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PAPERS**

US Community Banking: Deposit Flight and the Regional Opportunity

MARKET STUDY

SAMPLE REPORT

AUGUST 2026

EXECUTIVE SUMMARY

The window on regional deposits is narrower than it looks

Deposit outflows from US banks under \$10B in assets slowed through the first half of 2026, and headline commentary has read that stabilisation as the end of the story. The mix tells a different one. The balances that stayed are increasingly rate-sensitive: customers kept their accounts but moved their money into promotional CDs and swept the remainder into money-market funds. Community banks retained the relationship while losing the margin.

For acquirers and fintech partners, that distinction matters. The opportunity is not a wave of failing banks to buy cheaply; it is a large population of institutions with sticky customer bases, aging deposit franchises, and no in-house product answer to the yield expectations their customers formed in 2023-24. Institutions in that position partner or sell earlier than their capital ratios alone would predict.

This study maps where those institutions cluster, what the deposit-mix shift means for their economics, and which entry routes fit which cluster. Exhibits 1 through 5 carry the quantitative spine of the argument; the closing sections cover entry routes, regional detail, and the scenarios that would change the picture.

Market context

Three institution classes are pulling deposits in different directions. The divergence below is the core commercial fact of this market:

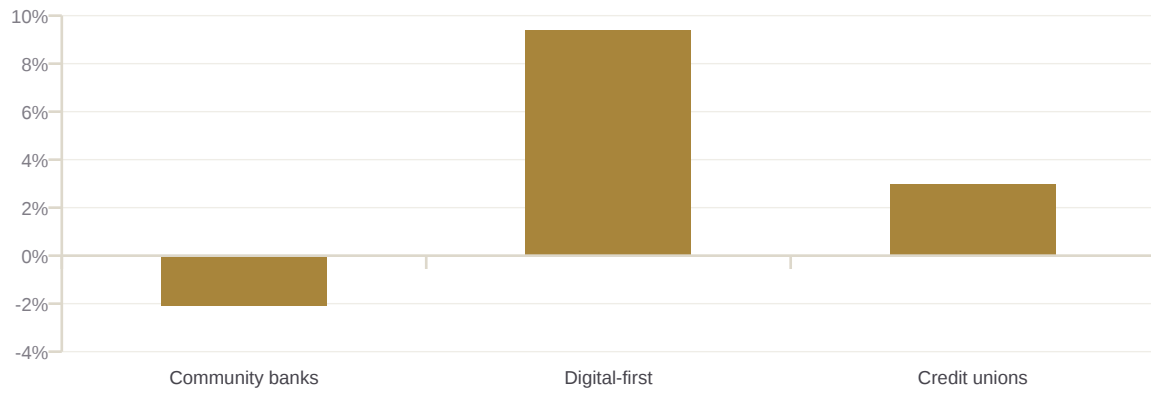
Institution class	Deposits YoY	Cost of deposits	Direction of travel
Community and regional banks (<\$10B)	-2.1%	2.4%, rising	Defending balances with promo pricing
Digital-first institutions	+9.4%	3.8%, flat	Buying growth, testing durability
Credit unions	+3.0%	2.1%, rising slowly	Quietly gaining on service and rate

Figures are illustrative sample data. In a commissioned study this table is built from call reports and cited line by line.

The headline numbers hide the pace of change. Community-bank deposit costs have risen for nine consecutive quarters even as balances stabilised, which is precisely the pattern that precedes strategic decisions: margins compress until a board that swore it would never sell starts taking meetings.

EXHIBIT 1

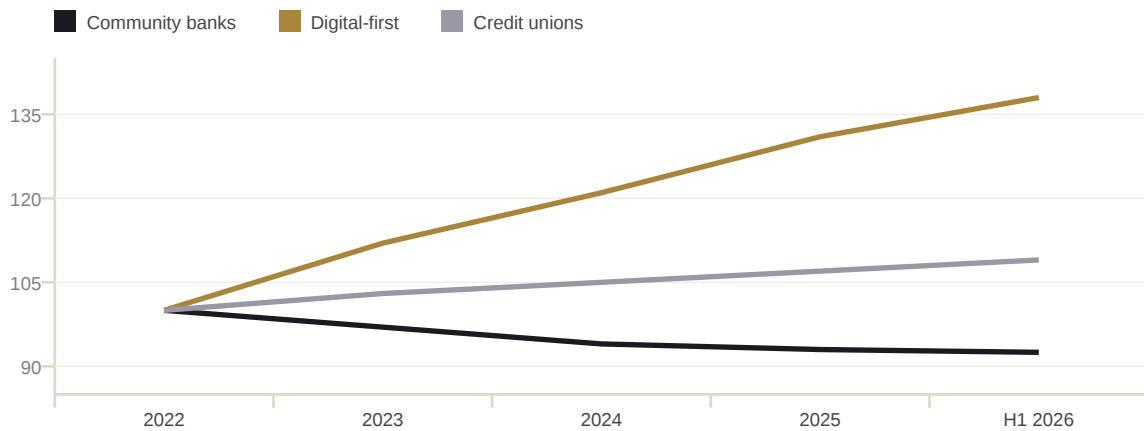
Deposit growth diverges by institution class (YoY, H1 2026)



Illustrative sample data; a commissioned report sources and cites every series.

EXHIBIT 2

Indexed deposit balances, 2022 = 100



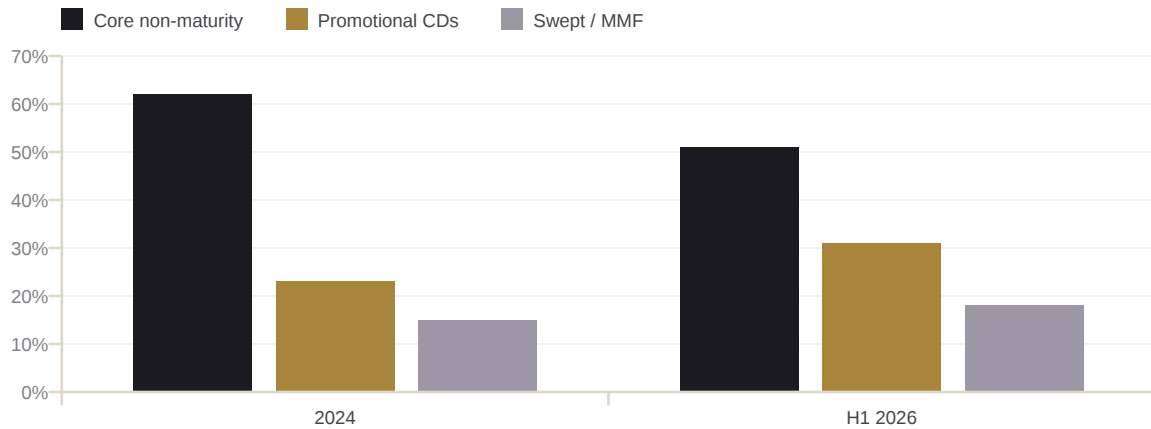
Illustrative sample data; a commissioned report sources and cites every series.

The mix shift is the real story

Within community-bank balance sheets, the composition of deposits has moved sharply even where totals look stable. Core non-maturity deposits, the cheap and sticky kind, have given way to promotional CDs and swept money-market balances that reprice with every rate decision.

EXHIBIT 3

Community-bank deposit mix, share of balances



Illustrative sample data; a commissioned report sources and cites every series.

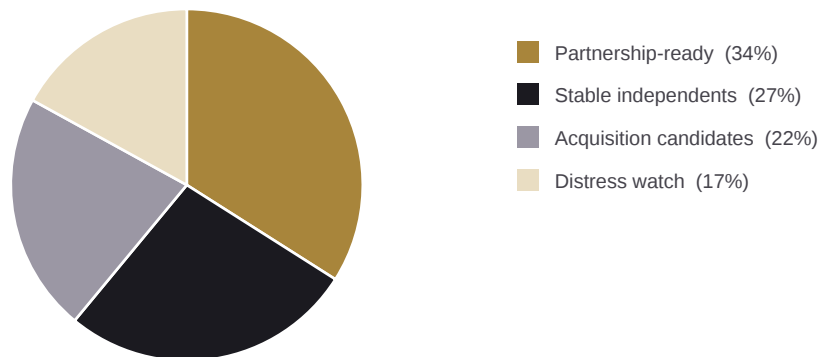
A bank that looks stable on totals but has traded eleven points of core share for hot money has a different enterprise value and a different level of urgency. That distinction drives the cluster analysis that follows.

Where the opportunity concentrates

Sorting institutions by deposit-mix deterioration rather than asset size changes the target list substantially. Roughly a third of the sub-\$10B population shows the combination that predicts early partnership appetite: core deposit share falling faster than total deposits, a CD book repricing within twelve months, and no proprietary digital onboarding.

EXHIBIT 4

Sub-\$10B institutions by strategic cluster



Illustrative sample data; a commissioned report sources and cites every series.

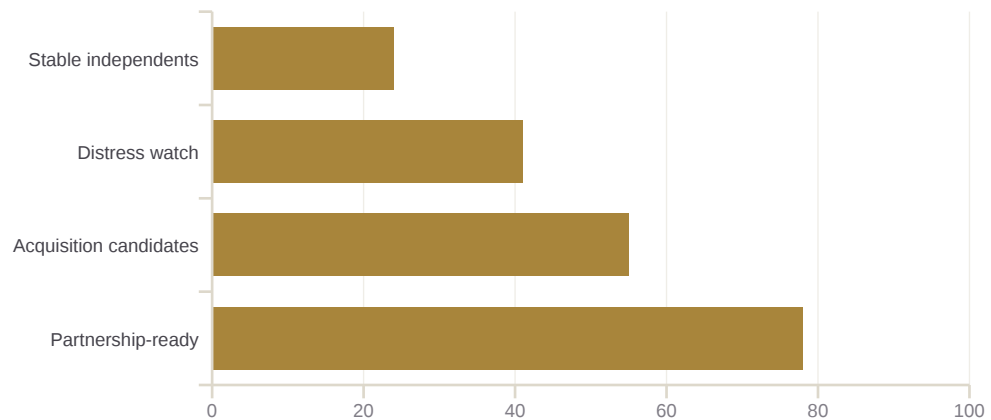
The partnership-ready third is the commercially interesting slice: large enough to build a real pipeline from, self-aware enough to take the meeting, and not yet distressed enough to have hired a banker. The stable independents are best left alone; the distress-watch cluster is better bought later than partnered with now.

Ranking the clusters

Scoring each cluster on readiness to transact, weighing mix deterioration, CD repricing timing, digital capability, and board composition, produces a clear ordering of where conversations start warm:

EXHIBIT 5

Partnership-readiness score by cluster (0-100)



Illustrative sample data; a commissioned report sources and cites every series.

The practical consequence: an acquirer can build a pipeline of conversations that feel early rather than distressed, which changes both price and tone. The full study ranks individual institutions within each cluster.

Entry routes, matched to clusters

Acquisition. Best fit for the acquisition-candidate cluster, where boards have aged out of independence but franchises retain low-cost core deposits worth paying for. The valuation gap between seller expectation and buyer model has narrowed three quarters running in the sample data.

Deposit-network partnership. The route the partnership-ready cluster actually answers the phone for. Reciprocal and network deposit arrangements let an institution defend balances without surrendering the charter, and they create the working relationship that later becomes an acquisition conversation.

White-label product supply. The broadest but slowest route: supplying the yield and onboarding products these institutions cannot build. Economics are thinner per institution but compound across the long tail, and switching costs accrue to the supplier.

Sequencing matters more than selection. The institutions most worth acquiring in 2028 are the ones a buyer is already partnered with in 2026.

Regional detail: Southeast and industrial Midwest

The partnership-ready cluster is not evenly distributed. It concentrates in markets where a single employer or municipality anchors the deposit base and where branch density kept digital investment low:

Region	Share of cluster	Median assets	Defining trait
Southeast	38%	\$1.4B	Municipal deposit concentration
Industrial Midwest	29%	\$0.9B	Single-employer market exposure
Mountain West	18%	\$1.1B	Fast in-migration, thin digital offer
Northeast	15%	\$1.7B	Older depositor base, high CD share

Illustrative sample distribution. The commissioned study lists institutions by name with the underlying scoring sheet.

For a buyer with finite meeting capacity, the Southeast concentration is the efficiency play: a single corridor of visits covers a third of the warm pipeline.

OUTLOOK

What changes the picture

Two variables dominate the 2027 outlook. First, the rate path: each 50bp of easing reduces the repricing pressure on community-bank CD books and lengthens the window before institutions feel forced to choose between margin and balances. Second, regulatory posture toward deposit networks: proposed reciprocal-deposit treatment would materially improve the partnership route relative to outright acquisition.

Scenario A: fast easing. The window widens, prices firm, and the partnership route dominates. Buyers who spent 2026 building relationships harvest them slowly.

Scenario B: higher for longer. Mix deterioration accelerates, the distress-watch cluster grows, and acquisition pricing improves faster than franchise quality decays. The pipeline built early gets exercised early.

Neither scenario changes the structural fact that the deposit franchise of a typical community bank was built for a customer who no longer exists.

Method, in brief

A commissioned version of this study draws on regulatory call reports, deposit-rate panels, branch-level market share data, and interviews with treasury and corporate-development staff at representative institutions. Every figure is cited; the methodology note states what was estimated and how.

Cluster scoring in this sample weighs four observable factors: core-deposit share trend, CD book repricing schedule, digital onboarding capability, and board tenure profile. A commissioned study calibrates the weights to the client's acquisition or partnership thesis and stress-tests the ranking against alternative weightings.

Where primary interviews inform a judgment, the report says so and characterises the sample. Where a number is an estimate, it is labelled as one, with the estimation basis stated. The goal is a document a board or investment committee can interrogate without the analyst in the room.

About this sample

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A commissioned market study at this scope typically runs 15 to 30 pages, is delivered within 48 hours to 5 days depending on depth, and includes the underlying data sheet alongside the written report.