

## PRICE RIGHT OR PAY THE PRICE

by [Steve Brown](#)

Several weeks ago we ran a piece about ignoring pricing surveys, as banks should be focused on sales strategies that do not involve price. While we sincerely believe that banks should not be increasing rates to retain or attract depositors, we of course, recognized the need for deposit surveys. One deposit survey firm that we utilize (and one of the best), Market Rates Insight, had some further thoughts that we found interesting. In an attempt to provide our readership with an opposing view, we reprint their editorial below written by Dan Geller, EVP of Market Rates Insight:

Is there a price to pay for failing to price deposit products right? Yes there is, and it is a heavy one. Not only can incorrectly pricing deposit products fail to attract new depositors, but there could be an even more severe impact in terms of early withdrawals from current depositors.

In a scientific study on the impact of deposit rates on early withdrawals (Gilkeson, et. al., 1999), the researchers reviewed the consolidated maturity/rate reports ("CMR"). These reports, which are filed quarterly, indicate the volume of time deposits withdrawn prior to their scheduled maturity. During a period of eight quarters (1Q94 through 4Q95), the researchers reviewed the CMR reports from 205 institutions.

The researchers found a correlation between interest rates and the early withdrawal of deposit products and concluded that "In essence, a 10% increase in the reinvestment incentive leads to a 7+ or -19% increase in the withdrawal rate. These results indicate that time depositors are quite sensitive to changes in interest rates and will respond to increases in current deposit rates despite the early withdrawal penalty."

This finding suggests that depositors are very sensitive to the return rate on their deposits and that they will be willing to pay the early withdrawal penalty if the return from reinvesting their money in a higher-rate deposit will be greater than the penalty amount. To illustrate the findings of the Gilkeson, et. al. study, assume that your bank offers a 5% yield on a \$10,000 six-month CD. If your competitors offer the same product at 5.5% (10% reinvestment incentive), you should expect 19% of the depositors who purchased your product to withdraw their deposits if the penalty is equal to or less than the gain from the reinvestment incentive.

Findings indicate that deposit pricing is a dynamic function, and that financial institutions need to constantly stay on top of the market in terms of maintaining their pricing level versus the competition. We believe that competitive-rate intelligence is a critical part of sound pricing management because a slight change in your competitors' pricing can have a significant impact on your current and potential depositors.

Finally, since the risk of losing current depositors due to early withdrawal can affect your entire deposit-product offering, it is imperative that the rate intelligence on your competitors' pricing is up-to-date and comprehensive. In other words, it is not sufficient to monitor only a handful of your competitors' products because a slight change in a deposit product that you are not monitoring may be enough to negatively impact your deposit balances. Only a full-spectrum approach and view of all the products in the basket regularly will help you stay the course for a successful pricing strategy.

# BANK NEWS

## **M&A**

FNB Corp (\$1.7B, VA) will acquire Omega Financial Corp (\$1.7B,PA) for \$393mm.

## **E\*Trade**

The company lost half its market share yesterday, as investors worried that residential loan credit performance and asset backed write downs may drive the bank into receivership. Rumors swirled that the bank is in dire straights and must raise \$2B+ of funding and capital.

## **CU Takeover**

The National Credit Union Administration took over Cal State 9 Credit Union last week due to mounting non-performing real estate loans. The current state is the mortgage market is expected to drive a record number of credit unions to the NCUA.

## **Bank Investment**

Heritage Financial Group, the HC for HeritageBank of the South (\$437mm, GA), will invest \$3mm in Chattahoochee Bank of GA, a new bank in Gainesville that serves small and mid-sized businesses.

## **All-In-One**

JP Morgan Chase and First Data have unveiled Chase Paymentech, an all-in-one payment package that allows small businesses to offer their customers the same payment options as major retailers, including gift cards.

## **IRA Focus**

BofA launched a \$35mm advertising campaign that will focus on clear and understandable Individual Retirement Account solutions.

## **Branching**

SunBank (De novo, AZ) is implementing a novel branch strategy and will look to open up 12 to 14 branches in 2008, all inside AZ Wal-Marts.

## **E-Filing**

The IRS reports that tax filing online is up 9% this year to 80mm. E-filing is now 57.4% of the total.

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