

The Large Deposit Premium and the Redistribution of Depositor Compensation

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Federal Reserve Board

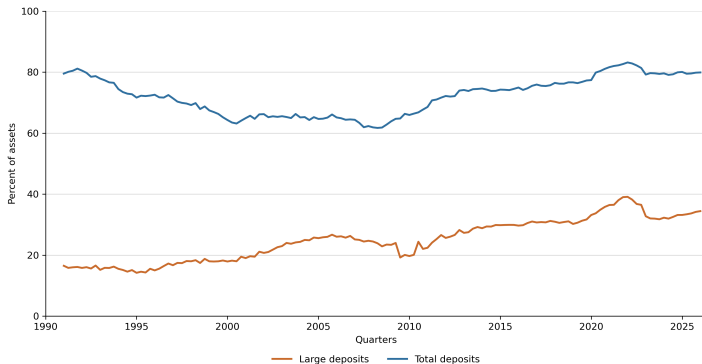
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Motivation

Large Deposits Are a Major Source of Bank Funding



- Large deposits more than doubled from roughly 15 percent of domestic assets in the mid-1990s to about 35 percent in 2026Q1.
- Their growing role makes large-deposit rates important for funding costs and monetary-policy transmission.

Related Literature

- **Deposit-market power and pass-through:** Drechsler et al. (2017); Egan et al. (2017); Wang et al. (2022)
- **Outside options and money-market funds:** Xiao (2020); Basten, Cucic, and Schepens (2026); Narayanan and Ratnadiwakara (2024)
- **Market discipline and risk pricing:** Maechler and McDill (2006); Jacewitz and Pogach (2018)
- **Deposit franchises:** Drechsler et al. (2021, 2025); Usenko (2026)
- **Heterogeneous returns:** Auclert (2019); Coibion et al. (2017); Andersen et al. (2023)

Contributions to the Literature

- Constructs the first long-run series for the *level* of the large–small deposit-rate spread, rather than only its response to interest rates
- Provides the first long-run accounting of how deposit compensation is divided among banks and depositor groups
- Develops a bargaining framework combining depositor outside options, bargaining power, and expected default losses
- Shows that depositor and deposit characteristics, rather than bank risk, explain the secular rise in the premium

Summary of findings

1. **Large and cyclical repricing.** Large deposits moved from a 175 bp discount to a 270 bp premium. A 100 bp rise in the FFR raises the LDP by 27 bp.
2. **Redistribution.** Small depositors' share of compensation fell from about 80 to 40 percent. Since 2010Q4, the transfer to large depositors cumulates to \$833 billion.
3. **Depositor characteristics.** Deposit products attenuate the rise, while corporate funding and average large-account size absorb its secular component, consistent with the bargaining framework.
4. **Limited role for bank risk.** Less-capitalized banks sometimes pay higher deposit rates, but they do not systematically pay a wider LDP; historical expected losses imply less than 3 bp.

Measuring the Large Deposit Premium

The Average Deposit Rate Embeds the Premium

- We observe each bank's average deposit rate, DR_{it} , and its share of large deposits, α_{it}^L .
- We do not observe the rates paid separately on small and large deposits, DR_{it}^S and DR_{it}^L .

The observed average is the share-weighted average of the two rates:

$$DR_{it} = DR_{it}^S + \alpha_{it}^L \left(DR_{it}^L - DR_{it}^S \right).$$

This accounting relation motivates a regression of average deposit rates on large-deposit shares. In a given quarter, the slope captures the large–small rate gap.

Recovering the Large Deposit Premium

Banks report their average deposit rate, but not separate rates for small and large deposits.

$$DR_{it} = \lambda_i + \theta_t + \beta_t^L \alpha_{it}^L + \varepsilon_{it}$$

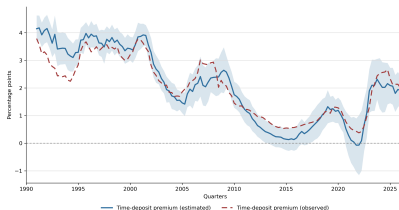
- α_{it}^L is bank i 's share of large deposits in quarter t .
- β_t^L is identified from the cross-sectional relationship between a bank's funding mix and its average deposit rate.
- We estimate a separate premium each quarter using 1991Q1–2026Q1 Call Report data and bank fixed effects.

Construction

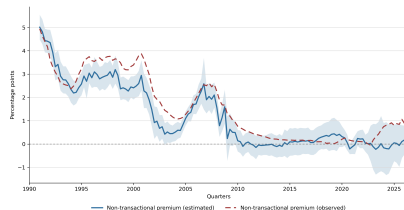
Bias decomposition

Validation: Deposit-Weighted Results

Time versus non-time deposits



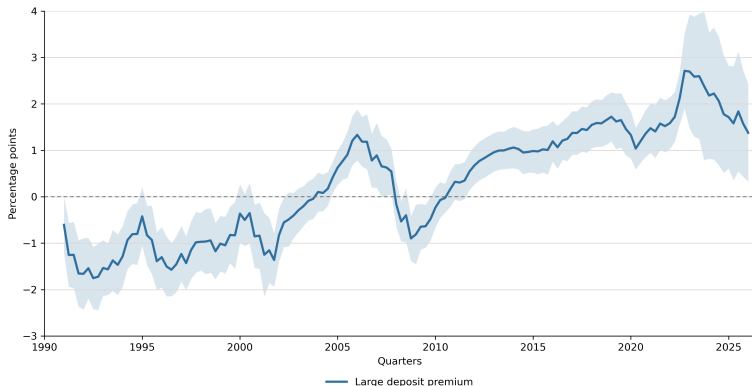
Non-transactional versus transactional deposits



- Estimated and observed premia move closely together: correlations range from **0.95 to 0.99** across the four weighted and unweighted validation cases.

[Full validation](#)

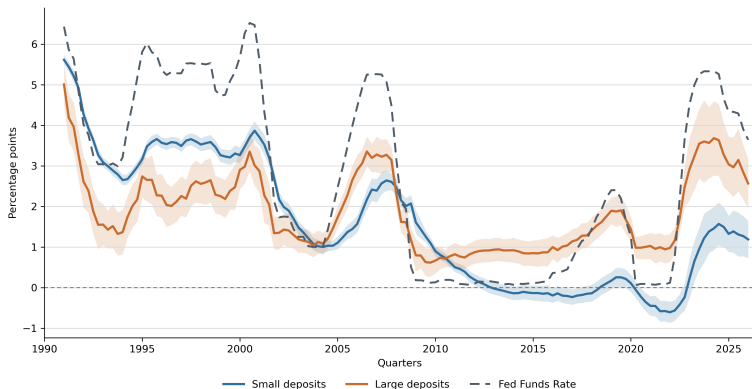
Large Deposits Moved from a Discount to a Premium



- The deposit-weighted LDP rose from about **-175 bp** in 1992Q3 to about **+270 bp** in 2022Q4—an increase of more than 400 bp.

Robustness

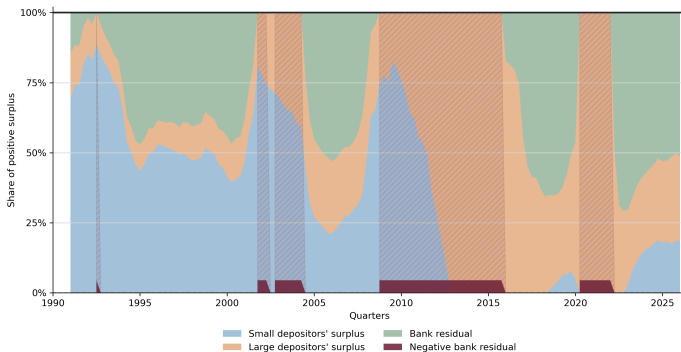
Small-Deposit Rates Drive Most of the Widening



- From the LDP trough to its peak, the implied small-deposit rate falls about **360–390 bp**; the implied large-deposit rate rises about **60 bp**.

The Redistribution of Depositor Compensation

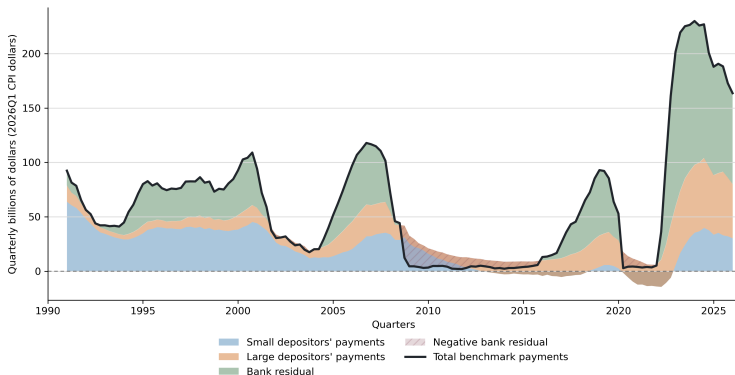
Compensation Shifted Toward Large Depositors and Banks



- The small-depositor component shrinks as the large-depositor component and bank residual rise; the bank residual is strongly cyclical.

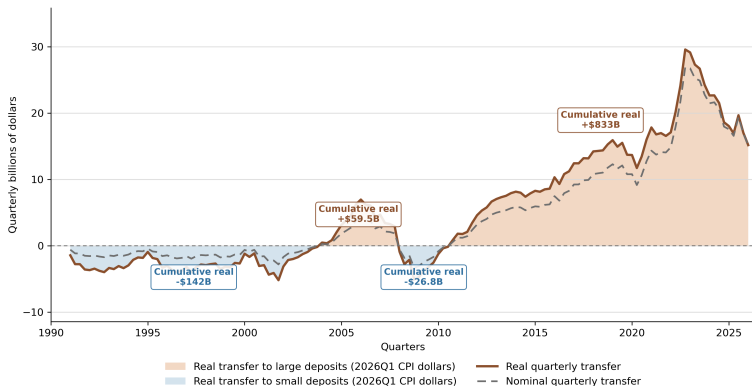
Rates versus shares

Deposit Compensation in Dollars



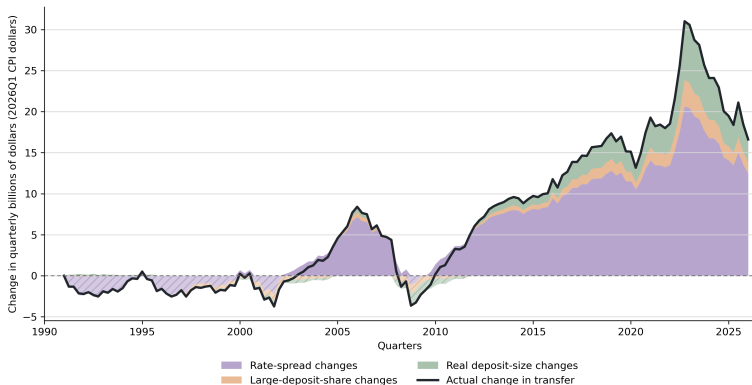
- In 2026Q1, the quarterly FFR benchmark was about \$164 billion: **\$31 billion** to small depositors, **\$49 billion** to large depositors, and an **\$84 billion** bank residual.

An \$833 Billion Transfer to Large Depositors



- Relative to an equal-rate benchmark, the real transfer has favored large depositors since 2010Q4 and cumulates to about **\$833 billion**.

Repricing Drives the Transfer



- The widening rate spread is the dominant contributor; real deposit growth amplifies the dollar transfer, while the deposit-share term contributes less.

What Drives the Large Deposit Premium?

Analytical Framework: Three Components of the LDP

$$\text{LDP} = \underbrace{out^L - out^S}_{\text{outside-option gap}} + \underbrace{\delta}_{\text{risk premium}} + \underbrace{\left(r^{FFR} - O - \phi^L \delta\right) \left(\frac{\beta^L}{\phi^L} - \frac{\beta^S}{\phi^S}\right)}_{\text{bargaining component}}$$

Outside options

Large depositors may have easier access to market instruments.

Bargaining

Larger, more sophisticated depositors may capture more of the surplus.

Risk

Uninsured balances may require compensation for expected default losses.

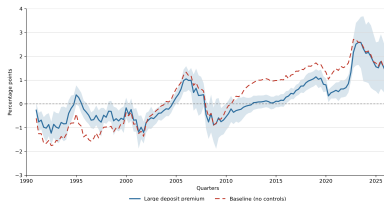
Large-Deposit Rates Respond More Strongly to the FFR

	Levels Specification			Changes Specification		
	(1) LDP	(2) Small	(3) Large	(4) LDP	(5) Small	(6) Large
Fed Funds Rate	0.073 (0.047)	0.373*** (0.041)	0.446*** (0.023)			
Time Trend (dt)	0.029*** (0.002)	-0.023*** (0.002)	0.006*** (0.002)			
Δ Fed Funds Rate				0.270*** (0.040)	0.235*** (0.039)	0.504*** (0.038)
Constant	-5.558*** (0.432)	5.005*** (0.520)	-0.553* (0.331)	0.020 (0.018)	-0.027* (0.016)	-0.007 (0.012)
Observations	141	141	141	140	140	140
R^2	0.862	0.914	0.882	0.327	0.372	0.755

Note: Deposit-weighted time-series regressions, 1991Q1–2026Q1. Levels include a linear trend. Standard errors are robust to serial correlation and heteroskedasticity.

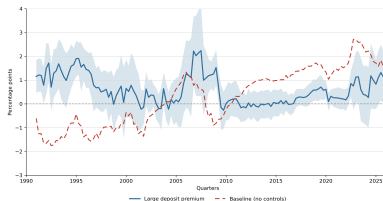
Depositor Characteristics Explain the Secular Trend

Deposit-product controls



More than 350 bp of the rise remains.

Add depositor characteristics

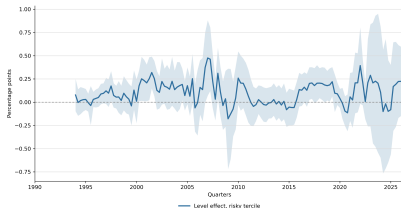


The secular rise disappears; cyclicity remains.

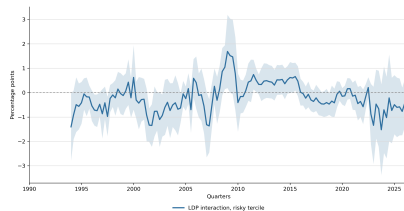
Components

Bank Capitalization Mostly Affects Rate Levels

Effect on the small-deposit rate



Effect on the LDP



- Low-MATCE banks pay higher rate levels episodically. Only during the GFC is their LDP also higher.

Other risk measure

Conclusion

1. The LDP rose by more than **400 bp**, turning a discount on large deposits into a substantial premium.
2. The repricing reduced small depositors' share of compensation from about **80 to 40 percent** and generated a cumulative **\$833 billion** transfer to large depositors since 2010Q4.
3. Deposit-product differences do not explain the rise. Corporate funding and average large-account size absorb its secular component, consistent with the bargaining framework.
4. The premium widens when monetary policy tightens, while bank-specific risk plays a limited and episodic role.

Appendix

Constructing Small and Large Deposits

Account-size thresholds in the Call Reports

\$100,000 through 2009Q2 → \$250,000 from 2009Q3 onward

For accounts above the applicable threshold, we classify the threshold amount as small and only the excess balance as large:

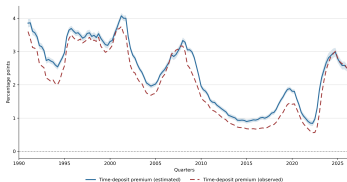
$$\begin{aligned} \text{Small deposits} &\approx \text{balances below threshold} \\ &\quad + \text{threshold} \times \text{number of larger accounts,} \\ \text{Large deposits} &= \text{total domestic deposits} - \text{small deposits.} \end{aligned}$$

- The exact Call Report items change with reporting forms and are harmonized quarter by quarter.
- The measure isolates balances to which large-account pricing is most relevant; it is a size split, not a direct insurance-status split.

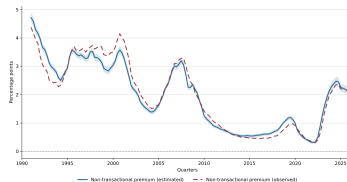
[Back to measurement](#)

Full Validation: Four Specifications

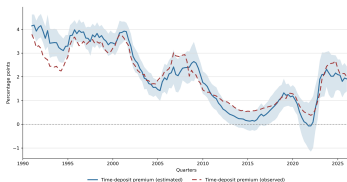
Time premium:
equal weighted



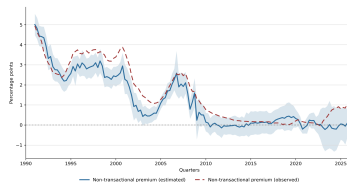
Non-transactional premium:
equal weighted



Time premium:
deposit weighted



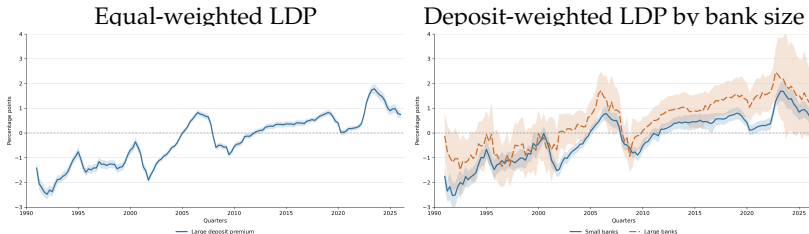
Non-transactional premium:
deposit weighted



Correlations between estimated and observed premia range from roughly 0.95 to 0.99;
average absolute differences are about 0.2–0.5 percentage points.

[Back to validation](#)

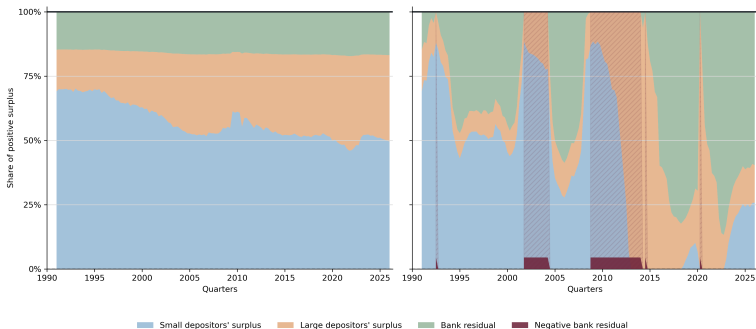
The Increase Is Robust to Weighting and Bank Size



- The equal-weighted LDP rises from about –250 bp to about +180 bp.
- Both small and large banks display the same broad increase; the aggregate result is not driven only by the largest banks.

[Back to baseline LDP](#)

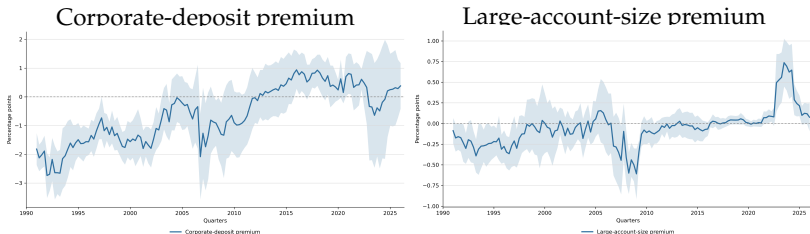
Pricing Drives the Decline in Small Depositors' Share



- Allowing only deposit shares to change produces a modest decline; allowing only rates to change reproduces most of the baseline shift.

[Back to compensation shares](#)

The Two Depositor-Characteristic Premia

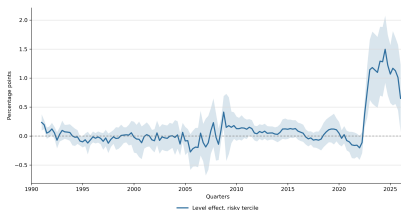


- Corporate-deposit compensation rises from strongly negative toward zero around the 2011 repeal of Regulation Q's remaining restriction.
- Compensation associated with very large accounts increases mainly over the last two decades.

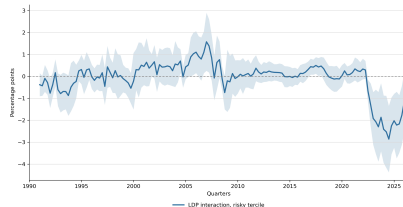
[Back to characteristics](#)

Delinquencies and a Risk-Premium Benchmark

Effect on the small-deposit rate



Effect on the LDP



	Failure probability	Loss given default	Expected loss
Historical	0.3–0.4%	6%	< 3 bp
Conservative	1%	10%	10 bp

[Back to MATCE results](#)

Why the Estimated and Average Premia Can Differ

For the simple two-category regression, the difference has an exact two-component decomposition:

$$b_t^L - \beta_t^{L,*} = \underbrace{\frac{\text{Cov}_i(\alpha_{it}^L, (1 - \alpha_{it}^L)d_{it}^S)}{\text{Var}_i(\alpha_{it}^L)}}_{\text{small-deposit-rate component}} + \underbrace{\frac{\text{Cov}_i(\alpha_{it}^L, \alpha_{it}^L d_{it}^L)}{\text{Var}_i(\alpha_{it}^L)}}_{\text{large-deposit-rate component}}.$$

- The components capture how funding composition co-varies with bank-specific small- and large-deposit rates; they can carry opposite signs and partially offset.
- The appendix gives exact fixed-effects and multivariate counterparts and shows how to replace all moments with deposit-weighted moments.