

**DEPOSIT RATES/OUTFLOWS & ALTERNATIVE FUNDING INTEREST RATES**

Good day everyone. Thank you for joining us once again here at Seifried&Brew. I am Jamie Sumner, chief analyst of Seifried&Brew. For this week's webcast we want to continue on our theme that we have been doing over the past couple of weeks. Today's theme about how to approach this **rising rate environment** that we are on the cusp of is, *to be informed*. Last week we talked about *being prepared* and now we are going to talk about *being informed*. And it is important to be informed as we go through this process.

What we are going to focus primarily on are **deposit rates** [Slide 2]. What we need to do is keep an eye on the deposit rates within your market area as well as within the United States. SNL Financial provides averages for the variety of different checking accounts and money markets and savings accounts [see Slide 2]. So SNL is a good resource to benchmark your bank against the national average. SNL also provides state and county averages as well. Overall when we look at the national average with these **core deposit rates**, you can see that there is very little change quarter over quarter and year over year. In fact, when we look at the year over year change [on Slide 2], we can see that there is about a one basis point (bps) shift throughout the majority of these accounts, which is not that significant. When we look quarter over quarter, which is the end of last year to the end of March of 2017, we can see the highest change was in that relationship money market account, which was just up two bps.

Now within the deposits we also need to look at the overall **CD rates** [Slide 3]. And with these CD rates that are put out here for the national average you can see similar movements as they have increased a bit more than what we saw within the core deposits. But even within this range year over year we are up maximum six basis points.

Of course we don't want to stop here at the national level as you also want to look at your individual market area and make sure that your rates fall within the correct range of what you are looking for. When we are looking at these rates we also need to take into consideration of where your depositors are looking [Slide 4]. Often times they are going to Bankrate.com to compile a list of rates that are out there. And you can see there is a pretty significant difference between what we find in SNL Financial as the national average and what we are finding out there on Bankrate.com. So with Bankrate.com we are having a 1 year CD at a 1.5%, the best rate CD that you can find out there on Bankrate.com. The national average is a 1.25% they are stating. We compare that to SNL's number and you can see the 1 year is at 0.48%, so there is a fairly significant difference between the two.

It is important to keep this in mind because *we want to be informed about our depositors and if we see a trend of our depositors coming in and withdrawing those funds or even transferring those funds out into these other institutions to capture these higher rates, this is something we need to think about*. And we need to then make that decision, *are we treating those customers properly?* Should we be informing them that we have a product that can satisfy their need?

We should also be informed about **alternatives of deposits** and that would be the **Federal Home Loan Bank Advanced Rates** for example [Slide 5]. These advanced rates were taken from the **Pittsburgh Federal Home Loan Bank** and you can see the change year over year has been fairly significant. You are looking here with the 7-year up 59 bps. But if we are looking inside of the CD terms, the 1-year is up 44 bps representing a 44 bps shift from where it was last year at the end of March 2016. So we saw those alternative rates boost up in here.



So we need to take that into consideration when we are looking at our CDs and what we don't want to do is get beyond where the **Federal Home Loan Bank (FHLB)** is setting their rates on their advances. We want to be at or below the FHLB unless we have some relationship deposit pricing that we are building in. Often times, and we have seen this in the past, and it is starting to creep up again more and more, where you have this nice big rate out there for a money market or a savings account, but in order to get that rate you have to qualify and do a certain number of things, i.e. so many transactions within a month and so on and so forth. So we are starting to see those becoming more and more prevalent and highlighted more and more as we move through this time period.

So when we think about that, you know, we want to be informed, keep yourself informed about the rates in your area. Look on the Internet, see where they are setting their rates, make sure you know what your alternative funding rates are so that you can make an informed decision when you are looking to grow your institution and fund your assets. That's all we have for you this week. We look forward to seeing you again next week. Have a great week everyone.

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