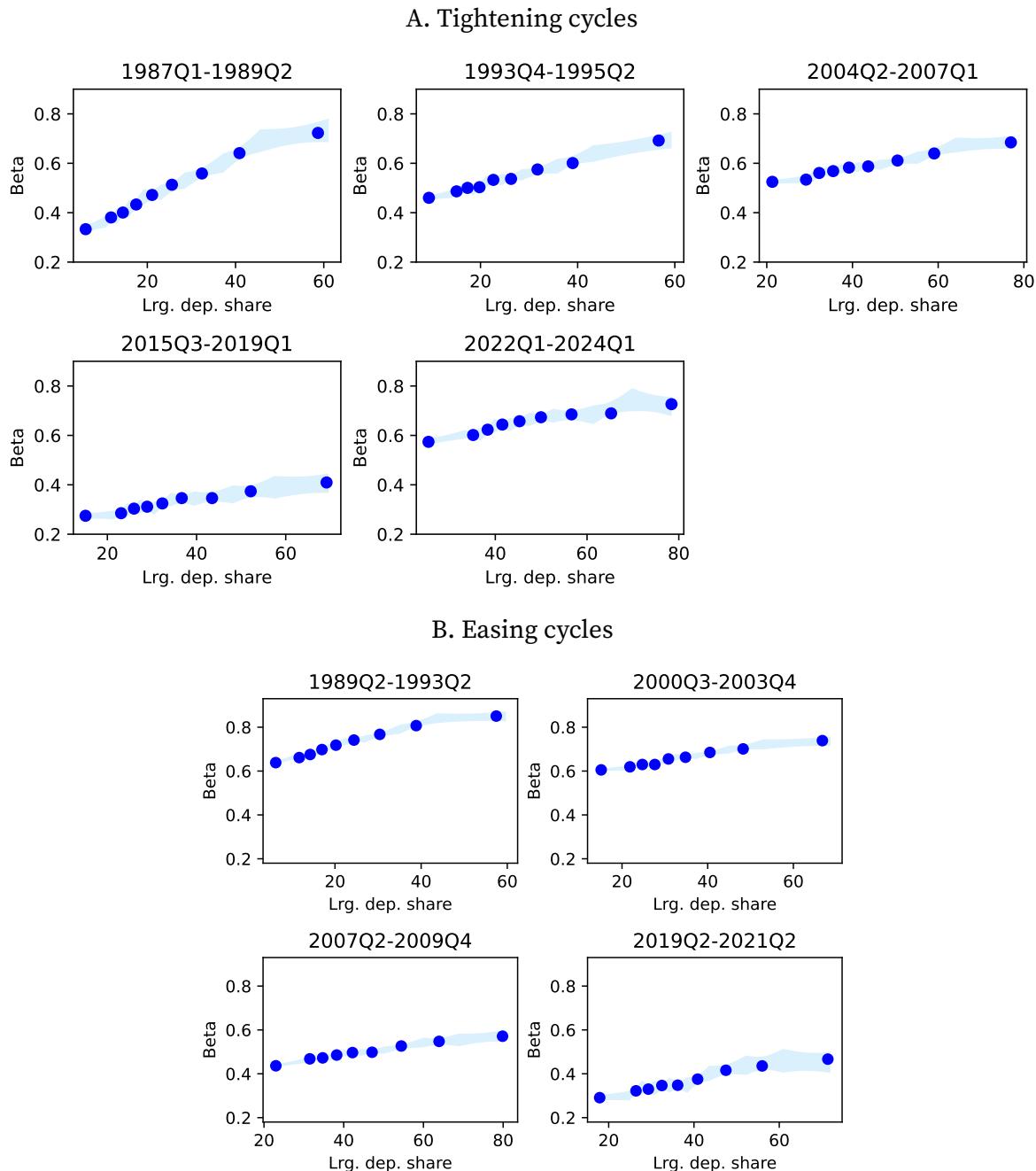


Figure A7. Total deposit expense rates at the start and end of tightening cycles by share of large deposits

This figure plots binscatters of total deposit expense rates by share of large deposits. On the  $x$ -axis, banks are grouped into bins as in [Figure 1](#). Blue dots show the average deposit expense rate at the beginning of each monetary policy cycle, and red dots show the average deposit expense rate at the end of each cycle. Dashed blue line shows the level of the short rate (3-month Treasury yield) at the start of the cycle, and the dashed red line shows the level at the end of the cycle. The sample is all U.S. commercial banks for the period 1975Q1-2024Q1.

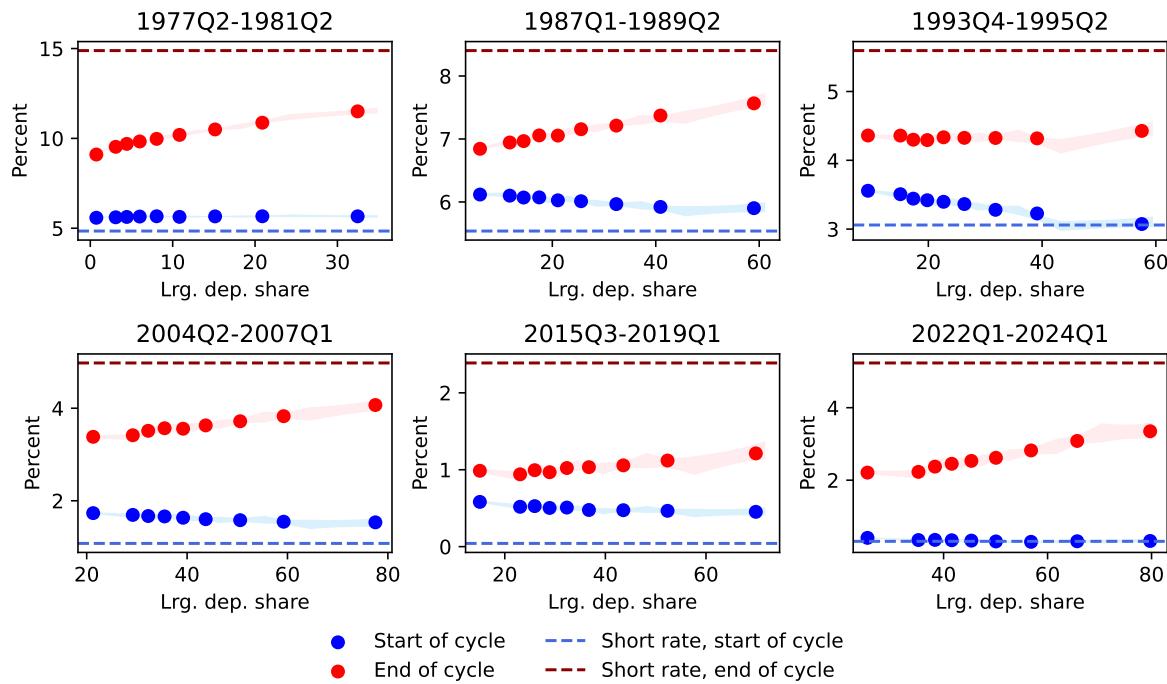


Figure A8. Impulse response function of deposit subset expense rates to a short rate change by share of large deposits

This figure is similar to [Figure 2](#), but plots IRFs for deposit subsets: core deposits (Panel A), savings deposits (Panel B), and time deposits (Panel C).

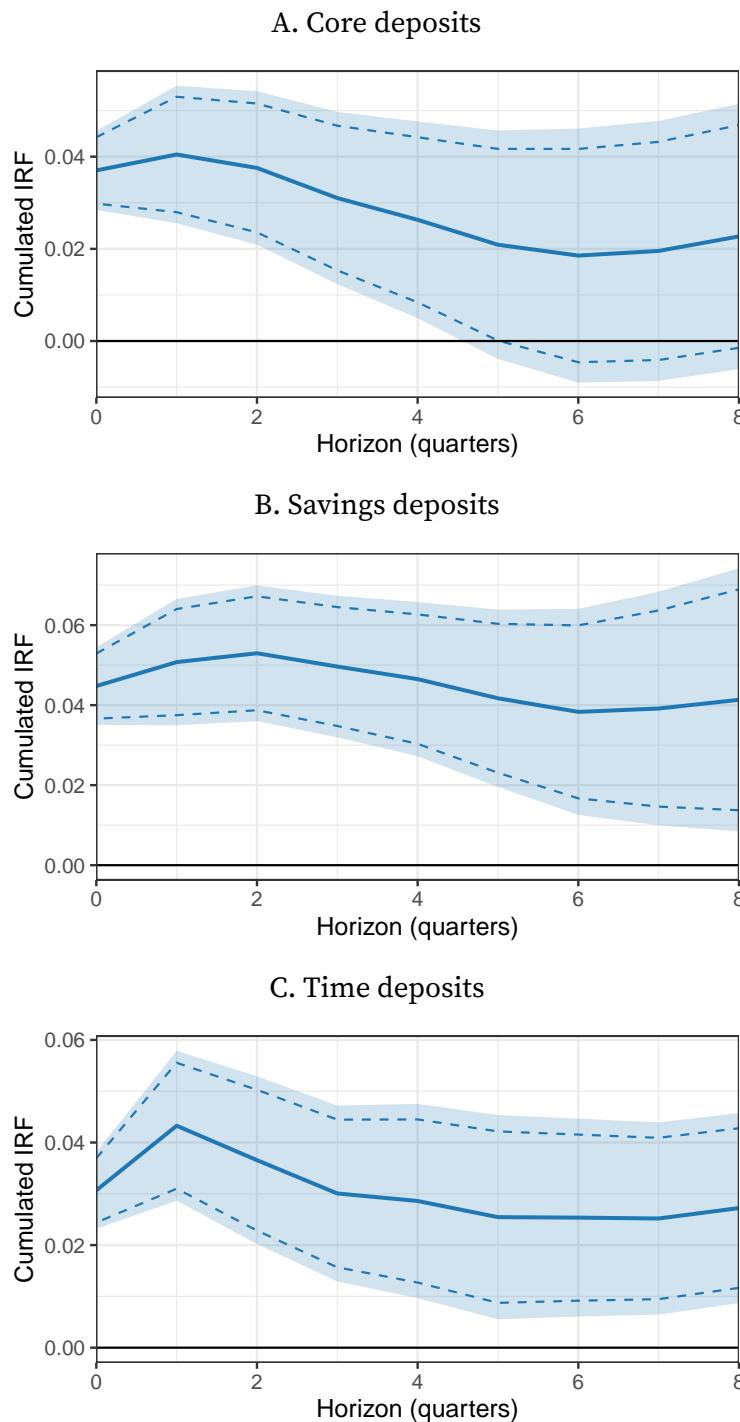
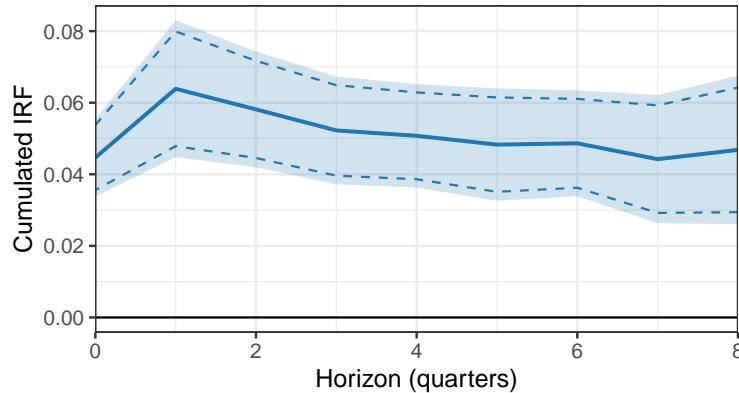


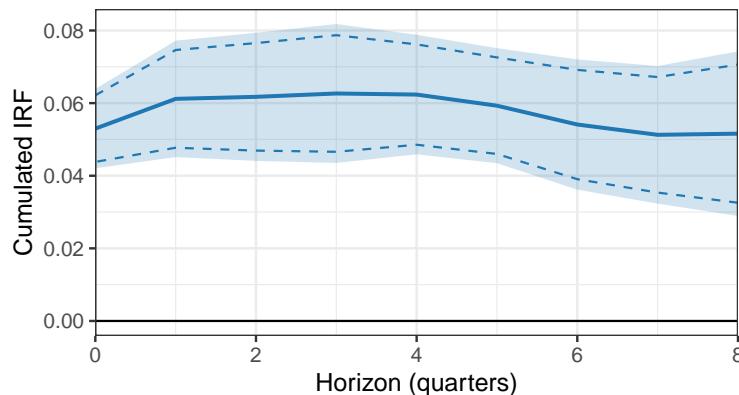
Figure A9. Impulse response function of deposit expense rates to a short rate change by share of large deposits: Top-10% sample

This figure is similar to [Figure 2](#), but plots IRFs for the sample of banks that are in the top 10% of banks by total assets at least 5% of the time when this bank is in the sample. Panel A shows results for total deposits, Panel B for savings deposits, and Panel C for time deposits.

A. Total deposits



B. Savings deposits



C. Time deposits

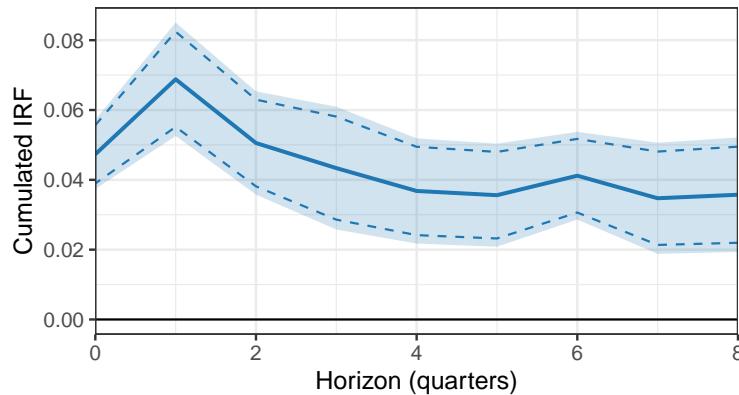
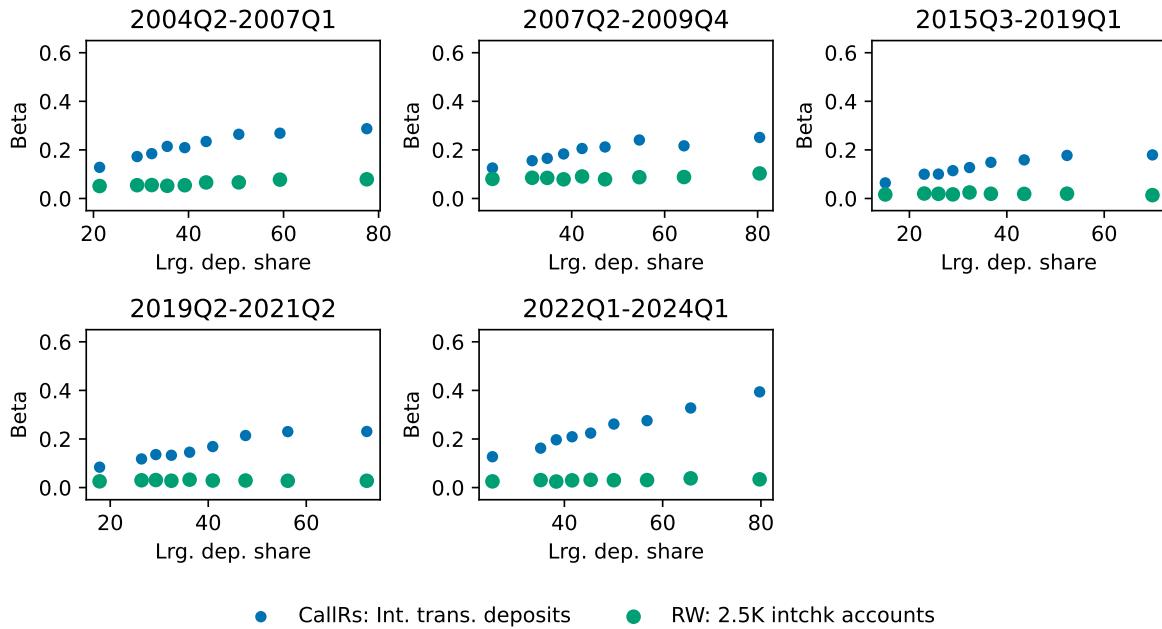


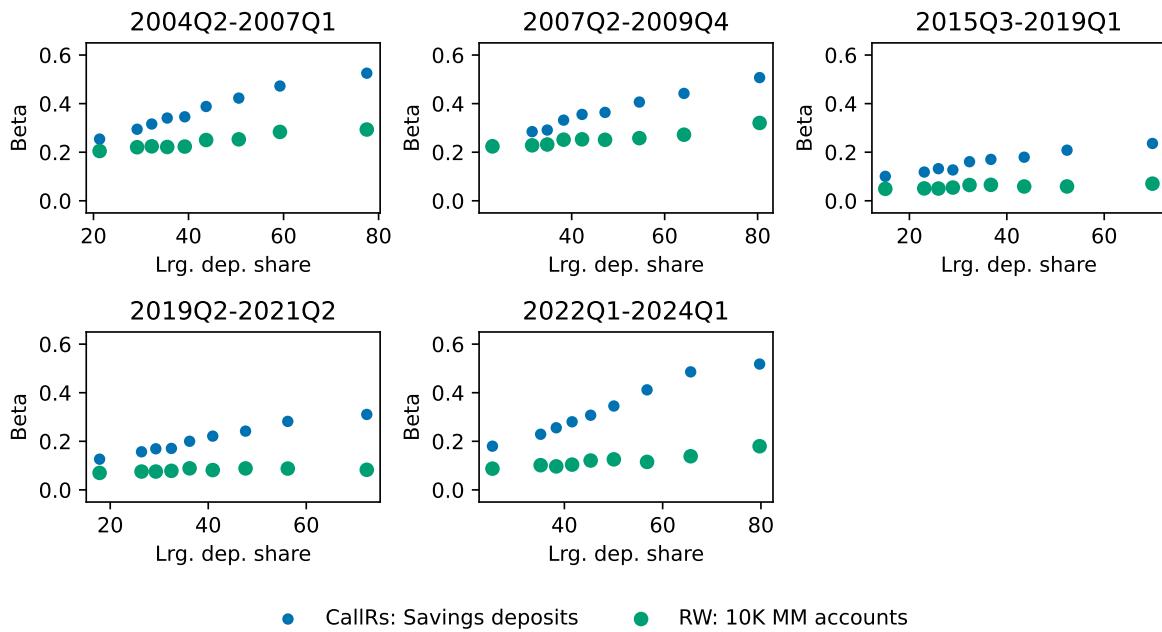
Figure A10. Call report deposit expense betas vs Ratewatch small deposit betas by share of large deposits: other retail deposit products

This figure is similar to [Figure 3](#), but for interest-bearing checking accounts with minimum balance of \$2,500 (Panel A), money market deposit accounts with minimum balance of \$10,000 (Panel B), and 12-month certificates of deposit (CDs) with minimum balance of \$10,000 (Panel C).

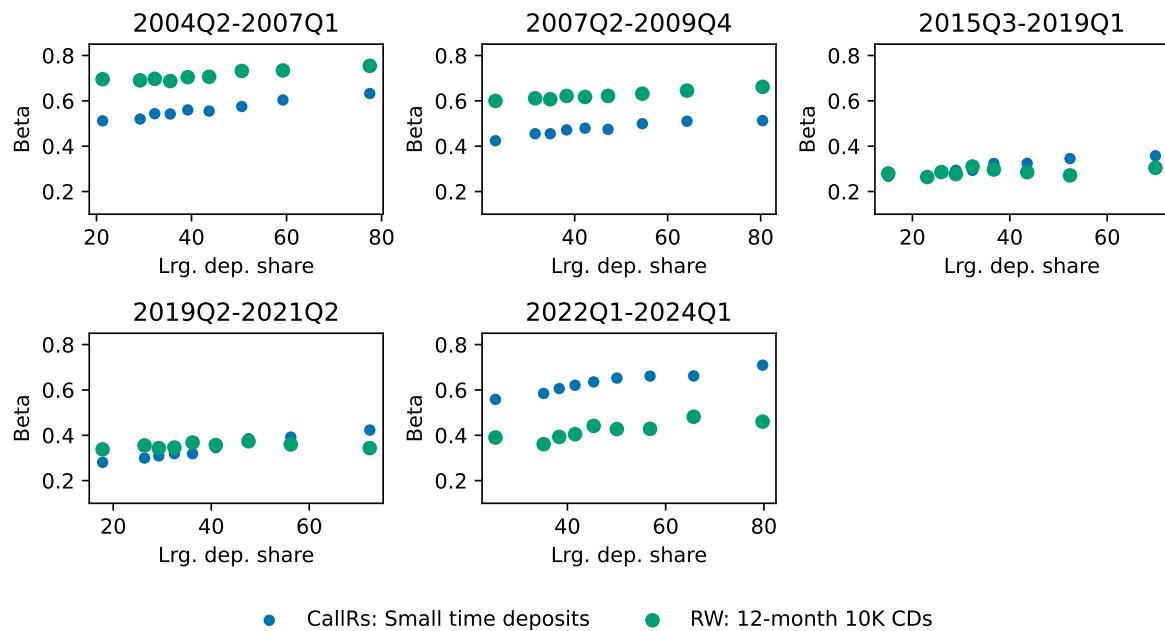
A. Interest checking accounts (\$2.5K minimum)



B. Money market deposit accounts (\$10K minimum)



C. 12-month certificates of deposit (\$10K minimum)

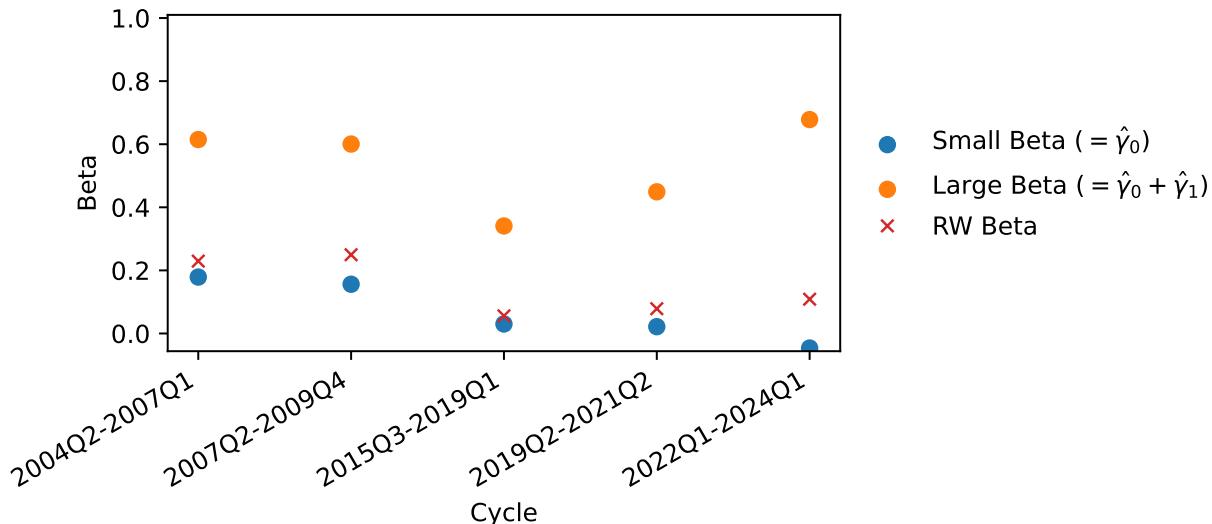


● CallRs: Small time deposits   ● RW: 12-month 10K CDs

Figure A11. Inferred deposit expense betas for small and large deposits by monetary policy cycle: Deposit subtypes

This figure is similar to [Figure 4](#), but for savings deposits (Panel A) and interest-bearing transaction deposits (Panel B).

A. Savings deposits



B. Interest-bearing transaction deposits

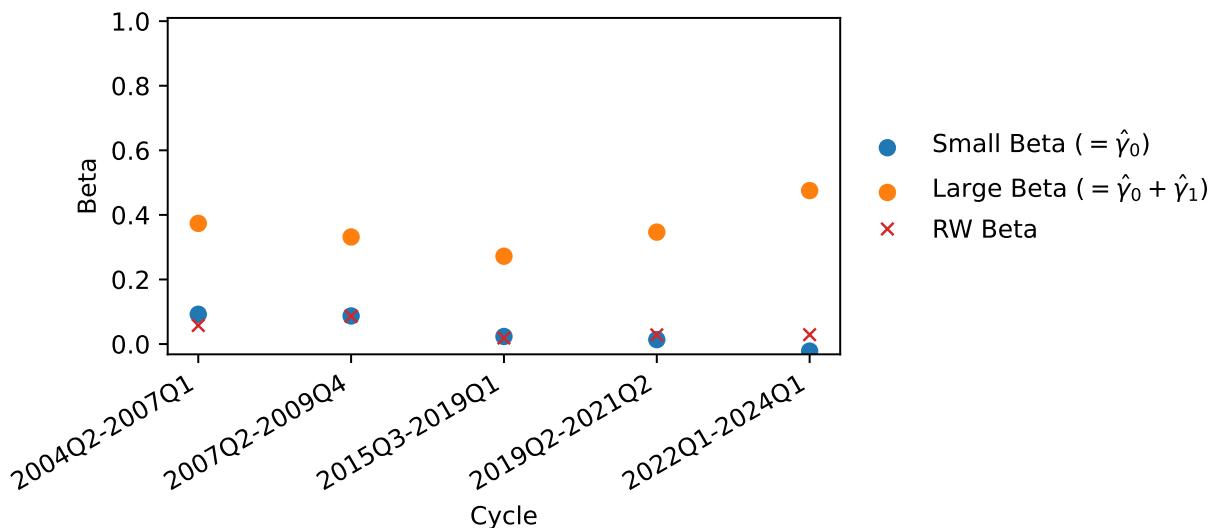


Figure A12. Inferred deposit expense betas for small and large deposits by monetary policy cycle: 1984-2024

This figure is similar to [Figure 4](#), but for the 1984-2024 sample period. I start this analysis in 1984 because this is when total deposits start being broken down into large and small deposits. In [Figure 1](#) and other similar figures, I use the sample starting in 1975 by proxying large deposits share with large time deposits share. This procedure introduces additional measurement error in this exercise, leading to estimated large deposit betas above 1.

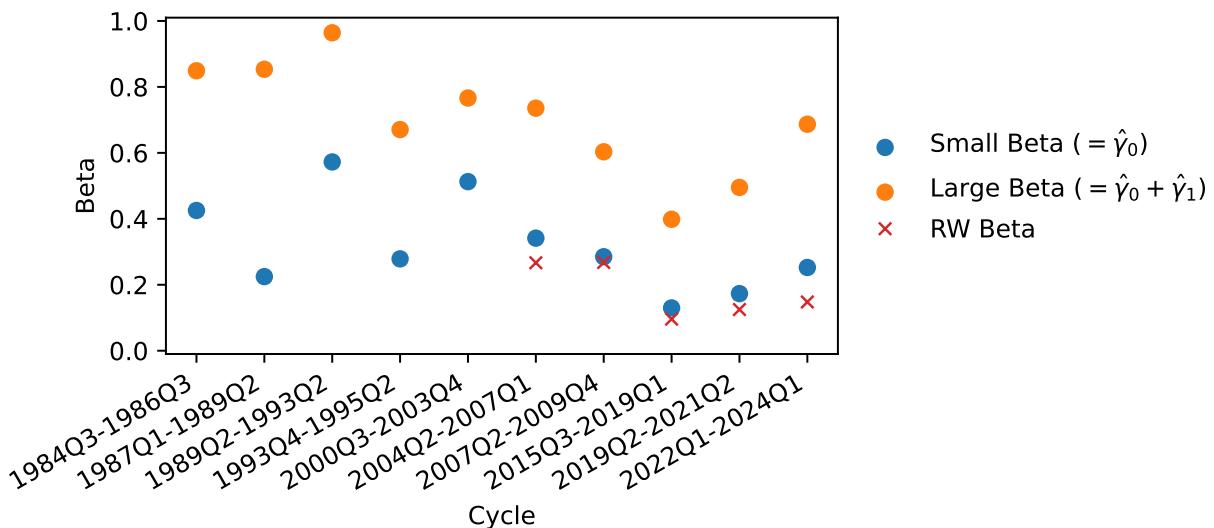


Figure A13. Screenshot of posted savings deposit rates from Wells Fargo website, March 2024

This figure shows posted savings deposit rates from the Wells Fargo website as of March 2024. The rates are hand-collected from the bank's website using Internet Archive's Wayback Machine.

| Balance                  | Standard Interest Rate | <u>Annual Percentage Yield (APY)</u> |
|--------------------------|------------------------|--------------------------------------|
| \$0 - \$99,999.99        | 0.25%                  | 0.25%                                |
| \$100,000 - \$499,999.99 | 1.00%                  | 1.01%                                |
| \$500,000 - \$999,999.99 | 1.98%                  | 2.00%                                |
| \$1,000,000 or more      | 2.47%                  | 2.50%                                |

### Figure A14. Screenshots of posted CD rates at select banks

This figure shows posted CD rates from select banks on select dates. The rates are hand-collected from the banks' websites and <https://www.depositaccounts.com> using Internet Archive's Wayback Machine.

#### A. JPMorgan Chase, July 2024

| Months (m) / Days (d) | New CD/<br>Term Change | Existing CD Auto<br>Renewal (m/d) | CD RELATIONSHIP RATES |       |                   |       | CD STANDARD RATES |       |                  |       |
|-----------------------|------------------------|-----------------------------------|-----------------------|-------|-------------------|-------|-------------------|-------|------------------|-------|
|                       |                        |                                   | \$1,000–\$9,999       |       | \$10,000–\$99,999 |       | \$100,000+        |       | \$1,000+         |       |
| Featured Terms        |                        |                                   | Interest<br>Rate      | APY   | Interest<br>Rate  | APY   | Interest<br>Rate  | APY   | Interest<br>Rate | APY   |
| 2m                    | 2 / 60 - 89            |                                   | 4.16%                 | 4.25% | 4.16%             | 4.25% | 4.64%             | 4.75% | 0.01%            | 0.01% |
| 6m                    | 6 - 8 / 180 - 269      |                                   | 2.96%                 | 3.00% | 2.96%             | 3.00% | 2.96%             | 3.00% | 0.01%            | 0.01% |
| 9m                    | 9 - 11 / 270 - 364     |                                   | 4.16%                 | 4.25% | 4.16%             | 4.25% | 4.64%             | 4.75% | 0.01%            | 0.01% |
| Other Terms           |                        |                                   |                       |       |                   |       |                   |       |                  |       |
| 1m                    | 1 / 31 - 59            |                                   | 0.02%                 | 0.02% | 0.02%             | 0.02% | 0.02%             | 0.02% | 0.01%            | 0.01% |
| 3m                    | 3 - 5 / 90 - 179       |                                   | 1.98%                 | 2.00% | 1.98%             | 2.00% | 1.98%             | 2.00% | 0.01%            | 0.01% |
| 12m                   | 12 - 14 / 365 - 454    |                                   | 1.98%                 | 2.00% | 1.98%             | 2.00% | 1.98%             | 2.00% | 0.01%            | 0.01% |

#### B. Bank of America, December 2018

##### Bank of America CD Rates

| APY                      | MIN   | MAX | ACCOUNT NAME        |
|--------------------------|-------|-----|---------------------|
| <b>2.20%</b>             | \$10k | -   | 37 Month CD Special |
| <b>1.85%<sup>†</sup></b> | \$10k | -   | 25 Month CD Special |
| <b>1.75%<sup>†</sup></b> | \$10k | -   | 13 Month CD Special |
| <b>0.75%<sup>†</sup></b> | \$1k  | -   | 60 - 119 Month CD   |
| <b>0.75%<sup>†</sup></b> | \$1k  | -   | 120 Month CD        |
| <b>0.65%<sup>†</sup></b> | \$1k  | -   | 48 - 59 Month CD    |
| <b>0.55%<sup>†</sup></b> | \$1k  | -   | 36 - 47 Month CD    |
| <b>0.10%<sup>†</sup></b> | \$1k  | -   | 24 - 35 Month CD    |
| <b>0.07%<sup>†</sup></b> | \$1k  | -   | 18 - 23 Month CD    |
| <b>0.07%<sup>†</sup></b> | \$10k | -   | 12 Month CD Special |
| <b>0.05%<sup>†</sup></b> | \$1k  | -   | 12 - 17 Month CD    |
| <b>0.03%<sup>†</sup></b> | \$1k  | -   | 28 - 179 Day CD     |
| <b>0.03%<sup>†</sup></b> | \$1k  | -   | 6 - 11 Month CD     |

C. Bank of America, March 2024

### Bank of America CD Rates

| APY                      | MIN  | MAX | ACCOUNT NAME        |
|--------------------------|------|-----|---------------------|
| <b>4.75%<sup>†</sup></b> | -    | -   | 7 Month CD Special  |
| <b>4.30%<sup>†</sup></b> | -    | -   | 13 Month CD Special |
| <b>4.00%<sup>†</sup></b> | \$1k | -   | 90 - 179 Day CD     |
| <b>4.00%<sup>†</sup></b> | -    | -   | 12 Month CD Special |
| <b>3.20%<sup>†</sup></b> | -    | -   | 25 Month CD Special |
| <b>0.05%<sup>†</sup></b> | -    | -   | 37 Month CD Special |
| <b>0.05%<sup>†</sup></b> | -    | -   | 10 Month CD Special |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 28 - 179 Day CD     |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 6 - 11 Month CD     |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 12 - 17 Month CD    |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 18 - 23 Month CD    |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 24 - 35 Month CD    |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 36 - 47 Month CD    |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 48 - 59 Month CD    |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 60 - 119 Month CD   |
| <b>0.03%<sup>†</sup></b> | \$1k | -   | 120 Month CD        |

D. Fifth Third Bank, March 2024

### Fifth Third Bank (OH) CD Rates

| APY                      | MIN   | MAX    | ACCOUNT NAME            |
|--------------------------|-------|--------|-------------------------|
| <b>5.20%</b>             | \$5k  | -      | 4 Month Promo CD        |
| <b>5.00%<sup>†</sup></b> | \$5k  | -      | 6 Month Promo CD        |
| <b>4.30%<sup>†</sup></b> | \$5k  | -      | 12 Month Promo CD       |
| <b>3.50%<sup>†</sup></b> | \$5k  | -      | 24 Month Promo CD       |
| <b>0.01%<sup>†</sup></b> | -     | \$100k | 7-89 Day Standard CD    |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 3-6 Month Standard CD   |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 6-12 Month Standard CD  |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 12-24 Month Standard CD |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 24-36 Month Standard CD |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 36-48 Month Standard CD |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 48-60 Month Standard CD |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 60-84 Month Standard CD |
| <b>0.01%<sup>†</sup></b> | \$500 | \$100k | 84 Month Standard CD    |

Figure A15. Baa corporate bond spread and bank bond spreads, 1985-2024

This figure plots monthly average of Baa corporate bond spread relative to 10-year Treasury yield, sourced from FRED, in blue. In red, it plots maturity-matched bank bond spreads averaged across all banks with available data in a given month. The bank bond spreads are computed as described in [Appendix B](#). I plot the 3-month Treasury yield in black for reference. Below the chart, I show correlation between the two spreads and the FFR.

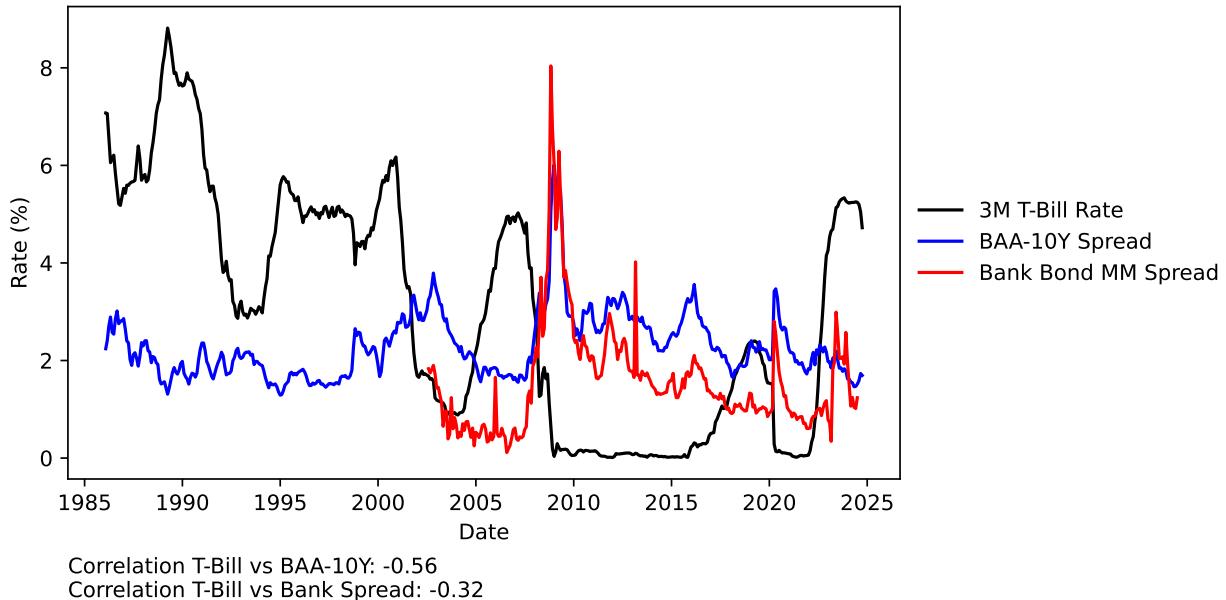


Figure A16. Bank bond spreads by large deposits share, 2004-2024

This figure plots binscatters similar to [Figure 1](#), but on the  $y$ -axis it plots median change in bank bond spreads over monetary policy tightening cycles in a given bin of large deposits share (Panel A), and median levels of bank bond spreads (Panel B). The sample is U.S. commercial banks with available bond spread data for the period 2004-2024.

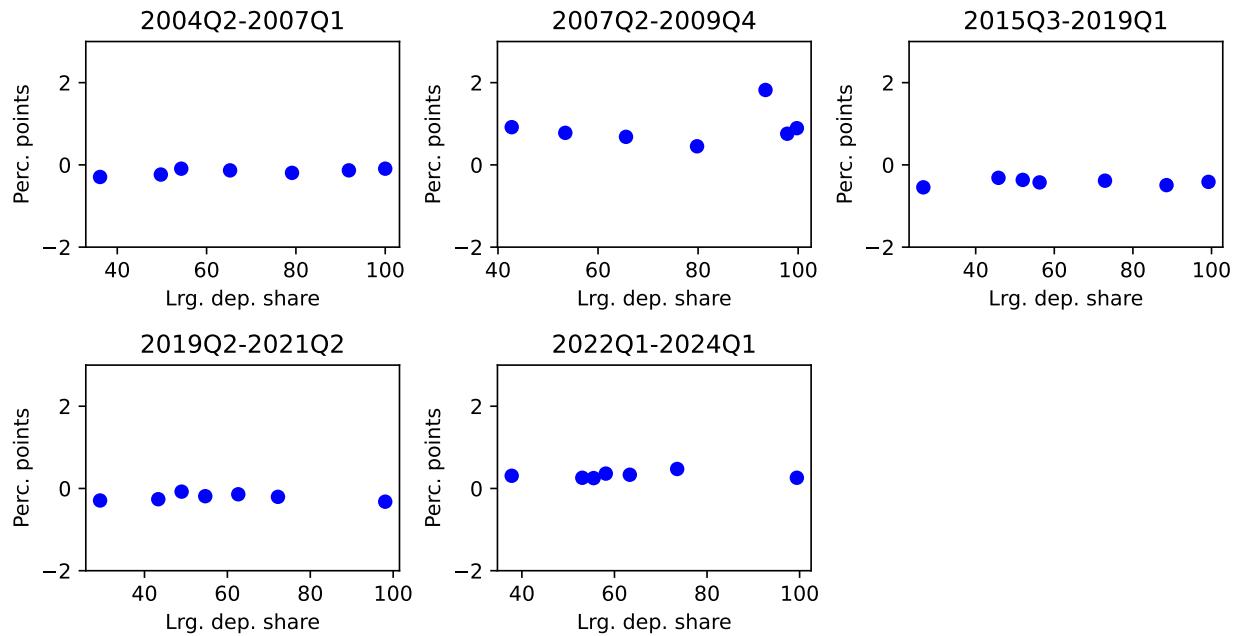


Figure A17. Bank bond spreads by large deposits share, 2004-2024: Levels at the start and end of monetary policy cycles

This figure is similar to [Figure A16](#), but it plots levels of bank bond spreads at the start and end of monetary policy cycles.

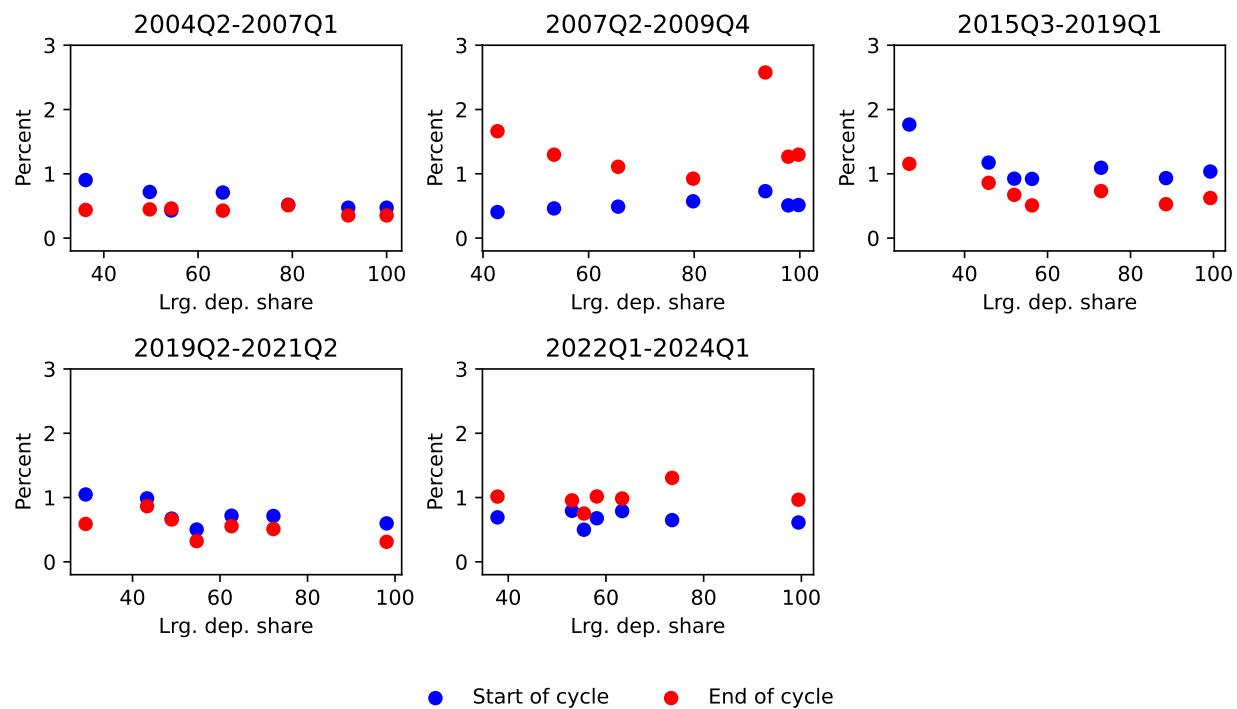
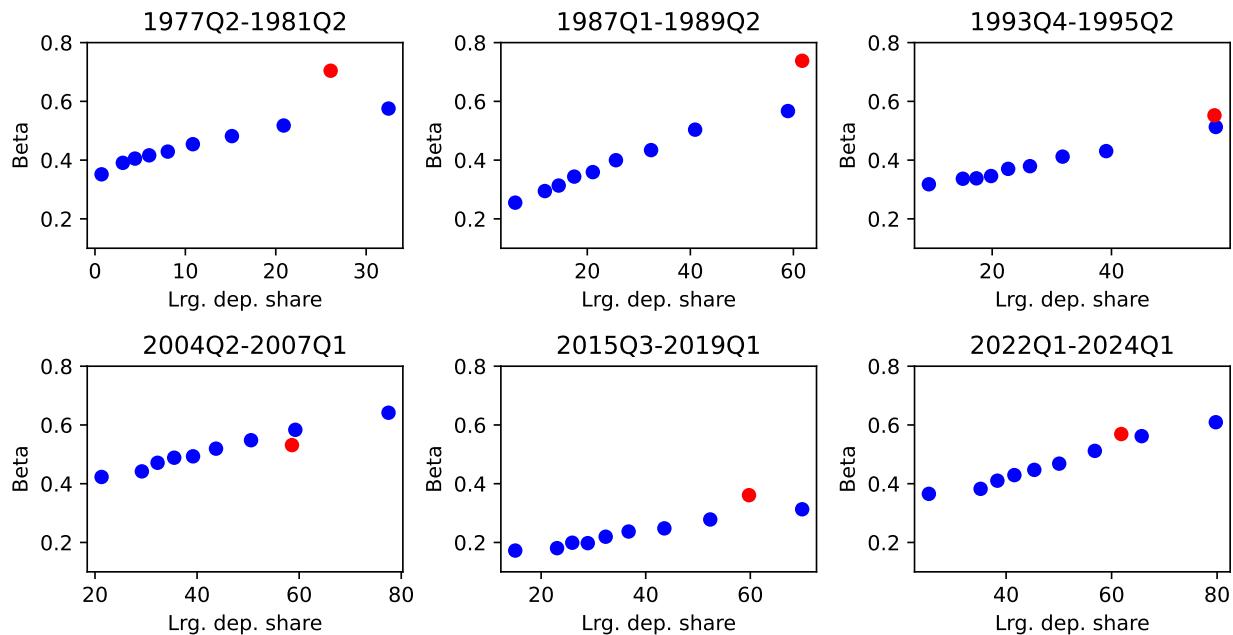


Figure A18. “Too-big-to-fail” banks, large deposits share, and deposit expense betas

Panel A plots binscatters similar to [Figure 1](#), but splits out largest 5 banks (by total assets) as of the beginning of each monetary cycle into their own bin, plotted in red. Panel A focuses on tightening cycles for exposition, results are similar for easing cycles. Panel B is similar to [Figure 3](#), but it also splits out the largest 5 banks into their own bin, plotted in red for Call Report betas and in orange for Ratewatch betas.

A. Call Report sample, total deposits



B. Ratewatch sample, savings deposits

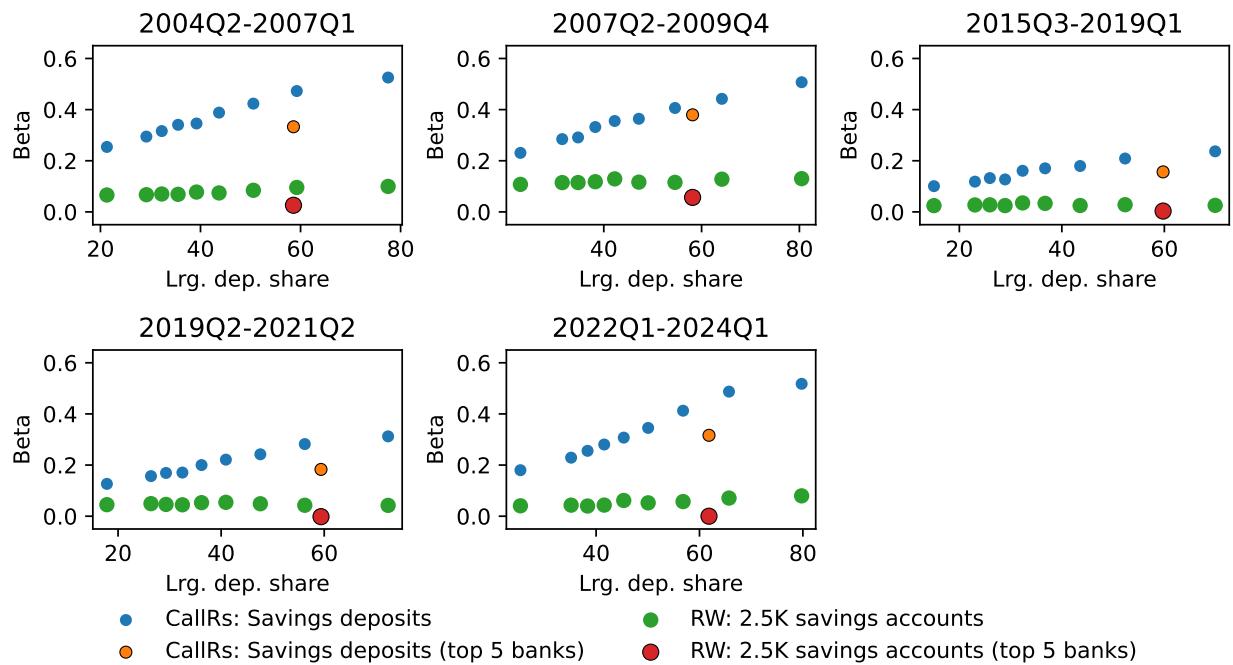


Figure A19. Aggregate deposit flow response to monetary policy shocks: High-frequency monetary shocks

This figure is similar to [Figure 7](#), but it plots IRFs to high-frequency monetary shocks from [Bauer and Swanson \(2023\)](#).

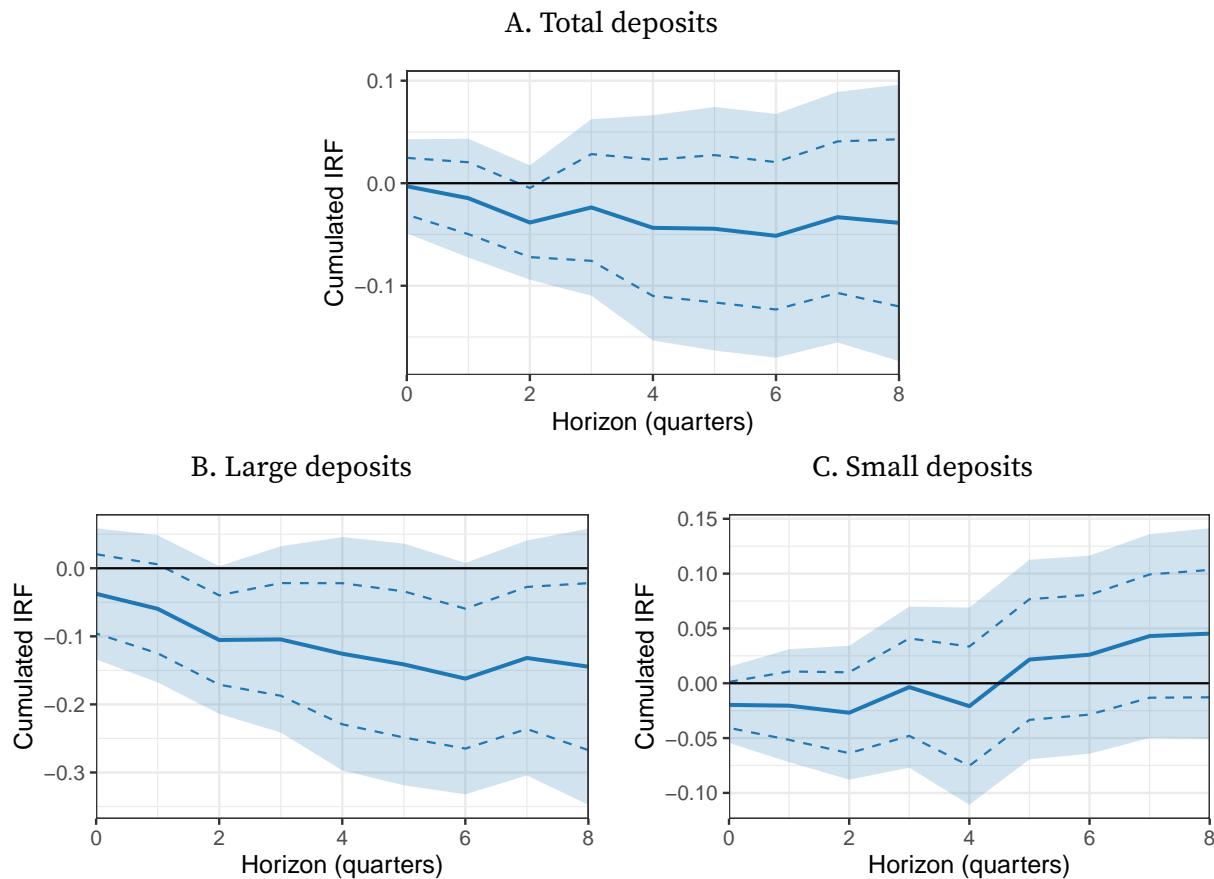


Figure A20. Time vs non-time deposits response to Romer & Romer (2004) monetary policy shocks

This figure is constructed similarly to [Figure 7](#), but it plots IRFs of total small deposits (Panel A), small non-time deposits (Panel B), small time deposits (Panel C), large deposits (Panel D), large non-time deposits (Panel E), and large time deposits (Panel F) to Romer and Romer (2004) monetary shocks.

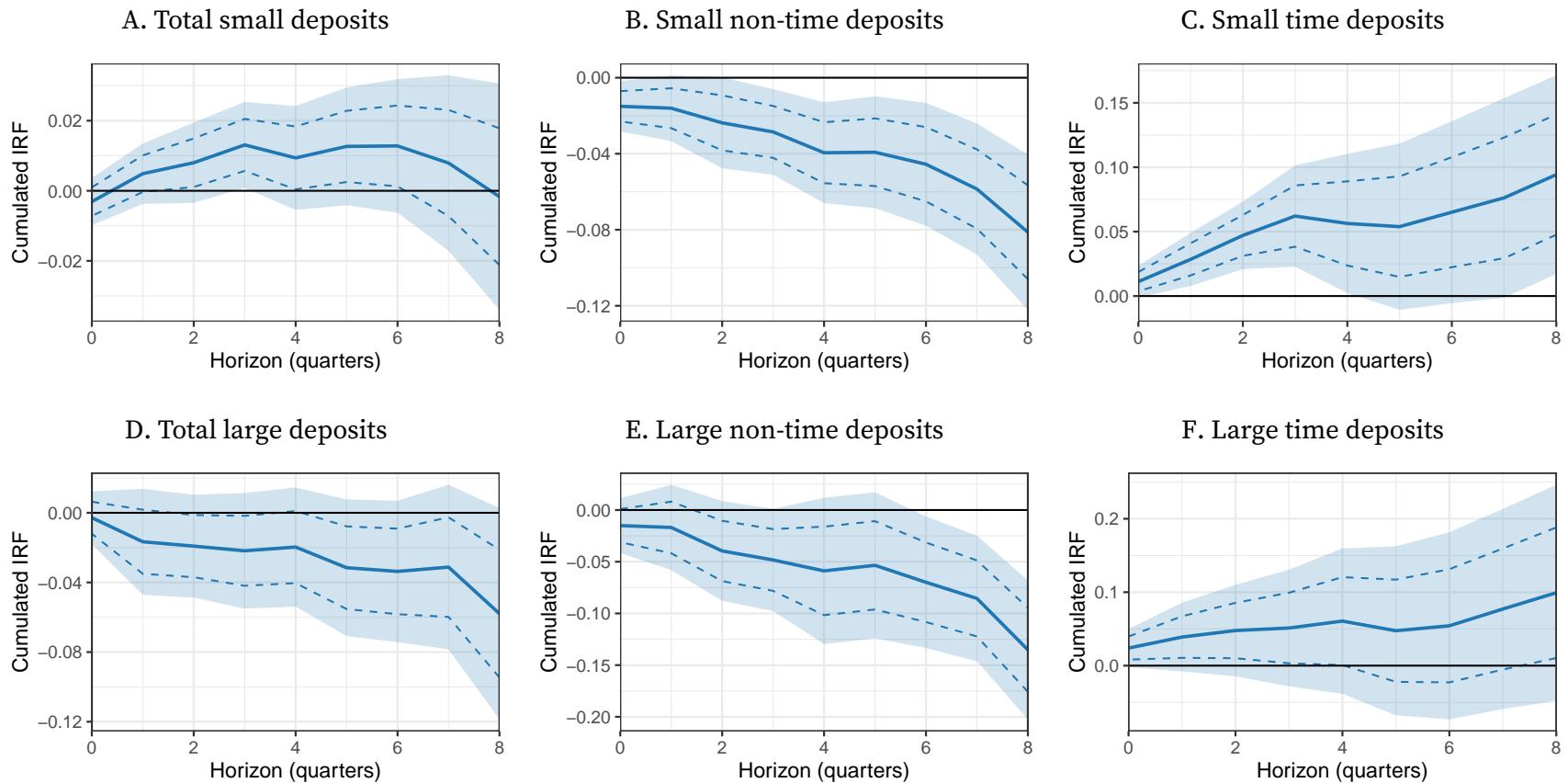


Figure A21. Time vs non-time deposits response to high-frequency monetary policy shocks

This figure is constructed similarly to [Figure 7](#), but it plots IRFs of total small deposits (Panel A), small non-time deposits (Panel B), small time deposits (Panel C), large deposits (Panel D), large non-time deposits (Panel E), and large time deposits (Panel F) to high-frequency monetary shocks of [Bauer and Swanson \(2023\)](#).

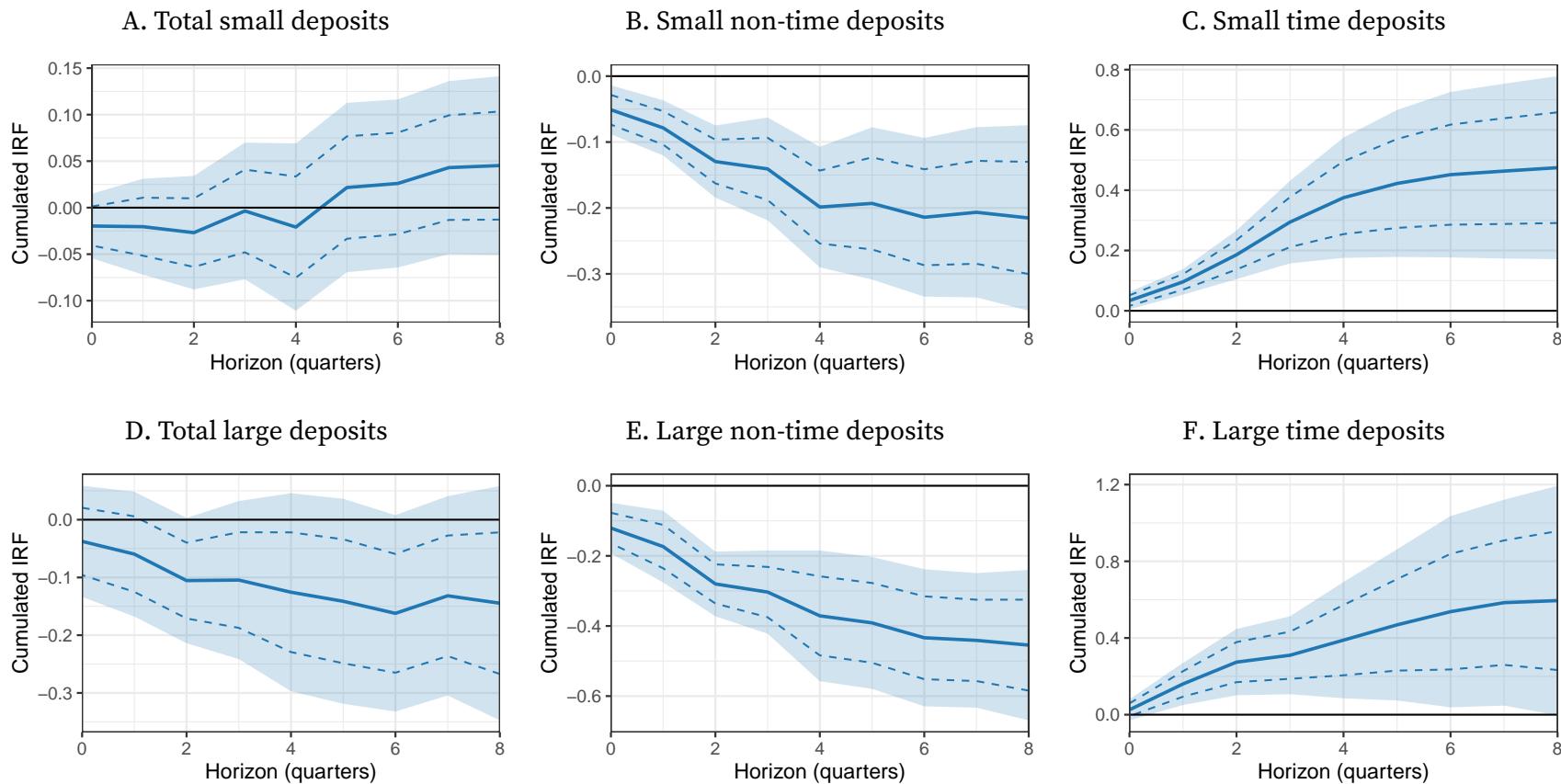


Figure A22. Large vs small deposits response to monetary policy shocks by bank size

This figure is constructed similarly to [Figure 7](#), but it plots IRFs of total deposits (left column), large deposits (middle column), and small deposits (right column) to Romer and Romer (2004) monetary shocks for large banks (Panel A, defined as banks that belong to top 5% by assets) and small banks (Panel B, defined as all other banks). See main text for further details on the data construction.

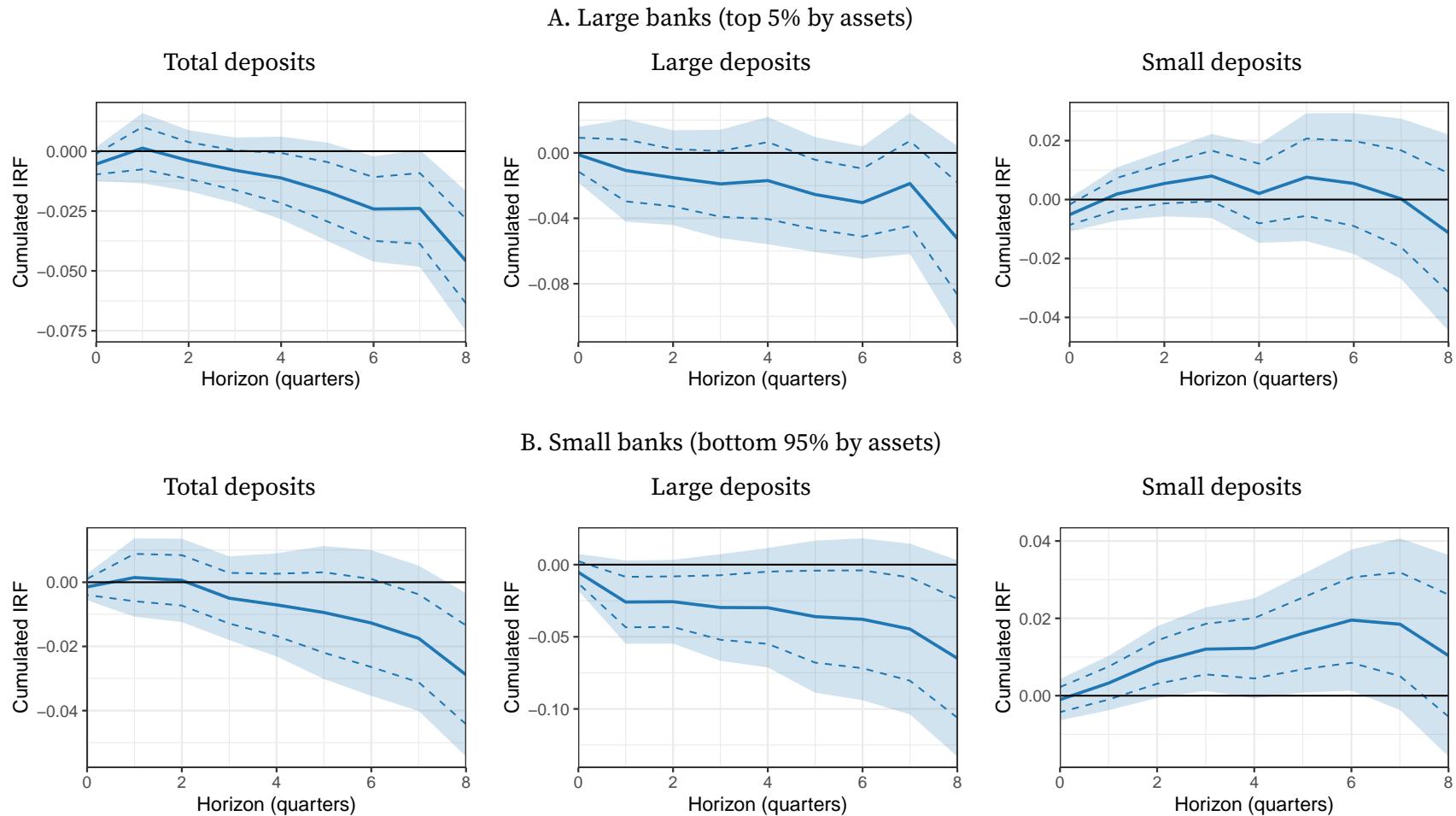


Figure A23. Large vs small deposits response to monetary policy shocks at small banks by liquidity of banks' assets

This figure is constructed similarly to [Figure 7](#), but it plots IRFs of total deposits (left column), large deposits (middle column), and small deposits (right column) to Romer and Romer (2004) monetary shocks for small banks (defined as banks that do not belong to top 5% by assets) with liquid assets above median (Panel A) and below median (Panel B). Liquid assets are defined as cash and balances due from depository institutions plus securities. See main text for further details on the data construction.

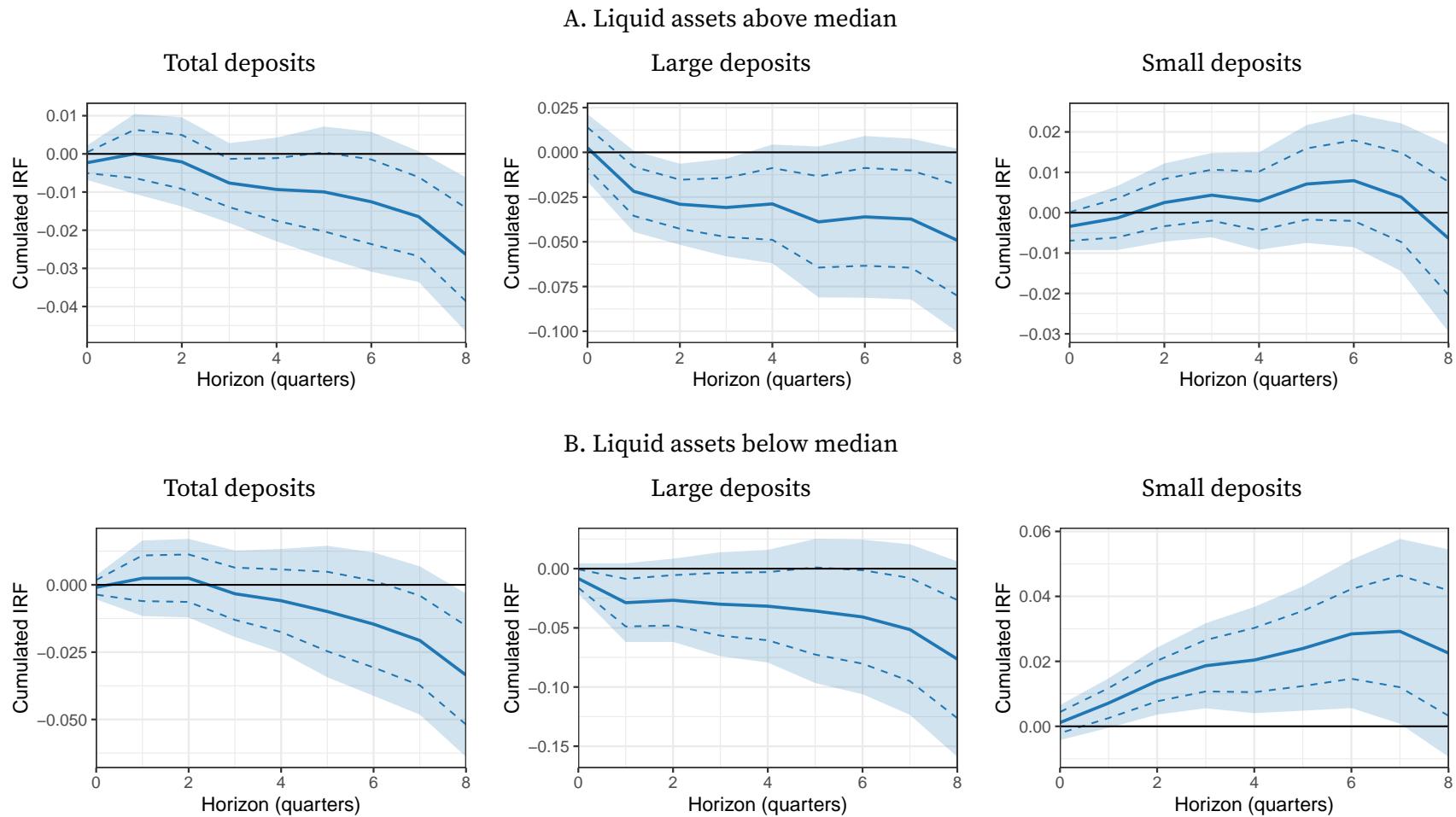
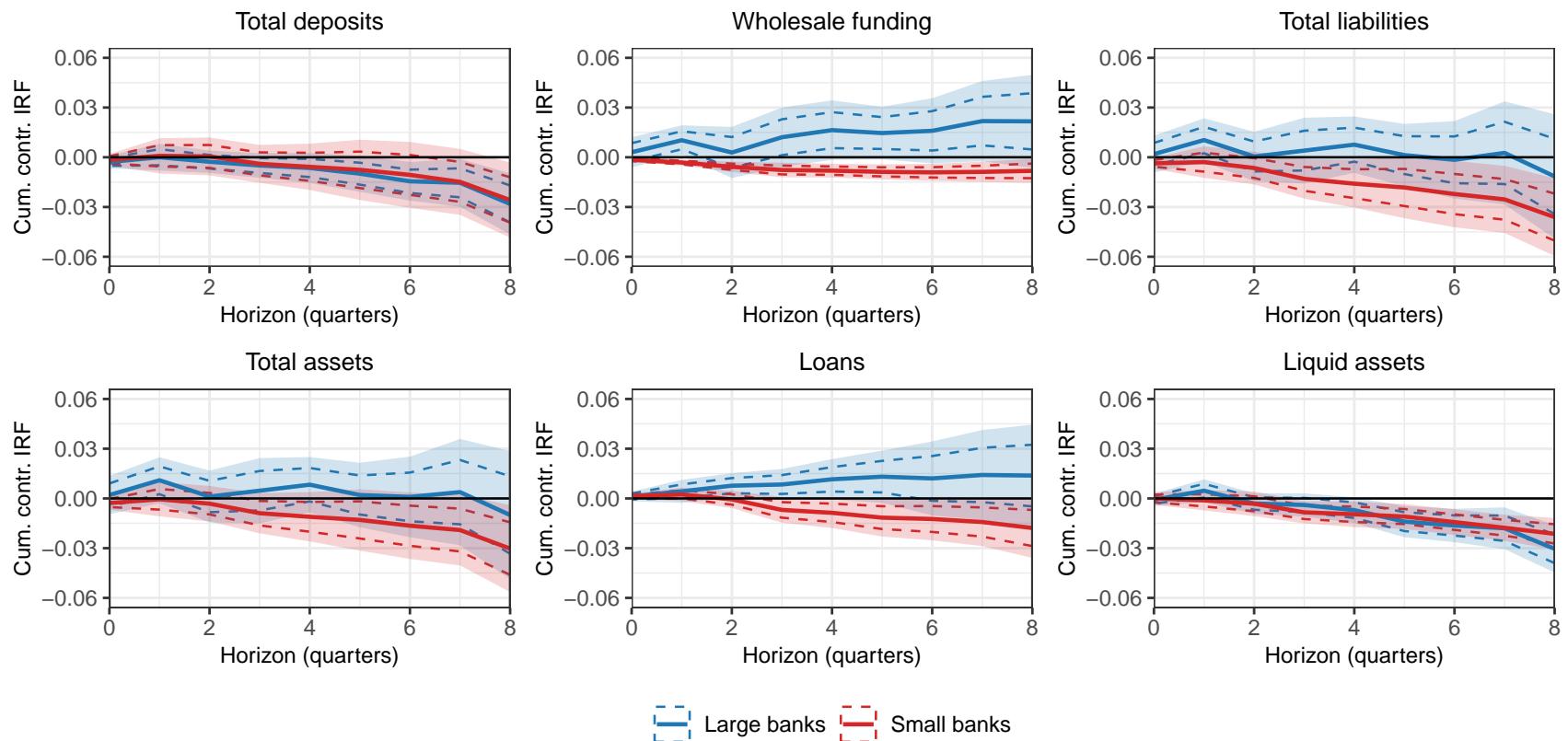


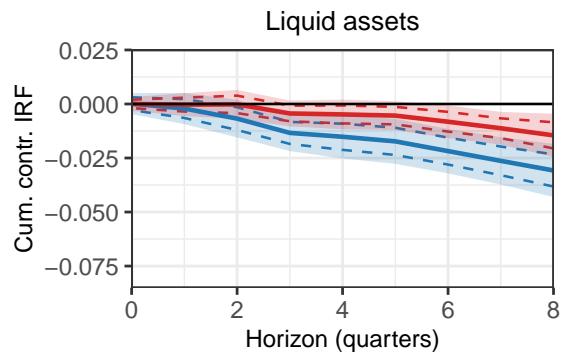
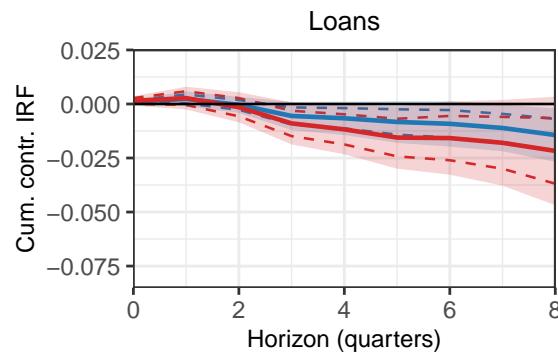
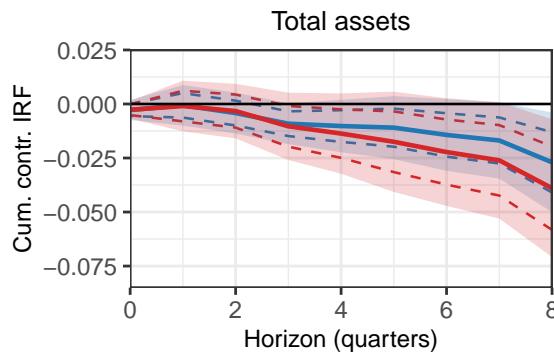
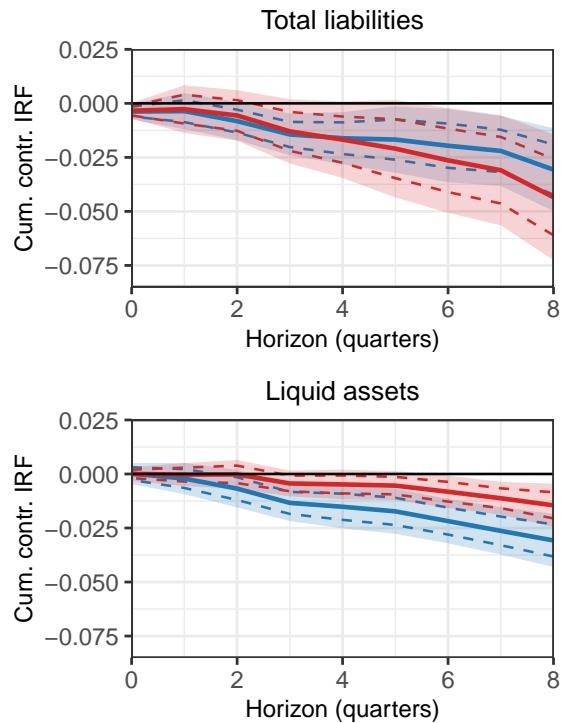
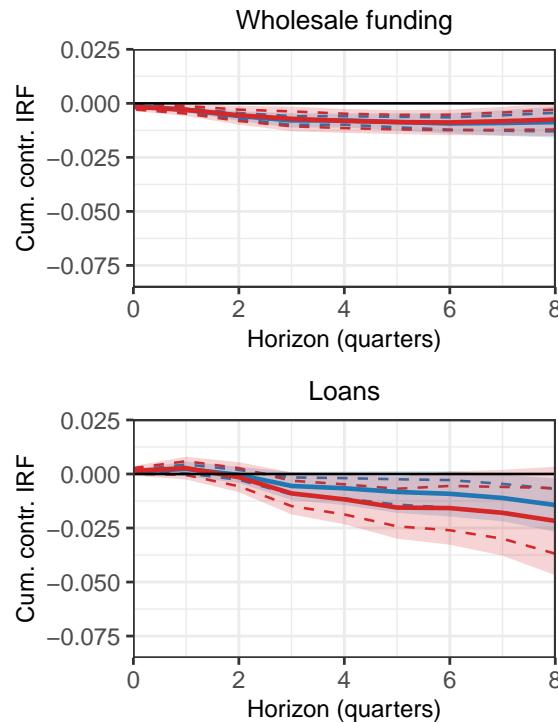
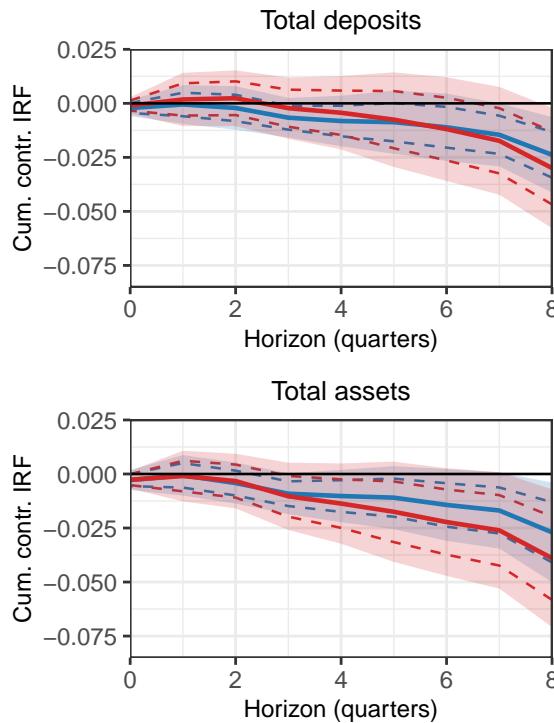
Figure A24. Monetary policy shocks and banks' balance sheets: Large vs small banks and liquid vs illiquid banks

This figure plots impulse response functions of banks' balance sheet components to Romer and Romer (2004) monetary shocks for large vs small banks (top panel) and for liquid vs illiquid small banks (bottom panel). Large banks are defined as top 5% of banks by total assets and small banks are the bottom 95% of banks by total assets. For small banks, liquid are those with liquid assets above the median, while illiquid banks have liquid assets below the median. Solid lines show point estimates, and shaded areas show 90% confidence intervals (dashed lines show 68% confidence intervals). Note that the balance sheet variables in this figure represent *contributions to growth* in total assets. That is, the dependent variable in [Equation 5](#) is  $\Delta_{t-1,t+h} Y / \text{Assets}_{t-1}$ . This transformation makes magnitudes of the responses of different variables more comparable. Results are qualitatively similar in the standard [Equation 5](#) specification.

A. Large vs small banks



B. Liquid vs illiquid small banks



 Liquid Illiquid

Figure A25. Large deposits share is more important than market concentration in explaining deposit pricing: Savings deposits

This figure is similar to [Figure 10](#) Panel A, but for savings deposits.

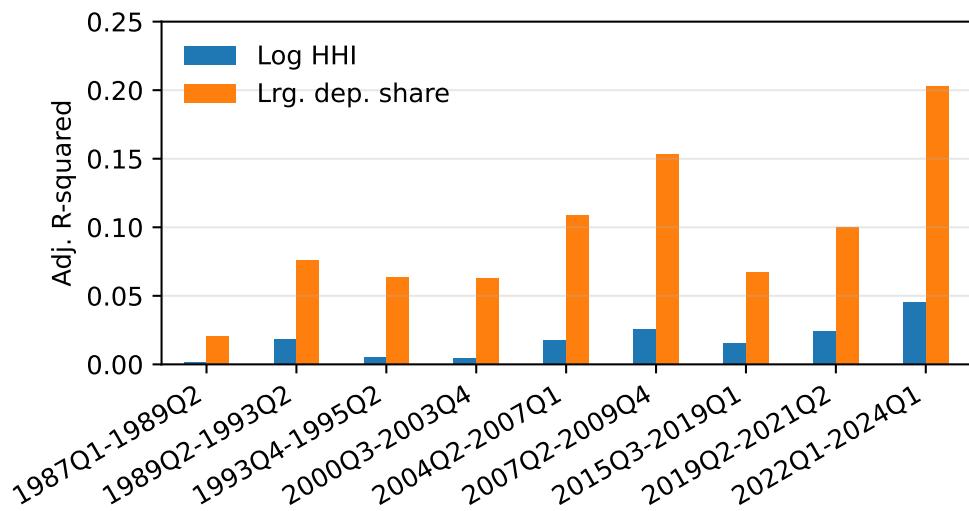


Figure A26. HHI has weak explanatory power for *retail* deposit pricing: Analysis by deposit product

This figure is similar to [Figure 10](#) Panel B, but for select retail deposit products separately.

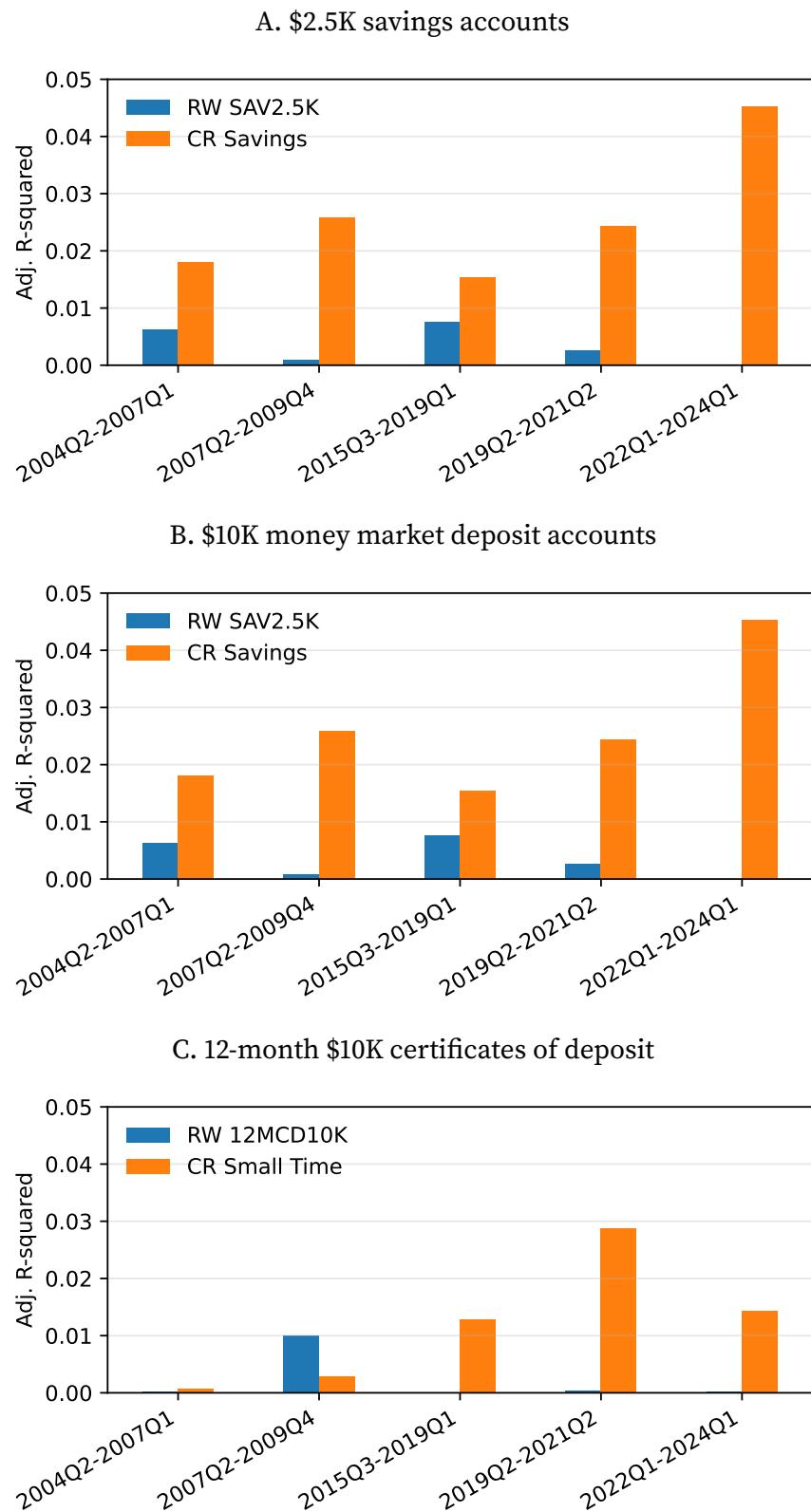


Figure A27. Interest income, expense rates, and net interest margin: Response to monetary policy by large deposit share

This figure plots impulse response functions (IRFs) of interest expense rates, interest income rates, and net interest margins (NIM) to monetary policy shocks, estimated using the following local projections:

$$\Delta Y_{i,t-1,t+h} = \alpha_t^h + \beta^h \Delta \text{SR}_t \times \text{Lrg. dep. share}_{i,t-1} + \Gamma^h X_{i,t} + \varepsilon_{i,t+h},$$

where  $\Delta Y_{i,t-1,t+h}$  is change in either the interest expense rate, interest income rate, or NIM for bank  $i$  over the horizon  $h$ , and  $\Delta \text{SR}_t$  is change in the short rate from  $t - 1$  to  $t$  (either change in short rate or one of the monetary policy shocks). Other variables are as in [Equation 2](#). Interest income rate is calculated as total interest income divided by total assets, interest expense rate is total interest expense divided by total assets, and NIM is the difference between the two. The figure plots the estimates of  $\beta^h$  along with 90% (dashed blue lines) and 95% (shaded blue area) confidence intervals based on standard errors double clustered by bank and time. The share of large deposits is standardized such that a one-unit change in this variable corresponds to an increase from 25th to 75th percentile in its distribution within each quarter. The sample is all U.S. commercial bank over the period 1985Q1-2024Q1.

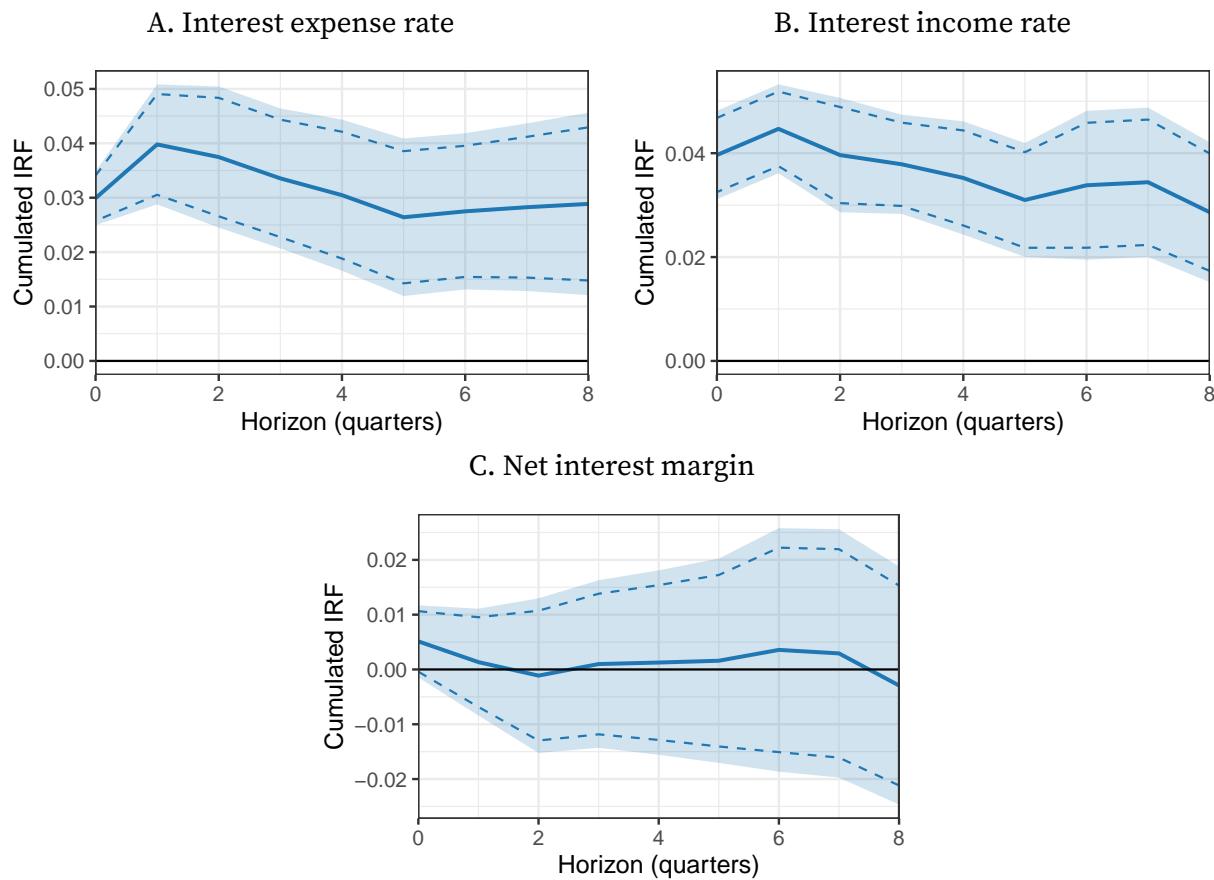


Figure A28. Interest income, expense rates, and net interest margin: Response to monetary policy by large deposit share: Romer & Romer (2004) shocks

This figure is similar to [Figure A27](#) but for Romer and Romer (2004) monetary shocks as the monetary policy variable

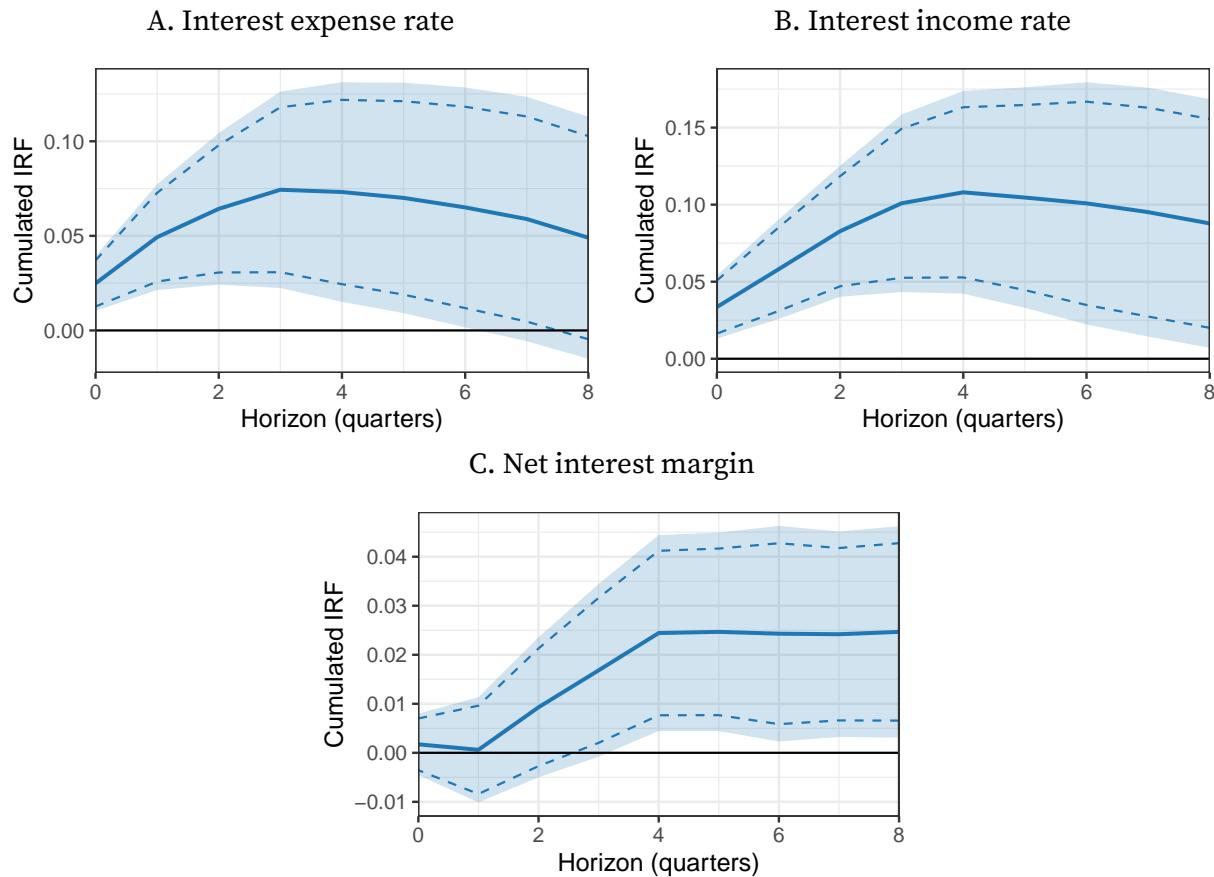


Figure A29. Banks with more large deposits hold more C&I loans

This figure plots a binscatter of commercial and industrial (C&I) loans to total loans ratio against the share of large deposits at banks. The banks are grouped into bins by large deposits share at the following percentiles: [0%, 25%), [25%, 30%), ..., [95%, 100%]. The dots represent the average C&I loans to total assets ratio and the average share of large deposits within each bin. The sample is all U.S. commercial banks over the period 1982Q2-2024Q1, averaged over time for each bank.

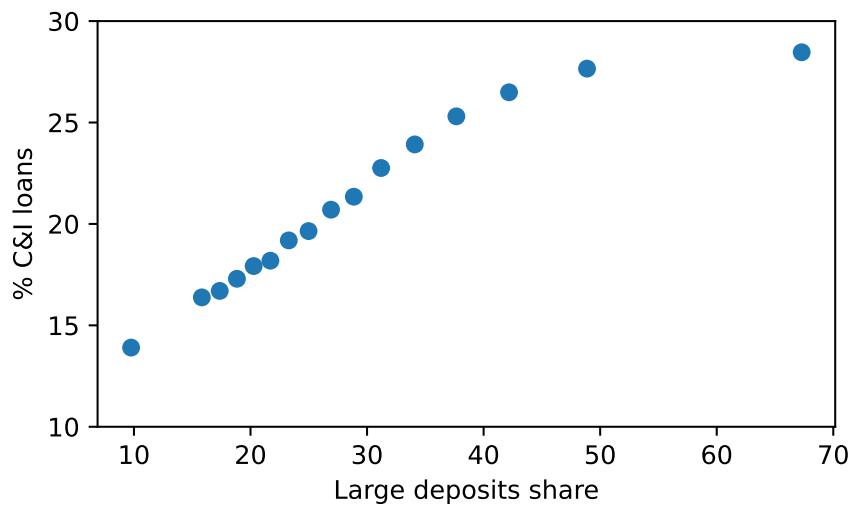
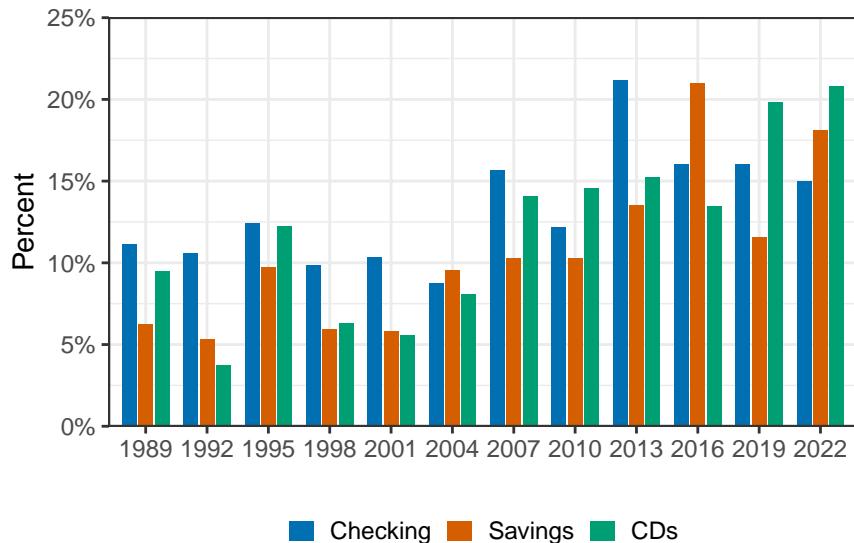


Figure A30. Highest-income households hold increasing larger share of deposits

This figure plots the share of deposits held by the top 1% and top 5% of households by income, using data from the Survey of Consumer Finances (SCF) for the period 1989-2022 (triennial surveys). The top 1% and top 5% are defined based on household income. The figure shows that the share of deposits held by these groups has increased over time, indicating a growing concentration of deposits among the highest-income households.

A. Top 1% of households by income



B. Top 5% of households by income

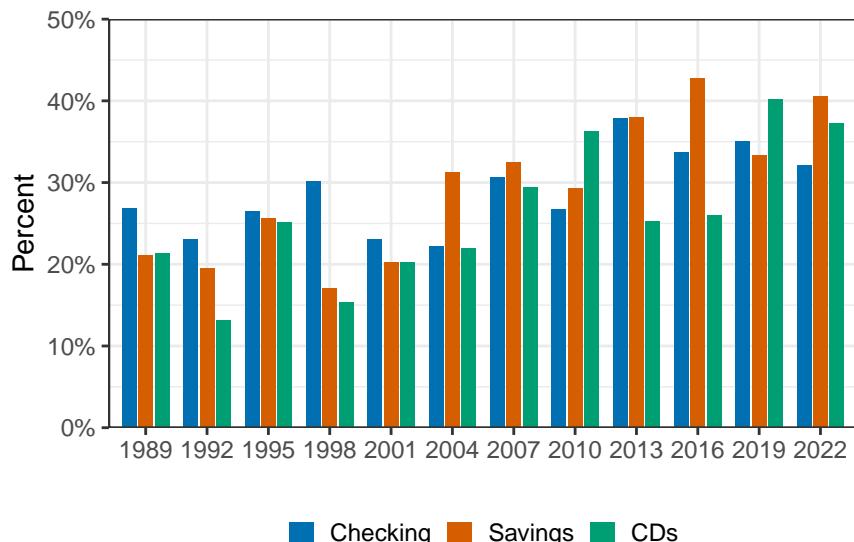


Table A1. Average deposit holdings by income distribution

This table reports the distribution of deposits across income groups. The data are from the Survey of Consumer Finances (SCF), 1989-2022 (triennial surveys). The table reports average checking, savings, and certificate of deposits (CD) holdings for the bottom 99% and top 1% of households by income.

| Year | Checking   |         | Savings    |         | CDs        |         |
|------|------------|---------|------------|---------|------------|---------|
|      | Bottom 99% | Top 1%  | Bottom 99% | Top 1%  | Bottom 99% | Top 1%  |
| 1989 | 5,351      | 69,152  | 6,334      | 40,857  | 13,876     | 143,462 |
| 1992 | 4,161      | 48,540  | 6,225      | 34,716  | 11,126     | 42,880  |
| 1995 | 4,599      | 64,572  | 5,138      | 54,664  | 8,889      | 123,837 |
| 1998 | 5,387      | 58,217  | 7,694      | 48,275  | 9,951      | 66,312  |
| 2001 | 6,043      | 68,952  | 7,829      | 47,596  | 9,371      | 54,442  |
| 2004 | 7,260      | 68,677  | 10,072     | 104,511 | 10,153     | 88,262  |
| 2007 | 5,721      | 104,948 | 9,192      | 104,073 | 11,139     | 180,219 |
| 2010 | 6,874      | 94,170  | 11,519     | 129,755 | 10,413     | 175,951 |
| 2013 | 8,166      | 217,225 | 11,299     | 174,466 | 5,444      | 96,666  |
| 2016 | 9,713      | 183,565 | 15,374     | 405,956 | 5,308      | 81,623  |
| 2019 | 10,437     | 197,603 | 14,789     | 191,477 | 7,358      | 180,042 |
| 2022 | 14,502     | 252,095 | 18,448     | 400,711 | 5,127      | 132,515 |

Table A2. Correlation between large deposits share and other bank characteristics

This table reports Pearson correlation coefficients between the share of large deposits and other bank characteristics, namely share of deposits in total assets, share of savings and time deposits in total deposits, log total assets, book equity ratio, return on assets (ROA), log of the Herfindahl-Hirschman Index (HHI) of deposits, and log bank age, computed in the cross-section of banks for the last quarter of the years 1985, 1990, 1995, ..., 2020, and 2024Q1.

| Variable                          | 1985  | 1990  | 1995  | 2000  | 2005  | 2010  | 2015  | 2020  | 2024  |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Deposits / Assets                 | -0.24 | -0.34 | -0.31 | -0.22 | -0.20 | -0.23 | -0.18 | -0.14 | -0.14 |
| Savings deposits / Total deposits | -0.02 | 0.06  | 0.09  | 0.22  | 0.29  | 0.37  | 0.29  | 0.30  | 0.17  |
| Time deposits / Total deposits    | -0.12 | -0.16 | -0.30 | -0.22 | -0.20 | -0.40 | -0.37 | -0.35 | -0.28 |
| Loans / Assets                    | 0.22  | 0.08  | -0.07 | -0.07 | 0.04  | -0.14 | -0.10 | -0.04 | -0.13 |
| Liquid assets / Assets            | -0.26 | -0.16 | -0.05 | -0.07 | -0.13 | 0.12  | 0.07  | 0.04  | 0.10  |
| Log(Assets)                       | 0.32  | 0.35  | 0.31  | 0.29  | 0.35  | 0.33  | 0.39  | 0.41  | 0.28  |
| Book equity / Assets              | -0.04 | 0.04  | 0.02  | 0.09  | 0.14  | 0.20  | 0.17  | 0.11  | 0.17  |
| ROA                               | -0.05 | -0.04 | 0.05  | 0.10  | 0.06  | 0.09  | 0.19  | 0.18  | 0.20  |
| Log(HHI)                          | -0.27 | -0.20 | -0.13 | -0.14 | -0.17 | -0.09 | -0.09 | -0.16 | -0.11 |
| Log(Age)                          | -0.42 | -0.33 | -0.29 | -0.38 | -0.46 | -0.25 | -0.31 | -0.36 | -0.31 |

Table A3. Transition matrix of large deposits share

This table reports the transition matrix of the share of large deposits at banks. The share of large deposits is categorized into 5 equal bins (quintiles) based on its distribution across banks in each quarter. The table reports the probabilities of transitioning from one bin to another over different horizons: 1 quarter, 1 year, and 5 years. The data are for all U.S. commercial banks over the period 1982Q2-2024Q1.

A. Horizon: 1 quarter

| From       | To         | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 |
|------------|------------|------------|------------|------------|------------|------------|
| Quintile 1 | Quintile 1 | 0.86       | 0.12       | 0.01       | 0.00       | 0.00       |
| Quintile 2 | Quintile 2 | 0.12       | 0.72       | 0.14       | 0.01       | 0.00       |
| Quintile 3 | Quintile 3 | 0.01       | 0.14       | 0.71       | 0.13       | 0.01       |
| Quintile 4 | Quintile 4 | 0.00       | 0.01       | 0.13       | 0.76       | 0.09       |
| Quintile 5 | Quintile 5 | 0.00       | 0.00       | 0.01       | 0.09       | 0.90       |

B. Horizon: 1 year

| From       | To         | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 |
|------------|------------|------------|------------|------------|------------|------------|
| Quintile 1 | Quintile 1 | 0.76       | 0.19       | 0.03       | 0.01       | 0.01       |
| Quintile 2 | Quintile 2 | 0.18       | 0.57       | 0.21       | 0.03       | 0.01       |
| Quintile 3 | Quintile 3 | 0.03       | 0.20       | 0.55       | 0.20       | 0.02       |
| Quintile 4 | Quintile 4 | 0.01       | 0.04       | 0.20       | 0.61       | 0.14       |
| Quintile 5 | Quintile 5 | 0.01       | 0.01       | 0.02       | 0.15       | 0.81       |

C. Horizon: 5 years

| From       | To         | Quintile 1 | Quintile 2 | Quintile 3 | Quintile 4 | Quintile 5 |
|------------|------------|------------|------------|------------|------------|------------|
| Quintile 1 | Quintile 1 | 0.58       | 0.26       | 0.10       | 0.04       | 0.02       |
| Quintile 2 | Quintile 2 | 0.24       | 0.38       | 0.25       | 0.10       | 0.03       |
| Quintile 3 | Quintile 3 | 0.09       | 0.24       | 0.35       | 0.25       | 0.06       |
| Quintile 4 | Quintile 4 | 0.04       | 0.10       | 0.25       | 0.41       | 0.20       |
| Quintile 5 | Quintile 5 | 0.02       | 0.03       | 0.08       | 0.22       | 0.65       |

Table A4. Monetary policy cycles

This table lists the monetary policy tightening and easing cycles identified in [Figure A2](#), as well as their duration in quarters and the change in the federal funds rate (FFR) during each cycle. The cycles are defined as periods when the federal funds rate increases from a local trough to a local peak (tightening) or decreases from a local peak to a local trough (easing). The table reports the start and end dates of each cycle.

| Cycle           | Type       | Length (Quarters) | FFR Change (pp) |
|-----------------|------------|-------------------|-----------------|
| 1974M09-1977M06 | Easing     | 11                | -1.15           |
| 1977M06-1981M06 | Tightening | 16                | 12.63           |
| 1981M06-1983M06 | Easing     | 8                 | -8.99           |
| 1984M09-1986M09 | Easing     | 8                 | -5.18           |
| 1987M03-1989M06 | Tightening | 9                 | 3.51            |
| 1989M06-1993M06 | Easing     | 16                | -6.73           |
| 1993M12-1995M06 | Tightening | 6                 | 3.03            |
| 2000M09-2003M12 | Easing     | 13                | -5.52           |
| 2004M06-2007M03 | Tightening | 11                | 4.24            |
| 2007M06-2009M12 | Easing     | 10                | -5.13           |
| 2015M09-2019M03 | Tightening | 14                | 2.27            |
| 2019M06-2021M06 | Easing     | 8                 | -2.33           |
| 2022M03-2024M03 | Tightening | 8                 | 5.21            |

Table A5. Local projections of deposit expense rates on short rate changes and share of large deposits: Using monetary policy shocks

This table reports local projections of deposit expense rates on short rate changes and share of large deposits, instrumenting changes in the short rate with monetary policy shocks. Panel A uses [Romer and Romer \(2004\)](#) monetary shocks; Panel B uses [Bauer and Swanson \(2023\)](#) high-frequency monetary shocks.  $\widehat{\Delta SR}_t$  is the instrumented change in the short rate from  $t - 1$  to  $t$ . Other variables are as in [Equation 2](#). Standard errors are double clustered by bank and time. \*, \*\*, and \*\*\* indicate significance at 10%, 5%, and 1% levels, respectively.

A. Romer & Romer (2004) monetary policy shocks

|   | Horizon, quarters   |                     |                    |                    |                   |
|---|---------------------|---------------------|--------------------|--------------------|-------------------|
|   | $h = 0$             | $h = 2$             | $h = 4$            | $h = 6$            | $h = 8$           |
| Lrg. dep. share $_{i,t-1} \times \widehat{\Delta SR}_t$ | 0.030***<br>(0.009) | 0.081***<br>(0.025) | 0.094**<br>(0.038) | 0.085**<br>(0.042) | 0.066<br>(0.045)  |
| log(HHI $_{i,t-1} \times \widehat{\Delta SR}_t$         | -0.004<br>(0.004)   | -0.007<br>(0.008)   | 0.007<br>(0.011)   | 0.011<br>(0.012)   | 0.005<br>(0.014)  |
| log(Bank age $_{i,t-1} \times \widehat{\Delta SR}_t$    | -0.009*<br>(0.005)  | -0.023**<br>(0.011) | -0.024<br>(0.015)  | -0.026<br>(0.018)  | -0.025<br>(0.022) |
| Time FE   | ✓                   | ✓                   | ✓                  | ✓                  | ✓                 |
| Controls  | ✓                   | ✓                   | ✓                  | ✓                  | ✓                 |
| $N$   | 859,816             | 859,816             | 859,816            | 859,816            | 859,816           |
| Within $R^2$  | 0.045               | 0.063               | 0.068              | 0.071              | 0.080             |

B. High-frequency monetary policy shocks

|  | Horizon, quarters    |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
|  | $h = 0$              | $h = 2$              | $h = 4$              | $h = 6$              | $h = 8$              |
| Lrg. dep. share $_{i,t-1} \times \widehat{\Delta SR}_t$      | 0.033***<br>(0.005)  | 0.103***<br>(0.017)  | 0.146***<br>(0.029)  | 0.153***<br>(0.038)  | 0.145***<br>(0.043)  |
| $\log(HHI_{i,t-1}) \times \widehat{\Delta SR}_t$             | -0.004<br>(0.004)    | -0.017**<br>(0.006)  | -0.027***<br>(0.009) | -0.034***<br>(0.012) | -0.039***<br>(0.013) |
| $\log(\text{Bank age}_{i,t-1}) \times \widehat{\Delta SR}_t$ | -0.009***<br>(0.003) | -0.029***<br>(0.008) | -0.048***<br>(0.010) | -0.054***<br>(0.013) | -0.048***<br>(0.016) |
| Time FE  | ✓                    | ✓                    | ✓                    | ✓                    | ✓                    |
| Controls   | ✓                    | ✓                    | ✓                    | ✓                    | ✓                    |
| $N$  | 919,249              | 919,249              | 919,249              | 919,249              | 919,249              |
| Within $R^2$   | 0.056                | 0.092                | 0.104                | 0.104                | 0.112                |

Table A6. Inferred deposit expense betas for small and large deposits: Deposit subtypes

This table is similar to [Table 3](#), but for savings deposits (Panel A) and interest-bearing transaction deposits (Panel B).

A. Savings deposits

|                                | Cycle               |                     |                     |                     |                      |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
|                                | 2004Q2 -<br>-2007Q1 | 2007Q2 -<br>-2009Q4 | 2015Q3 -<br>-2019Q1 | 2019Q2 -<br>-2021Q2 | 2022Q1 -<br>-2024Q1  |
| Constant <sub>c</sub>          | 0.179***<br>(0.007) | 0.156***<br>(0.005) | 0.030***<br>(0.005) | 0.022***<br>(0.006) | -0.046***<br>(0.010) |
| Lrg. dep. share <sub>i,c</sub> | 0.436***<br>(0.017) | 0.444***<br>(0.012) | 0.311***<br>(0.014) | 0.428***<br>(0.016) | 0.724***<br>(0.021)  |
| RW Beta                        | 0.229               | 0.250               | 0.056               | 0.079               | 0.109                |
| Small Beta                     | 0.179               | 0.156               | 0.030               | 0.022               | -0.046               |
| Large Beta                     | 0.615               | 0.601               | 0.341               | 0.449               | 0.678                |
| R <sup>2</sup>                 | 0.102               | 0.203               | 0.111               | 0.174               | 0.267                |
| Observations                   | 6942                | 6517                | 5213                | 4755                | 4402                 |

B. Interest-bearing transaction deposits

|                                | Cycle               |                     |                     |                     |                     |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                                | 2004Q2 -<br>-2007Q1 | 2007Q2 -<br>-2009Q4 | 2015Q3 -<br>-2019Q1 | 2019Q2 -<br>-2021Q2 | 2022Q1 -<br>-2024Q1 |
| Constant <sub>c</sub>          | 0.092***<br>(0.006) | 0.087***<br>(0.005) | 0.023***<br>(0.006) | 0.014*<br>(0.007)   | -0.022**<br>(0.011) |
| Lrg. dep. share <sub>i,c</sub> | 0.281***<br>(0.017) | 0.245***<br>(0.013) | 0.249***<br>(0.018) | 0.333***<br>(0.021) | 0.497***<br>(0.024) |
| RW Beta                        | 0.058               | 0.086               | 0.019               | 0.029               | 0.029               |
| Small Beta                     | 0.092               | 0.087               | 0.023               | 0.014               | -0.022              |
| Large Beta                     | 0.374               | 0.332               | 0.272               | 0.347               | 0.475               |
| R <sup>2</sup>                 | 0.046               | 0.059               | 0.046               | 0.075               | 0.115               |
| Observations                   | 6844                | 6381                | 5127                | 4699                | 4336                |

Table A7. Large deposits share does not predict elevated risk of bank failures

This table reports the results of the following regressions:

$$\text{Fail}_{i,t+h} = \alpha + \beta \text{Lrg. dep. share}_{it} + \Gamma X_{it} + \varepsilon_{it},$$

where  $\text{Fail}_{i,t+h}$  is an indicator variable equal to 1 if bank  $i$  fails within  $h$  years of time  $t$ , and 0 otherwise;  $\text{Lrg. dep. share}_{it}$  is the share of large deposits at bank  $i$  at  $t$ ; and  $X_{it}$  is a vector of control variables including log total assets, log bank age, dummies for quartiles of bank's past 3-year asset growth, and past 3-year GDP growth. Average failure rate at a given horizon (in percent) is reported below the table as "Mean of dep. var.". The data are annual (as of end of the year) for all U.S. commercial banks, 1985-2024. Standard errors are Driscoll-Kraay with bandwidth 2. \*, \*\*, and \*\*\* indicate significance at 10%, 5%, and 1% levels, respectively.

|                   | Fail in the next $h$ years |           |           |
|-------------------|----------------------------|-----------|-----------|
|                   | $h = 1$                    | $h = 3$   | $h = 5$   |
| Lrg. dep. share   | -0.01303*                  | -0.00489  | 0.01761   |
|                   | (0.00651)                  | (0.02117) | (0.03399) |
| N                 | 360,622                    | 360,622   | 360,622   |
| Adj. $R^2$        | 0.006                      | 0.011     | 0.018     |
| Mean of dep. var. | 0.36                       | 1.37      | 2.20      |

Table A8. Large deposits share does not predict elevated risk of bank failures, also when interacted with monetary policy shocks

This table reports the results of the following regressions:

$$\text{Fail}_{i,t+h} = \alpha + \beta_1 \text{Lrg. dep. share}_{it} + \beta_2 \text{Lrg. dep. share}_{it} \times r_t + \Gamma X_{it} + \varepsilon_{it},$$

where  $\text{Fail}_{i,t+h}$  is an indicator variable equal to 1 if bank  $i$  fails within  $h$  years of time  $t$ , and 0 otherwise;  $\text{Lrg. dep. share}_{it}$  is the share of large deposits at bank  $i$  at  $t$ ;  $r_t$  is either change in short rate (Panel A) or Romer and Romer (2004) monetary shock (Panel B); and  $X_{it}$  is a vector of control variables including log total assets, log bank age, dummies for quartiles of bank's past 3-year asset growth, and past 3-year GDP growth.  $X_{it}$  also includes 4 lags of  $r_t$ ; these lags as well as  $r_t$  itself are all interacted with the large deposits share, log total assets, and log bank age. Average failure rate at a given horizon (in %) is reported below the table as "Mean of dep. var.". The data are quarterly for all U.S. commercial banks, 1985Q1-2024Q1. Standard errors are Driscoll-Kraay with bandwidth 8. \*, \*\*, and \*\*\* indicate significance at 10%, 5%, and 1% levels, respectively.

A. Interacted with change in short rate

|                                      | Fail in the next $h$ years |                        |                        |
|--------------------------------------|----------------------------|------------------------|------------------------|
|                                      | $h = 1$                    | $h = 3$                | $h = 5$                |
| Lrg. dep. share                      | -0.01191**<br>(0.00532)    | -0.00445<br>(0.01551)  | 0.01821<br>(0.02381)   |
| Lrg. dep. share $\times$ $\Delta$ SR | 0.00124<br>(0.00384)       | -0.01788*<br>(0.00938) | -0.02867*<br>(0.01589) |
| $N$                                  | 1,449,826                  | 1,449,826              | 1,449,826              |
| Adj. $R^2$                           | 0.007                      | 0.013                  | 0.020                  |
| Mean of dep. var.                    | 0.36                       | 1.37                   | 2.20                   |

B. Interacted with Romer and Romer (2004) monetary shocks

|                                   | Fail in the next $h$ years |                        |                       |
|-----------------------------------|----------------------------|------------------------|-----------------------|
|                                   | $h = 1$                    | $h = 3$                | $h = 5$               |
| Lrg. dep. share                   | -0.01194*<br>(0.00618)     | 0.00323<br>(0.01945)   | 0.03241<br>(0.03012)  |
| Lrg. dep. share $\times$ RR shock | -0.00536<br>(0.00567)      | -0.02627*<br>(0.01346) | -0.02410<br>(0.01877) |
| $N$                               | 1,347,958                  | 1,347,958              | 1,347,958             |
| Adj. $R^2$                        | 0.007                      | 0.013                  | 0.020                 |
| Mean of dep. var.                 | 0.36                       | 1.37                   | 2.20                  |

Table A9. Pre-trend tests for quasi-experimental evidence on deposit pricing

This table reports the results of testing for pre-treatment differences between treatment and control markets. Estimates come from the following regression:

$$Y_{i,t} = \sum \delta_{c(i),t} + \sum \gamma_i + \sum_{j=1}^3 \beta_j D_{c(i),t-j} \times \text{Treated}_i + \varepsilon_{i,t},$$

where  $Y_{i,t}$  is either deposit market HHI, APY on select deposit products, or deposit betas,  $D_{c(i),t-j}$  are dummies for 1, 2, and 3 years before the treatment for cohort  $c(i)$ , and  $\text{Treated}_i$  is an indicator for whether market  $i$  is in the treatment group.  $i$  indexes deposit markets-merger pairs and  $c(i)$  indexes cohort of the merger. See main text for additional detail. Standard errors are clustered at the banking market level. \*, \*\*, and \*\*\* indicate significance at 10%, 5%, and 1% levels, respectively.

Table A10. Banks with more large deposits hold more C&I loans

This table reports the results of the following regression:

$$\text{C\&I loan share}_{it} = \alpha_t + \beta_t \text{Lrg. dep. share}_{it} + \Gamma_t X_{it} + \varepsilon_{it},$$

where  $\text{C\&I loan share}_{it}$  is the share of commercial and industrial loans in total loans at bank  $i$  at time  $t$ ;  $\text{Lrg. dep. share}_{it}$  is the share of large deposits at bank  $i$  at time  $t$ ; and  $X_{it}$  is a vector of control variables including log total assets, log HHI, log bank age, and equity-to-assets ratio. The data as of end of the year for select years (1985, 1995, 2005, 2015, 2023) for all U.S. commercial banks. Heteroskedasticity-robust standard errors are in parentheses. \*, \*\*, and \*\*\* indicate significance at 10%, 5%, and 1% levels, respectively.

|                     | 1985                |                     | 1995                |                     | 2005                |                     | 2015                |                     | 2023                |                     |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                     | (1)                 | (2)                 | (3)                 | (4)                 | (5)                 | (6)                 | (7)                 | (8)                 | (9)                 | (10)                |
| Large deposit share | 0.441***<br>(0.010) | 0.299***<br>(0.011) | 0.321***<br>(0.016) | 0.297***<br>(0.016) | 0.171***<br>(0.012) | 0.170***<br>(0.014) | 0.223***<br>(0.011) | 0.210***<br>(0.015) | 0.156***<br>(0.016) | 0.123***<br>(0.019) |
| Controls            | No                  | Yes                 |
| Observations        | 14,165              | 14,146              | 10,475              | 10,401              | 7,894               | 7,775               | 6,122               | 6,105               | 4,520               | 4,505               |
| R-squared           | 0.202               | 0.257               | 0.126               | 0.169               | 0.063               | 0.076               | 0.110               | 0.125               | 0.043               | 0.057               |