Rates are Rising. What's Your Plan?

by Shawn O'Brien, President

Back in early 2016, Fed leaders projected four interest rate hikes for that year. Only one increase came – in December. Rates were raised three more times in 2017 – the third time, again, in December. But 2018 is on track to be different. The current Fed Chair Jerome Powell announced a rate hike in February, followed by another in June. And he left the door open to two more increases by the end of the year. The message is clear: rising rates are on a march. Community banks and credit unions better not be left standing on the sidelines, simply watching the parade go by.

What do rising rates mean for deposits? It's no secret that the banking industry had experienced a comfortable amount of liquidity since the financial crisis. During the slow recovery, cautious investors kept their cash in banks despite historically low rates. With loan demand equally sluggish, bankers could easily meet their lending needs with the funding they had on hand. Rising interest rates and a more vibrant economy are changing that picture.

A movement in deposits is already occurring; financial institutions are beginning to feel the pressure as customers begin to chase higher returns. In addition, post-crisis call report numbers indicate that three out of four deposits in community banks are in Demand or Savings accounts. Never before has the risk of repricing deposits through CD specials been greater. Banks need to be aware and cautious. This heavier concentration raises concerns on the part of regulators, since demand accounts are typically associated with higher levels of volatility.

The wise move is to plan ahead. With the competition for deposits increasing, other local banks may decide to run CD specials or new marketing programs. Just a few financial institutions in a local market are all it would take to light the match. Banks must weigh the cost of these special programs, as well as the potential risks tied to repricing their current deposit base. While many banks might assume they wouldn't lose deposits, that complacency could be problematic. The reality is, their situations could change overnight.

In preparation, banks must diversify their funding sources to reliably raise deposits as needed and satisfy regulatory requirements.

The must-have for every bank's liquidity strategy

All banks should have a non-brokered liquidity source as part of a *diversified* funding strategy. Connecting with institutional investors subscribing to a Direct Deposit CD listing service is a successful method for generating out-of-area funding. The banks do not jeopardize relationships with local depositors, and will not be at the mercy of "rate wars" among local competing institutions.

QwickRate maintains a Marketplace that allows direct communication between CD investors and financial institutions seeking to generate funding. The Marketplace offers banks a stable source of deposits. Institutional investors have less sensitivity to rate fluctuations than consumer depositors, so their investing strategies are less volatile.

Furthermore, the QwickRate Marketplace meets the FDIC definition of a Direct Deposit CD listing service (by official opinion, a non-brokered deposit source), which is now reported on a separate line of the call report.

Minimize repricing of deposits

Deposit activity in local markets is clearly heating up. Brian Zabora, an analyst with the Hovde Group, reported that the number of special offers for 10- to 18-month CDs across six metro areas rose a median of 33%, while those CDs' median interest rates increased a median of 24 basis points, from January 1 to early December of 2017.

Expert opinion indicates that smaller competitors (community banks, credit unions, online banks) are more likely to offer savers higher rates than much larger institutions will. What happens if rates at the institution across the street jump up 50 bps? The potential impact to your bank – both from a deposit outflow perspective and also from the viewpoint of "forced" repricing – is definitely something to consider.

It's possible to avoid upsetting your local rate structure by having an up-to-date subscription to QwickRate's non-brokered Marketplace. The rates you post in QwickRate are totally separate from your bank's local market. And the fact that your local community deposit base will not see the CD rates posted for institutional investors is a definite benefit. It means that you don't have to be concerned with the potential repricing of your existing deposits when offering CD rates in the national market, and you'll be exercising a defensive measure against rising rates.

Another plus: contingency funding source

It's time to dust off the contingency funding plan. Examiners will be asking for it, and banks that have let their contingency liquidity source lapse will be seen as lacking. Regulators will also be looking to confirm that you have a diversity of funding sources. While most banks have available borrowing capacity at the FHLB, they should also add a deposit option for contingency funding. It's smart to have an up-to-date subscription to a non-brokered CD source, like QwickRate, on that contingency funding plan document.

Why QwickRate is the #1 choice for community banks?

QwickRate is the *only* non-brokered funding provider to earn a "Preferred" designation from the Independent Community Bankers of America (ICBA). For over 30 years, community banks have been relying on QwickRate as a sound and innovative source for broadening their deposit base and diversifying their liquidity sources. On behalf of our subscribers, QwickRate helps educate examiners on the nationwide CD deposit market and the stability of deposits raised through our Marketplace. This outreach is an extension of the training we conduct with bankers and regulatory agencies throughout the country.

As a closed Marketplace, QwickRate is open to institutional subscribers only. No consumer investors can participate, and QwickRate both controls and prescreens the investor audience. Subscribers enjoy the efficiency of fully automated, paperless transactions and automatic rollover capabilities. On-staff regulatory experts help with guidance and tools such as Liquidity Policy templates. QwickTools™ are available to assist with market analysis, retention tracking and monitoring deposit volatility to meet examiner expectations. Unlimited customer support and educational webinars also set our Marketplace apart.

Another great benefit of a QwickRate subscription is complimentary, online access to "Your Bank's Financial Story" in our NEW QwickAnalytics™ interactive research tool. With an additional subscription, you can expand your access to research on all 6,000 U.S. banks, peer benchmarking analysis and regulatory compliance reporting – all made affordable for any size bank.

About QwickRate

QwickRate provides the premier Marketplace for non-brokered funding and investing. With more than 3,000 members, QwickRate offers community financial institutions a cost-effective way to gain direct access to a nationwide CD market to help proactively manage their primary and contingency liquidity needs. The company's online QwickAnalytics™ tool offers interactive research on all 6,000 U.S. banks, Bank & Peer Performance analysis and examiner-ready Regulatory Compliance reports. QwickRate, a Preferred Service Provider of The Independent Community Bankers of America (ICBA) is known for its exceptional customer service, which includes unlimited support and valuable on-staff regulatory guidance.

Call us at **800.285.8626** or schedule a walkthrough of the Marketplace at **www.bankliquiditysource.com**.

QwickRate®

ICBA Preferred Service Provider®