SETTING DEPOSIT RATES IN TODAY'S ENVIRONMENT

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Lately, deciding on the structure of your institution's CD rates can feel like gambling. Nobody knows for sure where interest rates are heading so everyone seems to be staying short and flexible for when the direction and magnitude of change become clearer. While staying short will give you added flexibility, you may miss an opportunity to improve your future margin by locking in some longer-term funding now.

Lock in Longer-Term Funding

If you followed our previous article, we made the case that interest rates must rise over the next couple of years. If that really does happen, you would be prudent to lock in 2- to 3-year funding now. We have seen banks and credit unions across the country fighting over the short domain with significantly higher short-end rates and specials with odd terms. With the CD cost curve still slightly-inverted-to-flat depending on your market, you can easily stand out with good offerings in the medium term without a huge incremental cost. Even if rates do not move up for the next 6 months, you will still be in a better position than the rest of the pack as they get pulled down a normalized cost curve spectrum.

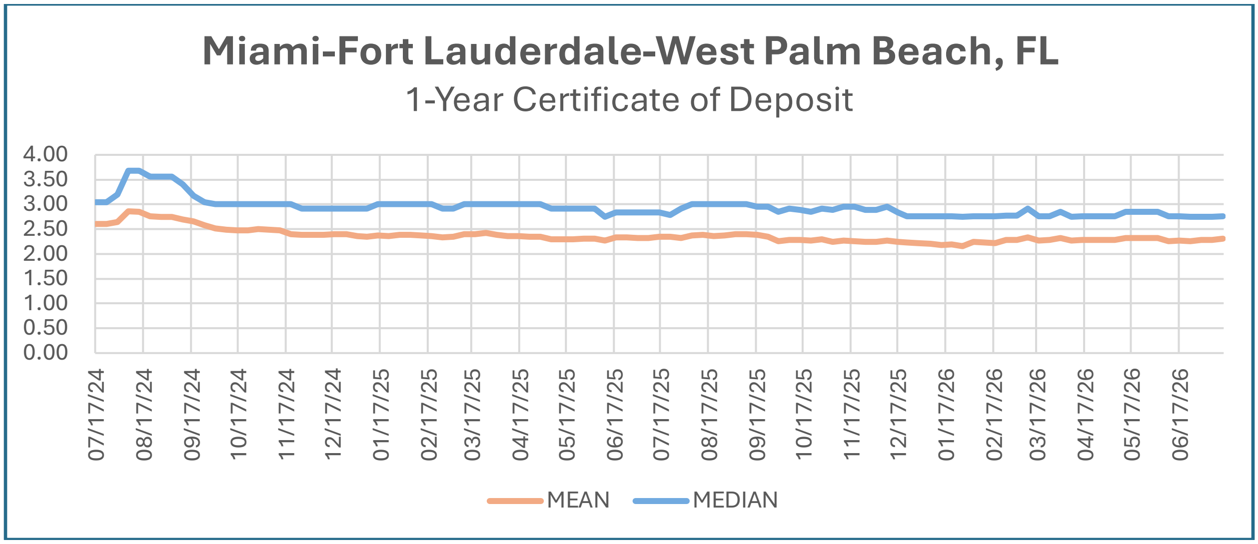
Make Sure You Have Great Data

Having good data is essential, especially when we are at inflection points in the market. It is no longer enough to have an assistant call your top five competitors every week. Nor is it helpful to pay exorbitant fees to a global conglomerate for rates of ten to fifteen banks. From our very beginning more than 30 years ago, **BanAnalytics** has operated under the idea that more information is better. So, in all the markets we survey, we provide reports covering the widest possible representation of the true competitive landscape. This is important for two reasons. First, in today's economy, a consumer can easily open a CD anywhere any time. So, the full roster of your competition is likely larger than you think. Second, by providing a much broader look at your local market, we enable you to see trends as they develop in near real time.

As mentioned earlier, you need to pay attention to specials and promotions. Good luck getting that information from the global "intelligence" firm because those do not fit into convenient little boxes. If you just look at one of their reports, you will see mostly uninteresting rates for 1-year CDs and maybe 1 or 2 decent ones. What their reports fail to capture entirely are all the great rates offered for 11-month or 13-month CDs.

Use the Right Measures When Analyzing Data

You should also consider the measures of central tendency you rely on in analyzing market data. It is not enough to look at the average, or mean, and compare it to your rates. At BancAnalytics, we provide mean, median, mode, low, high, and quartiles for each of the standard CD terms. When data is highly normalized, the differences between mean and median are not significant. But we are not in a highly normalized environment. Consider the following chart.



This shows the mean and median rates for 1-year CDs offered in the Miami market over the past two years. While the two figures track each other closely, notice that the mean is significantly lower than the median. This is because the mean is exhibiting signs of being biased downward due to extremely low offerings by a handful of institutions. If you made decisions based solely on these mean figures, you would miss the point that most institutions in your market have higher offerings than the average. Any rates you offer based solely on the market average will likely be less impressive compared to the overall local market.

So, make sure you have great data, a broad view of the local market including specials, and lock up some medium-term funding without a significant incremental cost. If you move before the rest of the pack your net interest margin will thank you.

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