



## Time to Adjust Deposit Pricing? Opportunity to Use Advances to Lower Cost of Funds

It is a best practice among depositories to consider the marginal cost of funds when embarking on deposit pricing strategies designed to increase balance sheet funding for asset growth, particularly during times when rates are rising. Recently, market interest rates have dropped dramatically, but many community depositories, for example, are still offering CD specials or other deposit products at rates greater than 2%. Even without taking into consideration the effect of cannibalization that increases marginal cost, but rather, just considering the rate by itself, FHLBank Indianapolis advance rates are often lower.

For example, as of 10/1/19, the 3-year bullet advance rate indication was 1.72%<sup>1</sup> for amounts greater than \$10 million. It is a clear opportunity to manage hard fought net interest margins in what is shaping up to be a challenging rate environment with asset yields falling with a flat / inverted yield curve.

<p style="text-align: center;">Depository CD Special</p> <hr/> <p style="text-align: center;"><b>SUPER</b> <span style="font-size: 2em;"><b>2.00%</b></span> <small>APY*</small> CD Special <span style="font-size: 1.2em;">\$5,000 MINIMUM</span></p>	VS	<p style="text-align: center;"><b>FHLBank Indianapolis Advance</b><sup>1</sup></p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #003366; color: white;"> <th>Maturity</th> <th>1 Year</th> <th>2 Year</th> <th>3 Year</th> <th>4 Year</th> <th>5 Year</th> <th>6 Year</th> <th>7 Year</th> <th>8 Year</th> <th>9 Year</th> <th>10 Year</th> </tr> </thead> <tbody> <tr> <td>&lt;\$10 MI</td> <td>2.05</td> <td>1.92</td> <td>1.87</td> <td>1.91</td> <td>1.93</td> <td>2.09</td> <td>2.15</td> <td>2.23</td> <td>2.25</td> <td>2.25</td> </tr> <tr> <td>\$10-14.99</td> <td>2.05</td> <td>1.80</td> <td>1.72</td> <td>1.71</td> <td>1.70</td> <td>1.79</td> <td>1.85</td> <td>1.93</td> <td>1.95</td> <td>1.95</td> </tr> <tr> <td>\$15-24.99</td> <td>2.05</td> <td>1.80</td> <td>1.72</td> <td>1.70</td> <td>1.69</td> <td>1.79</td> <td>1.85</td> <td>1.93</td> <td>1.95</td> <td>1.95</td> </tr> <tr> <td>\$25-49.99</td> <td>2.02</td> <td>1.80</td> <td>1.72</td> <td>1.69</td> <td>1.68</td> <td>1.79</td> <td>1.85</td> <td>1.93</td> <td>1.95</td> <td>1.95</td> </tr> </tbody> </table>	Maturity	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	<\$10 MI	2.05	1.92	1.87	1.91	1.93	2.09	2.15	2.23	2.25	2.25	\$10-14.99	2.05	1.80	1.72	1.71	1.70	1.79	1.85	1.93	1.95	1.95	\$15-24.99	2.05	1.80	1.72	1.70	1.69	1.79	1.85	1.93	1.95	1.95	\$25-49.99	2.02	1.80	1.72	1.69	1.68	1.79	1.85	1.93	1.95	1.95
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The Federal Reserve has lowered the Fed Funds Target Rate to 1.75%-2.00% from its recent high of 2.25%-2.50%. Most community banks and credit unions have done a good job at managing funding costs as interest rates have risen; however, this success doesn't give these same organizations much room to lower overall funding costs in a lower rate environment. In order to protect net interest margins, community depositories should review their previously offered CD specials and other "at market rate" offerings and proactively evaluate whether there are opportunities to adjust pricing on these to reflect the new lower interest rate environment.

The FHLBank Indianapolis Member Research and Strategies group is available to assist in ALCO or Board education on topics such as using FHLBank Indianapolis advances to complement retail funding, best practices in ALCO, marginal cost of funds, or evaluating leverage strategies.

**For additional assistance in analyzing funding strategies, contact FHLBank Indianapolis Member Services 800.442.2568 or [memberservices@fhlbi.com](mailto:memberservices@fhlbi.com)**

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<sup>1</sup> Rate indications shown are as of 10/1/19 3:34 p.m. Actual rates on advances issued will depend on a variety of factors, including the actual market conditions at the time of the rate lock.