

# Missouri Independent Bankers Association Director's Supplement

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## *With Rates on the Rise, How Good is Your Offense?*

*By: Andrea Marcy, © Kasasa by BancVue*

With the first of what is anticipated to be several rate increases by the Fed, how are we to position our balance sheet to be defensive entering this next rate cycle?

It is said, "The best defense is a good offense." By effectively keeping the ball on the other team's side of the field, you create scoring opportunities for your team and prevent your opponent from scoring, too. As you focus on your goals for 2016, how can you face rising rates with a good offense?

### **Changing Times**

With rates rising, ALCO Committees are shifting focus to prepare for interest rate risk. They're finding, however, that risk management tools of the past can't predict the future. With the recent cycles of mortgage refinancing, mortgage duration calculations can no longer be historically based. Rate-shock approaches focusing 1-2 years out can't account for the long-term risk of margin compression in a gradual recovery. It's time for banks to adopt a new solution.

### **The Out-of-the Box Solution**

In 2013, reward checking accounts generated a median 52 percent "cost of funds (COF) discount," according to a study conducted by Kasasa® by BancVue®, using data from over 2.5 million reward checking account holders from nearly 750 community financial institutions across the U.S. The median promotional rate was 1.98

percent, while the median cost of funds was 0.94 percent, producing this 52 percent COF discount.

You might notice the dramatic difference between true COF and the promotional rate. This occurs because not every account holder meets the qualifications for the promotional rate, and qualifying accounts are paid the highest promotional rate only on balances up to a pre-determined cap. No other deposit product boasts this COF discount, which actually increases as market rates rise. This provides the opportunity for a more gradual increase compared to competitors' product offerings, making high-yield reward checking your best defense.

### **Why is this Important?**

Now is the time to increase deposits as a continued hedge against rising rates, but more importantly, increase your percentage of less rate sensitive liabilities. Aggressively seeking consumers out in the current rate environment is your best defense against rising rates, and it is your best offense to building your institution's value.

### **Moving Forward Without Fear**

High-yield reward checking accounts are desirable for banks and customers alike. In any rate cycle, these accounts generate more non-interest income than CDs or traditional checking accounts. Don't let the threat of rising rates keep you from doing business — let reward checking be your

powerful offense as you build your defense against rising rates.

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