



# Maintaining Core Deposits

## TIPS FOR KEEPING DEPOSITS STRONG IN A COMPETITIVE MARKET

### PROACTIVE DEPOSIT STRATEGY GUIDELINES

#### Research

- Identify your alternative funding sources.
- Know your competition.
- Understand the demographics of existing and potential depositors.
- Understand the barriers to deposit growth in your market area.
- Have a defined market strategy to compete for core deposits.
- Develop back-pocket strategies for unique deposit opportunities.

#### Pricing

- Compare multiple strategies to find the best solution.
- Use a best practices approach to deposit pricing.
- Use a benchmark when establishing pricing.

#### Analysis

- Understand how deposit pricing impacts overall profitability.
- Have an effective tracking system that identifies new/old money.
- Develop a deposit segmentation report (age, RS vs. NRS, etc.).

**IF STIFF COMPETITION FOR CORE DEPOSITS** is forcing you to price your deposit products beyond profitable levels, chances are your pricing strategies could use some adjustment. Here are some tips you can use to strengthen your core deposit strategies.

#### ASSESS THE SITUATION

Your profitability depends on securing a reasonable spread between interest income and interest expense, which requires evaluating, reviewing and monitoring pricing strategies for both assets and liabilities. How does your institution attract and retain core deposits? What pricing methodology do you use to determine profitable deposit rates?

Core deposits drive funding strategies and the need to maintain a high ratio of core money. Develop a proactive funding plan to increase your deposit base at an efficient cost, with minimal cannibalization of existing accounts.

#### GUIDELINES IN CHANGING RATE ENVIRONMENTS

An ever-changing rate environment complicates deposit pricing and demands varying strategies.

<b>RISING RATES</b> add pressure to your net interest margin as deposit rates typically move up at a faster pace than loan rates.	<b>FALLING RATES</b> add pressure to your net interest margin as financial managers delay dropping rates in fear of losing core accounts.
Hold pricing on non-maturity deposits as long as possible.	Shorten CD terms and drop rates on MMDA, savings and DDA as quickly as possible after a rate movement.
Minimize deposit loss to higher yielding options (i.e., equity market) by adding new premium products that include entry barriers to minimize cannibalization of lower-rate deposits.	If necessary, announce new products to retain rate-sensitive customers.
Understanding the concept of marginal cost of funds takes on heightened importance as you develop profitable pricing strategies in a higher rate environment.	A weak investment market can generate deposit growth while decreasing deposit rates. In this scenario, setting deposit rates at a floor level can be managed without compromising core balances.

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