

First Carolina Bank to bolster core funding via major fintech partnership EXCLUSIVE

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As deposit competition intensifies and funding costs soar, [First Carolina Bank](#) turned to a financial technology partnership to strengthen its core funding.

On March 22, the Rocky Mount, NC-based bank announced a multiyear partnership to provide deposit accounts for customers of financial technology (fintech) company [BMTX](#), a subsidiary of [BM Technologies Inc.](#) It is the bank's first major fintech partnership and will initially bring about \$525 million in deposits, a substantial amount for First Carolina considering its total deposits at the end of 2022 stood at \$1.69 billion.

"We've always been looking for ways to provide additional creative, core funding for our lending," First Carolina President and CEO Ron Day said in an interview. "We'll use this as a part of our core funding strategy of the bank in terms of responding to the demand for the bank out there."

The deposit balances could grow up to about \$650 million over the course of four years, Day said.

The near-term focus of its fintech strategy will be around the BMTX partnership, Day said. First Carolina does not plan to pivot its business model to be dedicated to sponsoring fintechs, although it is open to conversations with potential new partners if the right opportunity comes along, the CEO said.

First Carolina [hired](#) Pat Pritchard, previously banking operations manager at [Pinnacle Financial Partners Inc.](#), to lead its fintech and digital banking operations. It plans to hire more professionals as a result of this partnership, Day said.

The Deposit Processing Services Agreement governing the partnership specified that First Carolina will be the exclusive provider of deposit accounts from customers of BMTX's BankMobile Higher Education Program. The program features a digital-only checking account product for college students called BankMobile Vibe.

Since the deposits are placed in hundreds of thousands of accounts of college students, the average account size is smaller and thus all of the deposits will be qualified for Federal Deposit Insurance Corp. insurance, Day noted.

Floating rates benefit both parties

First Carolina will pay BMTX floating interest rates on the deposits, between 2% and 6% based on the effective federal funds rate, Day said. This arrangement gives First Carolina some certainty to measure the top end of the funding cost, he said.

"Right now interest rate sensitivity is so high for floating rate depositories in most banks, given interest rates have gone up. This puts us in a very favorable position to have a really strong addition to our core funding source at a reasonable rate," Day said.

The variable rate fee structure is also critical for BMTX's growth and profitability, Luvleen Sidhu, CEO and chair of BM Technologies, said on the company's March 27 [earnings call](#). It will expand BMTX's margin by more than 100 basis points on its average service deposits, compared to the current fixed rate servicing fee structure, Sidhu said on the call.

Constrained by the fixed rates, the fintech allowed for a deposit runoff in 2022, in order not to bring in extremely rate-sensitive deposits, Sidhu told analysts. The runoff continued in the first quarter of 2023, albeit at a slower pace, she said.

The partnership is currently under FDIC review for final approval. First Carolina filed a primary purpose exception letter to the FDIC on Feb. 24, using the clause of "enabling transactions test," hoping to make sure that First Carolina can classify those deposits as consumers' deposits, as opposed to brokered deposits, Day said.

Once the parties get FDIC approval, initial deposits of approximately \$525 million will be transferred to First Carolina from BMTX's current partner, [Customers Bank](#).

To bolster lending, interchange income

Besides access to student depositors, First Carolina is also eyeing commercial opportunities with their universities and colleges.

BMTX said it serves 750 university and college campuses across the nation. Some of those campuses are within earshot of First Carolina's network from Virginia down to Atlanta, and the Raleigh area of North Carolina, Day said.

"We may be banking those institutions themselves and making loans to them and having corporate deposits from those institutions," Day said.

First Carolina and BMTX will also share interchange revenue on transactions incurred in the checking accounts. The interchange will be about 78 basis points, where First Carolina gets 10 basis points of it and BMTX gets the rest, Day said.

With \$2.11 billion in total assets at year-end 2022, First Carolina is exempted from the Durbin amendment, meaning it can charge higher interchange fees than banks larger than \$10 billion. The ability to earn higher interchange income will help restore BMTX's profitability, Sidhu said on the earnings call.

BMTX's partner, Customers Bank, surpassed the \$10 billion threshold in 2019. The high cost of using a sponsor bank in part prompted BMTX to seek to [buy a community bank](#), [First Sound Bank](#), in 2021. But the deal was [terminated](#) in December 2022 due to a prolonged regulatory approval process.

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