

Non-Maturity Deposit Analysis



What is a non-maturity deposit analysis?

Non-maturity deposit analysis is the review of regular savings, money market, and checking accounts of a credit union to estimate the price sensitivity and expected life of those accounts. Understanding the past behavior of members and their deposits gives a credit union insight into the likelihood of these accounts in the future.

Why is deposit analysis important?

The information gained from non-maturity deposit analysis allows credit unions to determine whether their less expensive funding is likely to remain available. Income simulation, or A-L modeling, requires that assumptions are made on these deposits. A proper analysis gives a sound basis for these assumptions in many interest rate environments.

Who does non-maturity deposit analysis help?

Non-maturity deposit analysis allows CEOs, CFOs, regulators, and other credit union leaders better understand their credit union's interest rate risk exposure. A-L modeling enables them to identify and act upon performance opportunities and potential risk threats in both the short- and long-term. Discovering the price sensitivity and the deposits that may leave in an increasing rate environment helps managers plan the balance sheet strategy more effectively.

Why QuantyPhi?

QuantyPhi will do the ground work. We will gather the data, apply the statistical analysis, compare the balance sheet makeup, and explain the results to you so you can manage the balance sheet more effectively. We know how to analyze previous pricing and balance information and calculate the relevant statistical review. Separating and properly modeling sticky and non-sticky deposits will help avoid inferior modeling assumptions.

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QuantyPhi will help you discover

1. Market-based driver rate
 - Examples of a market-based driver rate include: 1, 3, 6 and 12-month LIBOR rates, 3, 6, and 12-month U.S. Treasury rates, and 2 and 5-year U.S. Treasury rates.
2. Deposit sensitivity factor to the driver rate
 - The deposit sensitivity, expressed as rate Beta, denotes how much of a market-driver rate is represented in the deposit rate.
3. Estimated decay rate of deposit balances
 - How soon it takes before the deposits "mature", and the balance hits zero.
4. Estimated amount of surge deposits
 - Surge deposits are the estimated amount of the non-core portion of total deposits. Core deposits are the portion of deposit accounts that are likely to remain on deposit throughout the interest rate cycle. Non-core deposits increase, or decrease, based on current economic trends. They are deposited for reasons other than the intended "savings", and because of this, they decay faster than core deposits as interest rates rise. Non-core deposits typically display steep decay rates in specific interest rate environments.
5. Key interest rate risk measurement, or duration, of the deposit account
 - Interest rate risk is often measured by duration. Duration incorporates both the maturity and coupon cash flows of an instrument. Once the study determines the rate sensitivity (coupon) and maturity (decay) we can incorporate the results to calculate the actual risk factor, or duration.

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Our step-by-step approach

1. First, QuantyPhi will collect and analyze the data of the credit union
2. We analyze the market driver rate and sensitivity (Beta) factor, then
 - a. Prepare a back-test of actual share rate paid versus formula projected share rate chart
3. Next, we separate the core non-maturing deposits from the non-core, and
 - a. Analyze deposit mix in various interest rates, as well as
 - b. Provide an estimate of change in deposit mix in various interest rate environments
4. We identify the number of regular shares that are core and provide results of core run-off for regular shares
5. Then, we determine the balance decay to
 - a. Prepare the decay estimate assumption, and
 - b. Provide results of balance decay
6. Finally, QuantyPhi will forward all findings, and explain the suggested options to optimize investments of non-maturity deposits