

Managing an Effective Deposit Pricing Process

The 10 Keys

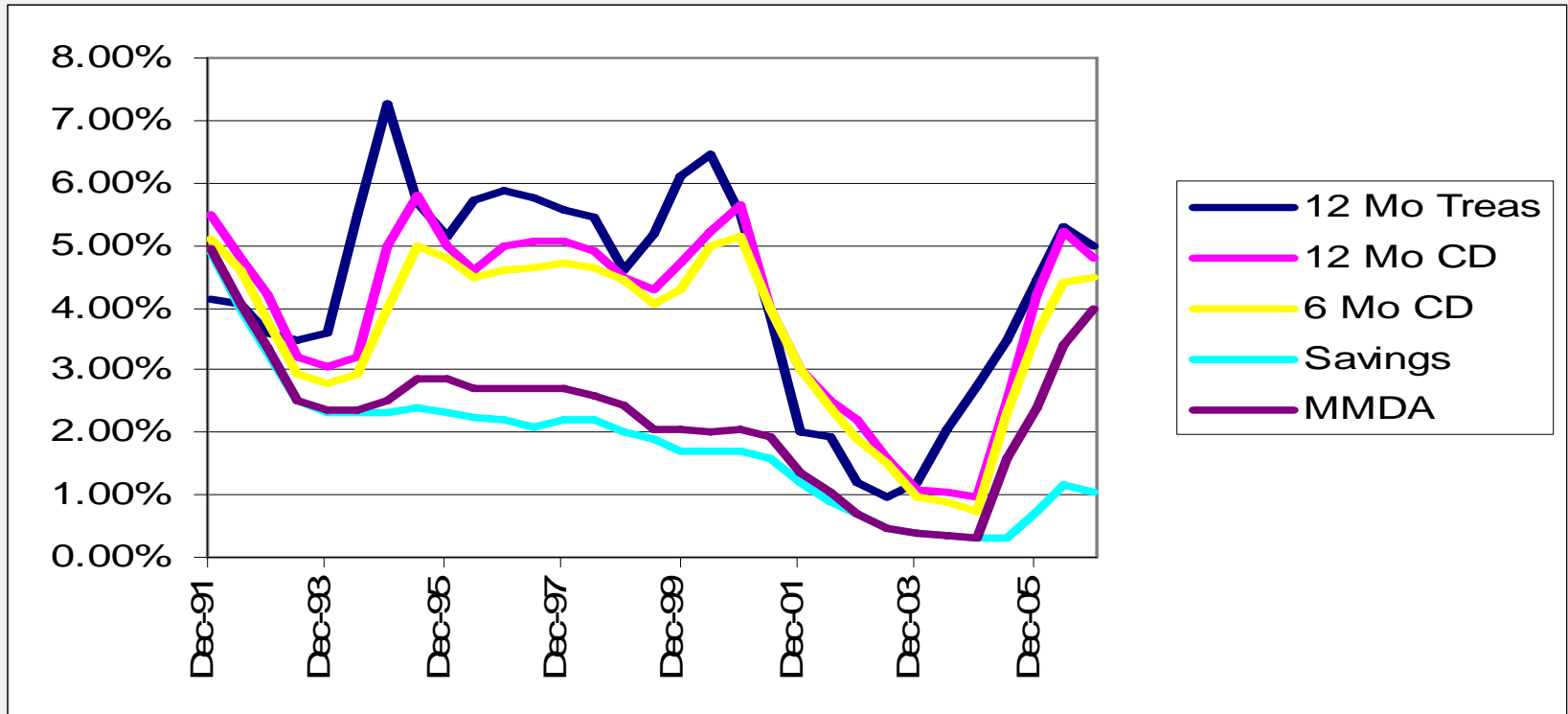
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10 Keys to Effective Deposit Pricing

1. Tie Pricing Into ALCO
2. Proactive vs. Reactive
3. Process Has Tactical and Strategic Components
4. Develop Strategies by Sector
5. Strategy Combines Products and Rules
6. Effective Segmentation Strategies
7. Effective Monitoring Systems
8. Correct Analytics
9. Weekly Process Administers Strategy
10. Effective Quarterly Review

Trends in Industry Deposit Rates

Deposit Source: Bank Rate Monitor



Rates on NMDs historically responded much more slowly and with a greater lag to changes in market rates than CDs. But behavior changed in this rate cycle.

4. Develop Strategies by Sector

- Deposit Sectors
 - Checking accounts – Full service accounts that allow customers to conduct their daily transactions – checks, ATM, debit, ACH, bill pay, etc.
 - Savings and MMDA – Accounts that allow customers to separate a portion of their liquidity so segregate from velocity going through checking.
 - Short-term CDs – short-term investors in fixed income risk free account.
 - Long-term CDs - long-term investors in fixed income risk free account.

Sectors are groupings of accounts with roughly the same utility to customers.

5. Strategy Combines Products and Rules

- Develop a pricing strategy for each sector. What is a pricing strategy?
 - The account structure within the sector.
 - Example: ST CD Sector
 - 3 Month CD
 - 6 Month CD
 - 12 Month CD
 - Off-Maturity Special
- } Accounts offer different value propositions within the general need met by the sector.
- Once they are grouped, review product offerings
 - Does the array of products meet customer needs?
 - Is there opportunity to effectively segment customers within this sector
 - Are the major customer constituencies addressed by products that meet their needs?

5. Strategy Combines Products and Rules

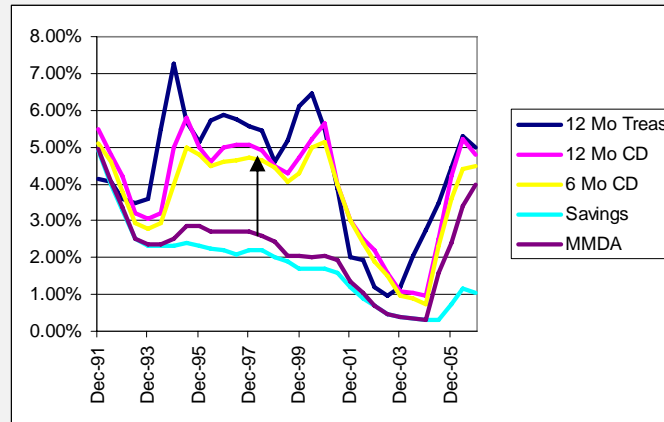
- Agree on the pricing rules to be followed in pricing the accounts within the sector.
 - How the accounts are priced relative to each other and to competitive and wholesale rates.
 - Example - Price all regular CDs in this sector at the average rate in the market based on survey data. Price the special at or near the top of the market based on survey data.
- For multi-market pricers, the rules could be different for different markets

6. Effective Segmentation Strategies

- Are designed to separate customers into different classes
- Allow you to provide products that meet needs of specific constituencies
 - Rate sensitive vs. non-rate sensitive
 - Fee adverse
 - Special needs

6. Effective Segmentation Strategies

- Sector level segmentation



Pea shooter

- Account level segmentation

Example: ST CD Sector

- 3 Month CD
- 6 Month CD
- 12 Month CD
- Off-Maturity Special



Uzi

- Barrier to entry

Barriers

- Min balance or tiering
- Geographic
- New money
- Transactions



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Money Market Segmentation

- New Premium High Rate Tiered MMDA
 - Significant minimum balance barrier to entry
 - Rates at top of market
 - Might initially test market in low market share markets
- Existing MMDA
 - Drop rates - If not right away, then lead competitors down as wholesale rates begin to drop.



Savings Segmentation

- uSweep Savings
 - Internet only account
 - ACH Sweep in
 - ACH sweep out
 - No Branch transactions
 - Electronic barrier to entry reduces likelihood of cannibalizing existing savings.
 - Can be used to attack competitor checking base.
 - Will it work? Look at success of ING Orange account.
- Existing Savings
 - Drop rates - If not right away, then lead competitors down as wholesale rates begin to drop. Target is middle of low rate pack.



Low Balance High Rate Checking

- Features
 - Rate
 - High when debit card transactions exceed 12
 - Zero when below
 - Inverted Tier
 - Balances < \$25K – 5%
 - Balances > \$25K – 1%
 - Electronic statements
 - High Rate offset by
 - Some customers at 0%
 - Debit interchange income
 - Electronic transactions
 - Transaction requirements create barrier to entry
- Target Audience
 - Younger customers who embrace electronics
 - More rate sensitive customers
- Monitor
 - New money vs cannibalization
 - Weighted average rate
 - Debit utilization

