ALM MODEL ASSUMPTIONS IN CURRENT INTEREST RATE ENVIRONMENT

Good day everyone. This is Jamie Sumner, Chief analyst of Seifried&Brew, with you again for our weekly webcast. For this week's webcast what we wanted to do is talk a little bit about strategies to put in place for this ***rising rate environment***.

The one strategy I want to go over with you today*, is to be prepared*. It's always important to be prepared as we enter into some new territory. And the one way that you can be prepared is to ensure that your assumptions withinside of your ***ALM model*** are appropriate for your institution. It is during this time of the year that I typically go to a number of ALCO meetings in which we look over or review the assumptions. And it's important to do this at least once a year because as the year progresses there are going to be changes in the tolerances of your depositors or loan customers in the types of products that they are looking for. So it's important to refresh these assumptions at least once a year or maybe more frequently if you have a very dynamic client base.

It's important when we are looking at these assumptions to make sure that they are in agreement in how you are running your institution, and right now the biggest portion would be those sensitivities on those ***core deposit rates.*** When we look at those core deposit rates, (deposits that are non-maturing, ie. ***NOW accounts, savings accounts, and money market accounts,*** and any type of hybrid account that you might have), we want to ensure that the betas, or the pricing sensitivities, that you have in place in your model are accurate for how you are going to manage the bank moving forward. And you might say, "*How do we know in the future how much are we going to have to change these rates in order to keep up with the market?"* Well, that's something I can't give you an answer for. But I can say this, *you can look back in history and see how you did have to reprice those deposits in order to retain them*. Moving into this year, and the rest of the year, when we are looking at ***perhaps two more rate hikes*** from the Fed, that short end of the curve is going to be continuing to move up. And that short end of the curve is primarily where our core deposit pricing is based off of. So we can anticipate the need almost driven by depositors, we are going to need to raise those rates. So we need to make sure that our sensitivities in our ***ALM models*** are accurate and reflect our management style and what we anticipate we are going to have to do when rates do start to move. It's important to do that because that gives you an idea of where your income is going to be going into the next quarter and the final quarters of this year. And that is going to be an important thing to know in here.

So overall that is the main strategy that I am putting forth right now. Just to be prepared for it, make sure you are looking at your assumptions, you are understanding your model and making sure that your model is giving you accurate information. That's all we have for you this week. We look forward to seeing you next week. Have a great week everyone.

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