

Financial Services Business Model

1. Acquire and Maintain Balance of Deposits

Financial Services Business Model...



1. Acquire and Maintain Balance of Deposits



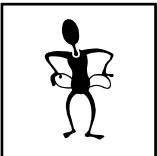
2. Originate and Maintain Balance of Loans



3. Set Pricing and Manage Margin



4. Generate Income from Products, Services and Fees



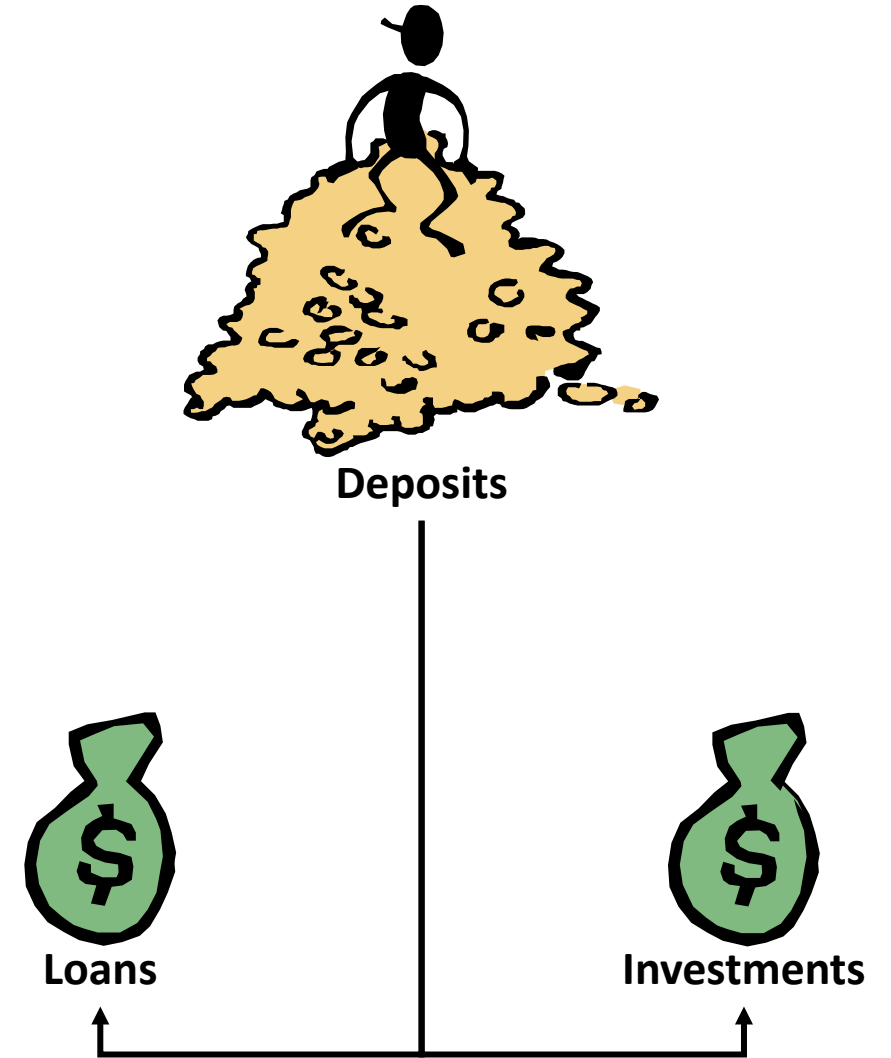
5. Avoid excessive Credit Losses



6. Operate in a Productive Manner (Manage Expense)

1. Acquire and Maintain Balance of Deposits

- Deposits are like warehouse inventory.
- Deposits are used to fund loans which produce interest income.
- Deposits not loaned out are invested which also produces interest income.
- There are two major categories of deposits: low cost and high cost.



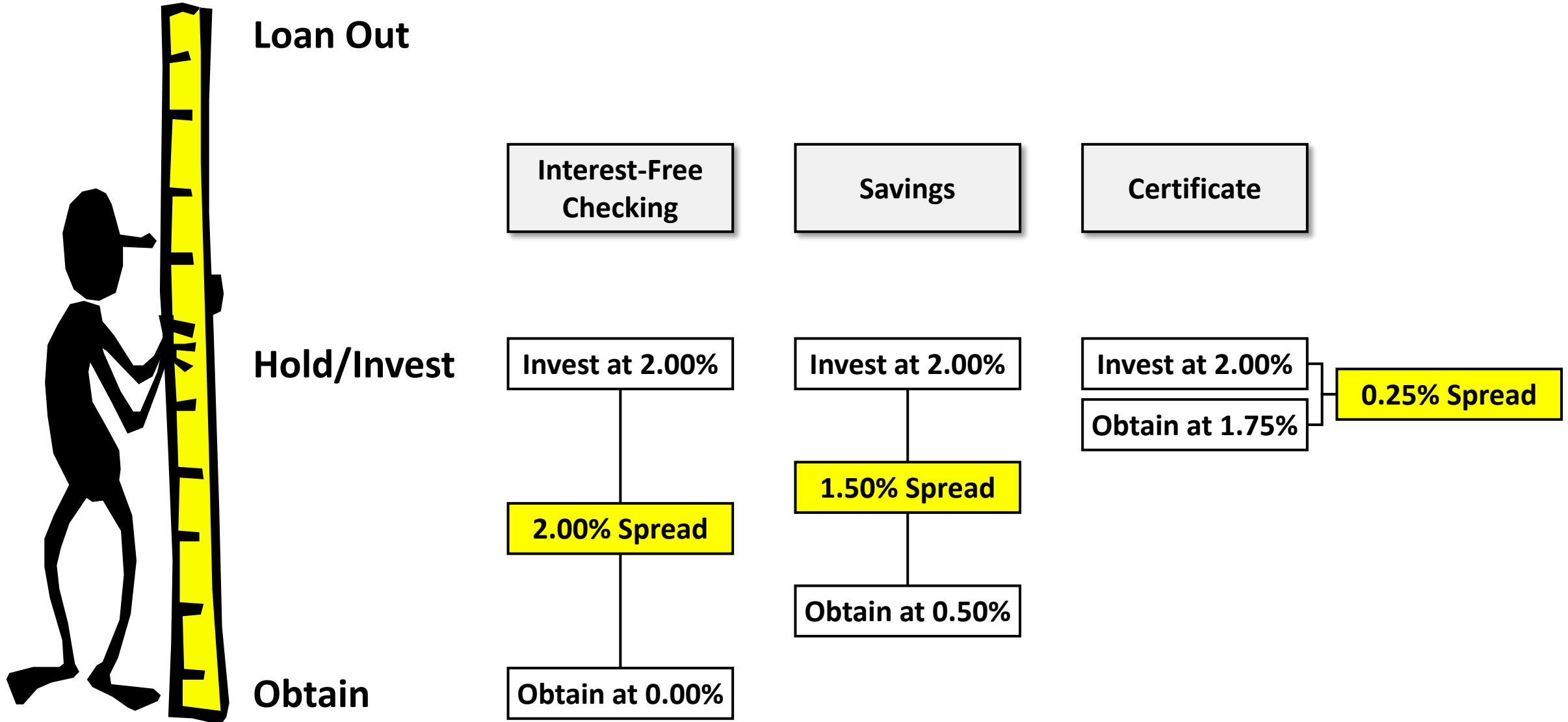
1. Acquire and Maintain Balance of Deposits

- There are two broad categories of deposits with different characteristics.

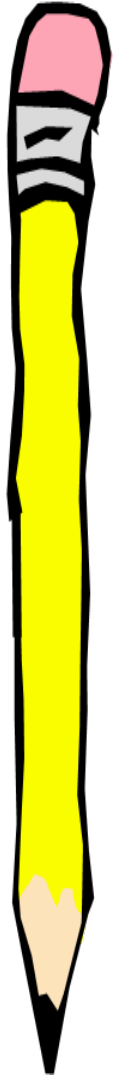


Deposit Category:	Relationship Deposits (Low Cost)	Rate Sensitive Deposits (High Cost)
Deposit Products:	Checking, Savings, Low Yield MMkt	Certificate, IRA, High Yield MMkt
Value Proposition:	Security, Accessibility, Features (Bill Pay, Etc.)	Security, Interest Rate
Interest Rate Paid:	No/Low Rate of Interest Paid	High Rate of Interest Paid
Average Life:	6-8 Years (or more)	1-3 Years (or less)
Loyalty Factor:	High, Indifferent to Rate	Low, Rate Shoppers (Match Rate or Else)

1. Acquire and Maintain Balance of Deposits



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Deposit Profitability Worksheet

Q: What happens when a deposit is acquired?

A: The deposit balance is invested while waiting to be loaned out.

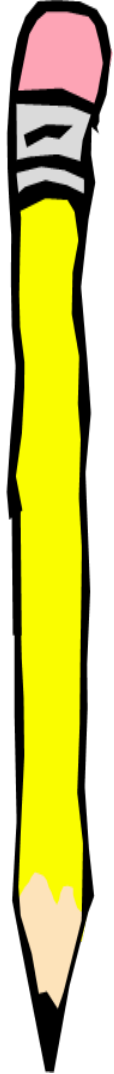
Calculate the impact on the bottom line from the following actions:

	Cost		Invest		Spread		Balance		Spread Income
Grow checking by \$20,000	0.00%	->	2.00%	=	2.00%	x	\$20,000	=	\$400
Grow savings by \$20,000	0.50%	->	2.00%	=	1.50%	x	\$20,000	=	\$300
Grow certificates by \$100,000	1.90%	->	2.00%	=	0.10%	x	\$100,000	=	\$100
Grow certificates by \$100,000 (Promo Rate)	2.25%	->	2.00%	=	-0.25%	x	\$100,000	=	-\$250

Q: Which action is the most profitable? Grow checking by \$20,000

Q: Which action is the least profitable? Grow certificates by \$100,000 (Promo Rate)

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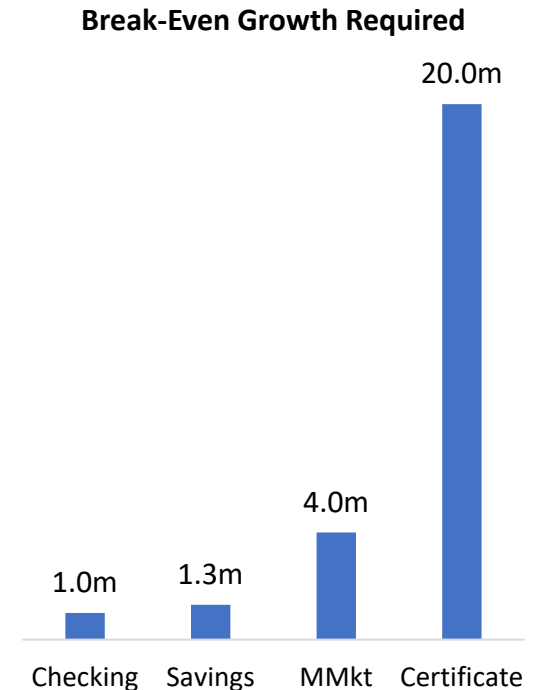


Business Case Worksheet

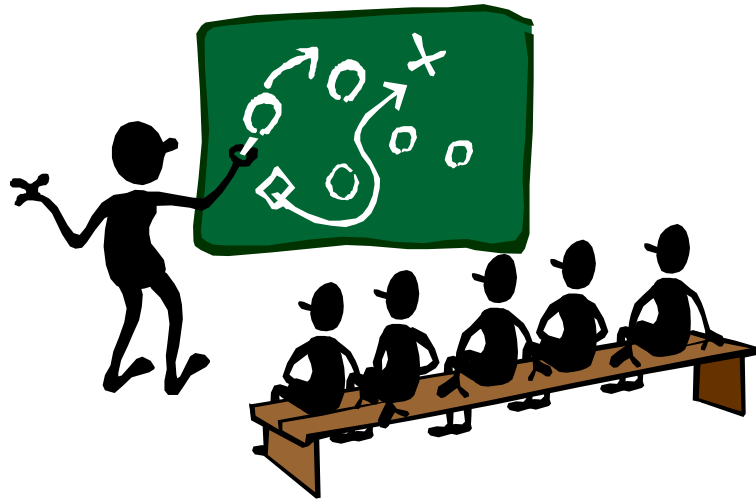
The Marketing and Business Development department wants to invest \$20,000 in advertising and promotion expense to grow deposits. How much balance growth is needed to offset the expense?

Calculate the growth needed:

	Expense Growth		Deposit Spread	=	Break-Even Growth Required
Checking Balance Required	\$20,000	÷	2.00%	=	\$1.0 Million
Savings Balance Required	\$20,000	÷	1.50%	=	\$1.3 Million
Money Market Balance Required	\$20,000	÷	0.50%	=	\$4.0 Million
Certificate Balance Required	\$20,000	÷	0.10%	=	\$20.0 Million



KPI Playbook and Tools



Relationship Deposit Playbook Page

Name of KPI: _____

What is it: This type of deposit is called a relationship deposit because the customer has selected us for a reason other than price (affinity, security, convenience, product features, etc.). This type of deposit is “sticky” because once a relationship has been forged, it tends to stay in place for a long period of time. Common relationship deposit categories include: checking, savings, low yield money market, health savings accounts, etc.

Why is it important: Deposits are like inventory. Deposits are either loaned out or invested. Transaction deposits are lower in cost than time-based or rate sensitive deposits. The more relationship deposits you have, the lower your cost of inventory and the more profit you make.

How is it measured: Deposits are measured using an AVERAGE balance. An average balance is used because it tells us, on average, what the balance for the entire year was, not just one point in time. This is important because a deposit acquired on the first day of the year can be used to fund loans or investments for 365 days, while a deposit acquired on the last day of the year only funds a loan or investment for 1 day.

Things _____ department can do to make an impact:

-
-
-
-
-
-
-

Rate Sensitive Deposit Playbook Page

Name of KPI: _____

What is it: This type of deposit is one that sees very little activity over the course of a month. This type of deposit is called a rate sensitive deposit because the customer has selected your organization based upon rate (and would readily switch to a competitor offering a higher rate). Common types of deposits include: high yield money markets, certificates of deposit (CDs), and individual retirement accounts (IRAs).

Why is it important: Deposits are like inventory. Deposits are either loaned out or invested. Rate sensitive deposits are an expensive form of inventory. If they are not loaned out, the investment profit margin is very small. When taking a deposit of this type, make every reasonable attempt to get a transaction deposit relationship with it.

How is it measured: Deposits are measured using an AVERAGE balance. An average balance is used because it tells us, on average, what the balance for the entire year was, not just one point in time. This is important because a deposit acquired on the first day of the year can be used to fund loans or investments for 365 days, while a deposit acquired on the last day of the year only funds a loan or investment for 1 day.

Things _____ department can do to make an impact:

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Deposit Profitability Worksheet

Deposit Profitability Worksheet

<u>Name of Deposit Product</u>	<u>Deposit Cost</u>	->	<u>Investment Yield</u>	=	<u>Spread</u>	x	<u>Balance Growth</u>	=	<u>Spread Income</u>
Checking	0.00%	->	2.00%	=	2.00%	x	\$ 20,000	=	\$ 400
		->		=	0.00%	x		=	\$ -
		->		=	0.00%	x		=	\$ -
		->		=	0.00%	x		=	\$ -
		->		=	0.00%	x		=	\$ -

Deposit Business Case Worksheet

Deposit Business Case Worksheet

<u>Business Case Item</u>	<u>Expense</u>	<u>Deposit Spread</u>	<u>Break-Even Growth Required</u>
New Hire (Fully Loaded w/Benefits)	\$ 45,000	÷ 2.00%	= \$ 2,250,000
		÷	= \$ -
		÷	= \$ -
		÷	= \$ -
		÷	= \$ -

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