

First Carolina Bank's plan to add \$500M in deposits

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BMTX, a publicly-traded fintech in Philadelphia, is teaming up with First Carolina Bank in North Carolina – a move expected to suddenly add more than \$500 million to the Rocky Mount bank’s \$2.2 billion balance sheet.

Still pending regulatory approval, the partnership taps First Carolina as the exclusive provider of deposit accounts for customers of BMTX’s BankMobile Higher Education Program, which provides students with bank accounts and debit cards that allow them to receive money from their college or university due to refunds from financial aid awards, grants and scholarships as well as paychecks and other payments.

For BMTX, First Carolina’s sponsorship allows the firm to really act as a bank.

For First Carolina, it means more deposits – which could translate to more loans in the communities it covers. But it also means an entry point into the next generation – new student account holders who could some day grow up to be executive clientele.

The deal, six months in the making, came after the institutions were introduced to each other by a common partner, Wedbush Securities Inc.

BMTX had been on the hunt, [having terminated a plan earlier this year to acquire a bank in Seattle, First Sound Bank.](#)

At the time, BMTX said that with interest rates rising, it would be better situated as a fintech with a sponsor bank. That way it could avoid the capital needs and credit risk that would come by becoming a chartered bank via a merger.

In order to access Federal Deposit Insurance Corp. coverage, they need to partner with a sponsoring financial institution. And in particular, they wanted one with less than \$10 billion so that it could call under what’s called [the Durbin exemption](#), which means its debit card program would not subject to interchange fee standards.

But BMTX also wanted a bank that could onboard at least a half a billion in deposits. First Carolina, which raised \$115 million last March, fell into that sweet spot, easily able to onboard those deposits while staying strongly capitalized, said Ronald Day, First Carolina’s president and CEO. Right now, it’s about three times what’s considered by regulators to be well-capitalized, at 15 percent.

Day said the bank plans to make hires – particularly in risk and oversight – “to make sure these deposit accounts are being monitored appropriately.”

The bank anticipates its deposit balances will increase by about \$525 million when it onboards those customers.

Day said the deal doubles down on the bank’s branch light strategy. First Carolina recently opened its ninth branch, in Greenville, South Carolina.

“We don’t see extending our branch footprint significantly,” he said. “The way you gain new deposit relationships is going to be through a combination of physical branches and technology.”

BMTX gives First Carolina an entry point into the next generation, as it has relationships with about 100 education institutions in its footprint – including Wake Tech Community College. About 3,000 with Wake Tech have checking accounts through their technology, Day said.

“The reality is community banks are relevant, but we’re challenged,” he said, noting that the bulk of new accounts are being opened at big banks and online.

A survey out last year from Plaid and Harris Poll shows fintech as being central to 88 percent of consumer’s financial lives – and Day said First Carolina sees opportunity in those numbers.

Day’s sentiment is shared by experts.

Jimmie Lenz, director of Duke University’s master of engineering in fintech program, said this kind of partnership could be the “lifeblood of community banks.”

“Community banks have had a tough time,” he said. “They have to go against the big guys.”

Fintech can bring in a “huge advantage” to smaller banks like First Carolina. A smaller bank can adopt technologies quicker than large, layered institutions, he said.

“I think community banks are in a really, really good place to leverage these kinds of partnerships,” he said. “To me, this is what every community bank should be doing. You can’t sit back and do what you’ve done for the last 50 to 75 years. That is clearly not working.”

More deposits are critical as First Carolina looks to beef up its lending, Day said.

As for the bank’s position, Day said he’s confident, even following the recent failures of Silicon Valley Bank and Signature Bank of New York.

“These events are unsettling,” Day said. “But I’d say they’re isolated to those institutions and really don’t represent the systemic risk it might suggest. ... We’re in a good position and nothing really changed with these recent events other than we’ve seen new business come in as a result.”

Less than 30 percent of First Carolina’s deposits are uninsured, a figure that falls closer to 20 percent when it onboards BMTX’s deposit program, Day said. He also feels good about the company’s liquidity situation, as it has just under \$800 million in undrawn availability, which covers its uninsured deposits by about 150 percent, he said. About 80 percent of the firm’s entire loan portfolio, just under \$1.5 billion of the \$1.8 billion outstanding, is secured by commercial real estate property, he said.

BMTX executives did not respond to a request to comment for this story.

BMTX was known as BankMobile before its merger in January 2021 with a special purpose acquisition company in a move that took the company public.

<https://www.bizjournals.com/triangle/news/2023/03/24/first-carolinas-bmtx-partnership-deposits.html>