

# Under Pressure: Cost of Funds Strategies in a Rising Rate Environment

Tim Barnes

President/CEO

Hometown Bank

Robb Rempel

Executive Vice President

Haberfeld





# Some Background for Context





Helping FIs grow  
profitably for over

**35** YEARS **4<sup>th</sup>** largest FI in America

**7.5** MILLION  
new core  
relationships

EMPLOYEE  
OWNED

**2,500+** INTENSIVE  
TRAINING

DATA DRIVEN  
RESULTS

Over 15MM products and  
services analyzed monthly

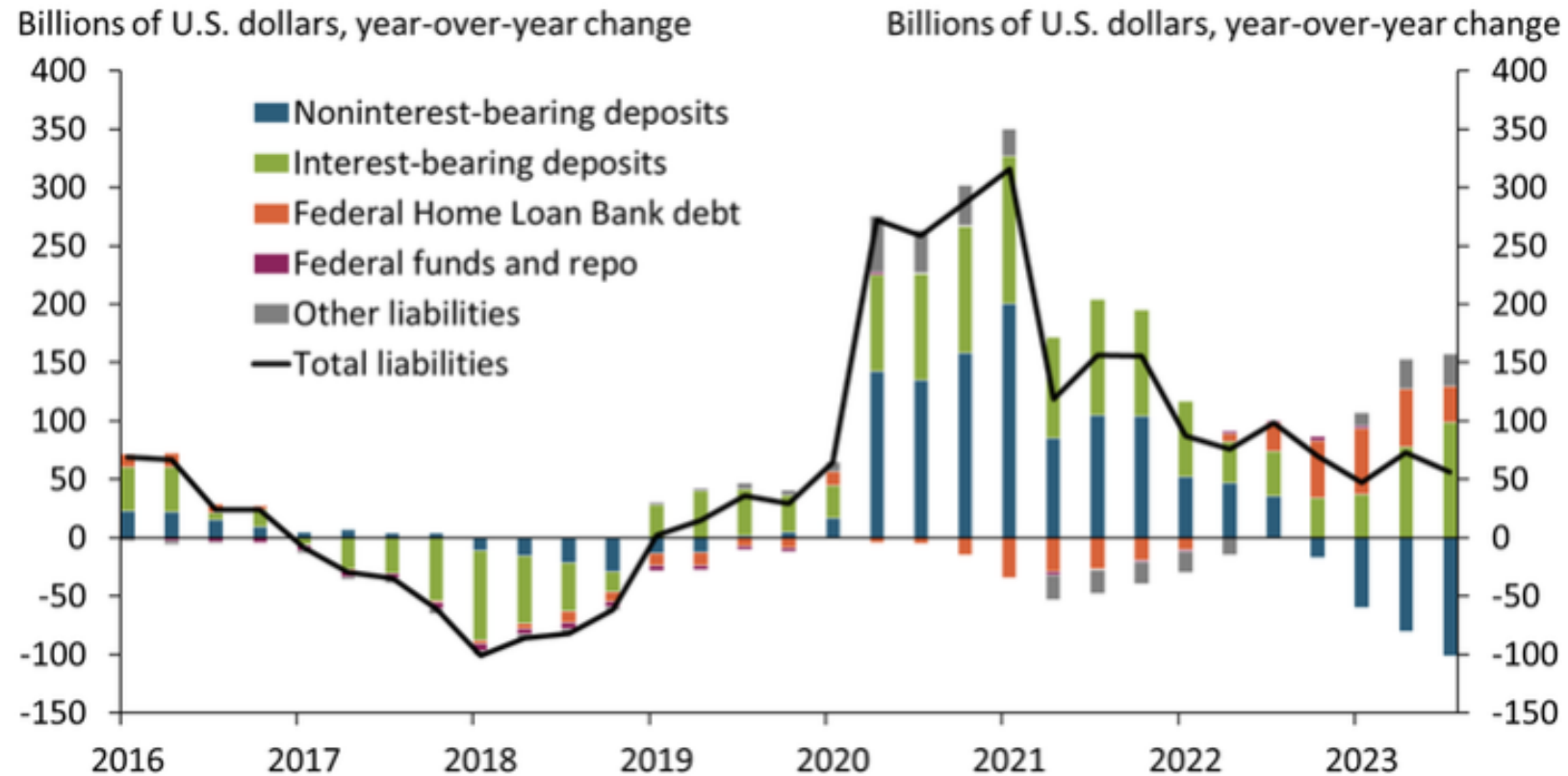
Marketing campaigns for our clients  
annually

- Corbin, KY
- 7 locations
- \$291M Assets
- Founded in April 2000



# Profitability Challenges Ahead

Chart 1: Community bank funding has shifted to higher-cost alternatives

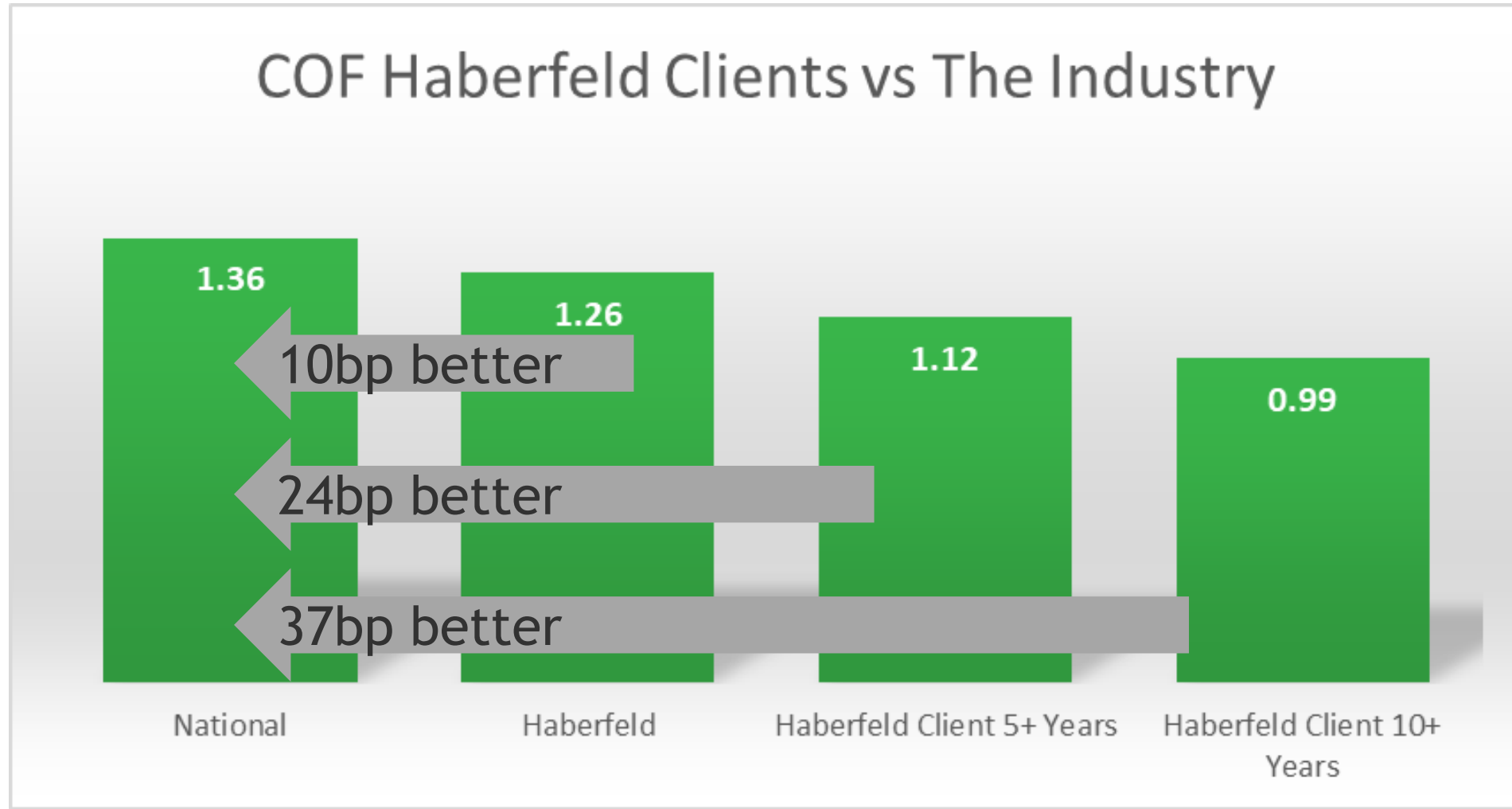


Notes: Other liabilities include non-Federal Home Loan Bank (FHLB) debt and deferred tax and expenses. Federal funds and repurchase agreements (repo) have increased by only small amounts during the time period shown.

Source: Federal Financial Institutions Examination Council (FFIEC).

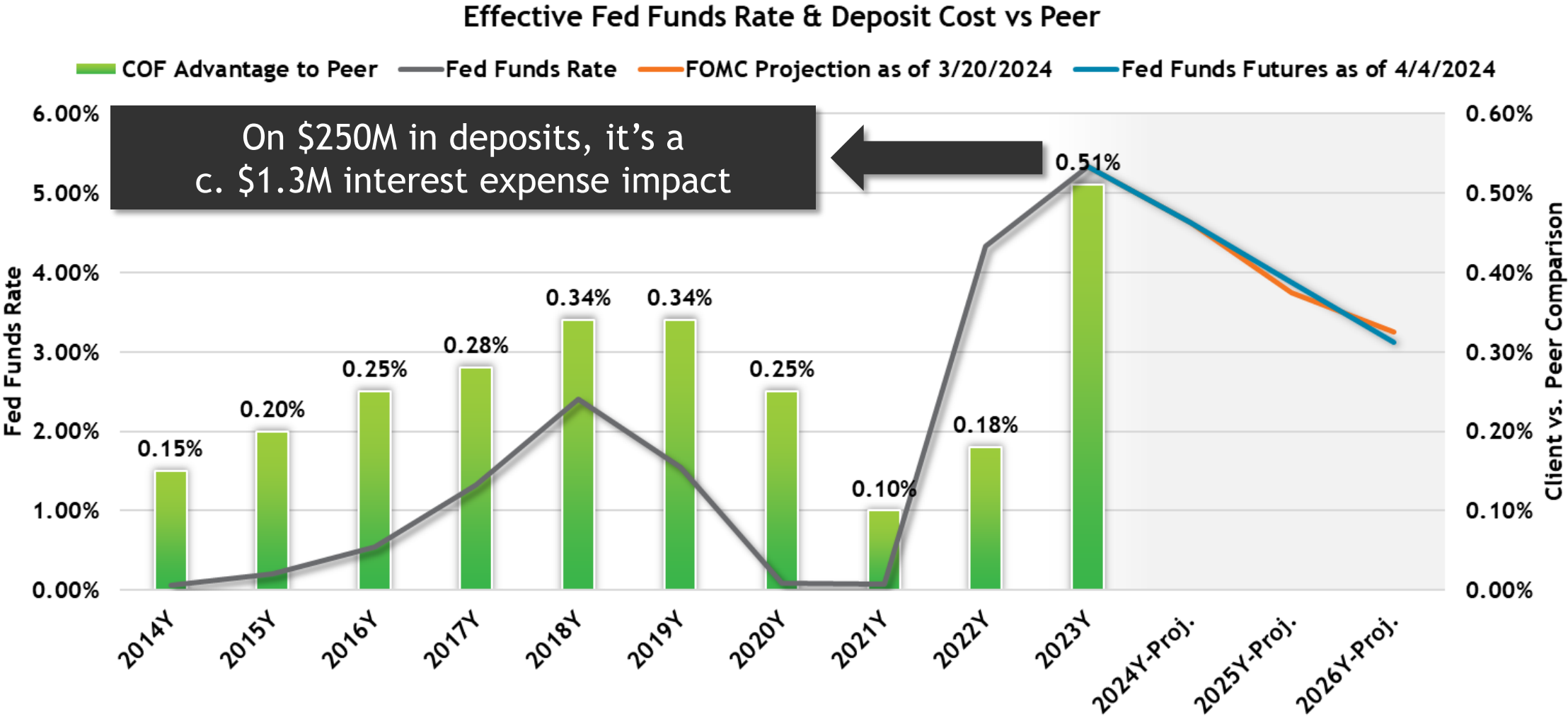


# Cost of Funds – Haberfeld Clients vs The Industry



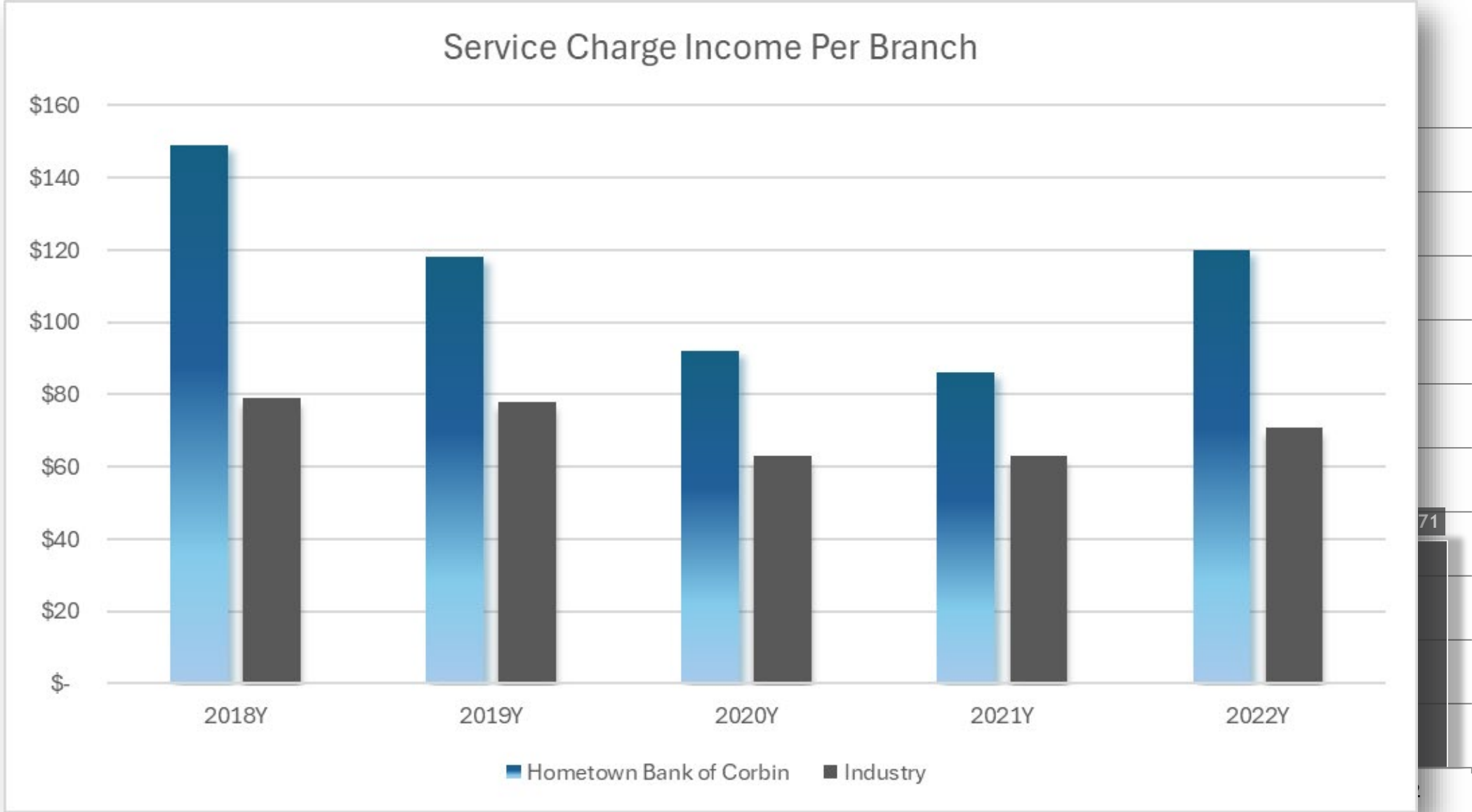


# Cost of Funds – Hometown Bank vs. Peers





# Service Charge Income Per Branch Trends





# PURPOSE

Understand what it will take to grow core deposits  
in a challenging rate environment.



# A Core Belief

We need as many  
Primary Financial Institution (PFI)  
customers as possible.



# Realities of Community Banking



Excess Capacity in  
Your Branches



Checking Account =  
Primary Financial  
Institution (PFI) Status



Get up to a **\$500**  
cash bonus with  
a new checking  
account

New Wells Fargo checking customers can

**\$325\***

\*See reverse for details

- Use your bonus offer code to open a new eligible Wells Fargo checking account by September 22, 2023 and receive \$1,000 or more in qualifying electronic deposits within 90 days of account opening. \$25 minimum opening deposit required.
- After the 90 days, if the bonus requirements are met, we'll deposit the bonus into your new account within 30 days.

Schedule a branch visit at [wellsfargo.com/appointments](https://wellsfargo.com/appointments).  
Branch appointments are encouraged ahead of time.

OR

3061151662

1/9/23 and earn a cash bo  
**\$1500 or \$2000** after co

Simply deposit qualifying  
opening and maintain you  
days from the 21<sup>st</sup> day to u

Only New-to-Citibank che  
advantage of this offer.

**State Farm** | **usbank**

\*\*\*\*\*AUTO\*\*SCH 5-DIGIT 68508  
3246 0007061 005143 T2402 0301  
Lincoln, NE 68510-1517  
[Barcode]



Earn up to  
**\$500**

with Bank Smartly®  
Checking from  
U.S. Bank¹

Offer expires  
November 24, 2023.  
There are required activities  
to receive this bonus.



Dear Neighbor,

As your State Farm® agent, I want to make sure you know about this great offer available through the State Farm & U.S. Bank Alliance.

Earn  
**\$500**  
for direct deposits of \$10,000+

OR

Earn  
**\$300**  
for direct deposits of \$5,000-\$9,999

Here's how to earn extra cash:

1. Open a new Bank Smartly® Checking account using your unique code by November 24, 2023.²
2. Then, within 90 days of opening your account:
  - Enroll in the U.S. Bank Mobile App or online banking.
  - Make two or more direct deposits that total \$5,000 or more.

Take advantage of this offer by November 24, 2023.



Contact me to open your account today

or visit [usbank.com/sfchecking](https://usbank.com/sfchecking) or scan the code.

When prompted, use the confirmation code: XCE0619304

*Cami Saathoff*



Cami Saathoff, Agent  
1025 N 6th St Ste 1  
Beatrice, NE 68310-2301  
Bus: (402) 228-3208 | Fax: (402) 228-3281  
email: [caml.saathoff.prq@statefarm.com](mailto:caml.saathoff.prq@statefarm.com)

See reverse side for terms and conditions.

T50E

GO UP TO CHASE  
**600**  
See details inside ▶  
CH TO CHASE  
D GET UP TO **\$600**

**28%**

first relationship at a  
business household is  
consumer checking

you get  
ing else



# Realities of Community Banking



Excess Capacity in  
Your Branches



Checking Account =  
Primary Financial  
Institution (PFI) Status



Marginal Revenues  
Exceed Marginal  
Costs



# Profitable Customers

**\$150 - \$250**

Amount our average client invests to acquire the next core customer

**\$300 - \$500**

Amount that customer generates in revenue per year

**10+ years**

Average number of years a new customer stays with our clients

**\$4,800+**

Net Present Value of your next Retail Customer

**\$16,000+**

Net Present Value of your next Business Customer





# How Do You Significantly Increase Core Customer and Deposit Acquisition?

Marketing

Product &  
Process

Execution



# How Do You Significantly Increase Core Customer and Deposit Acquisition?

Marketing



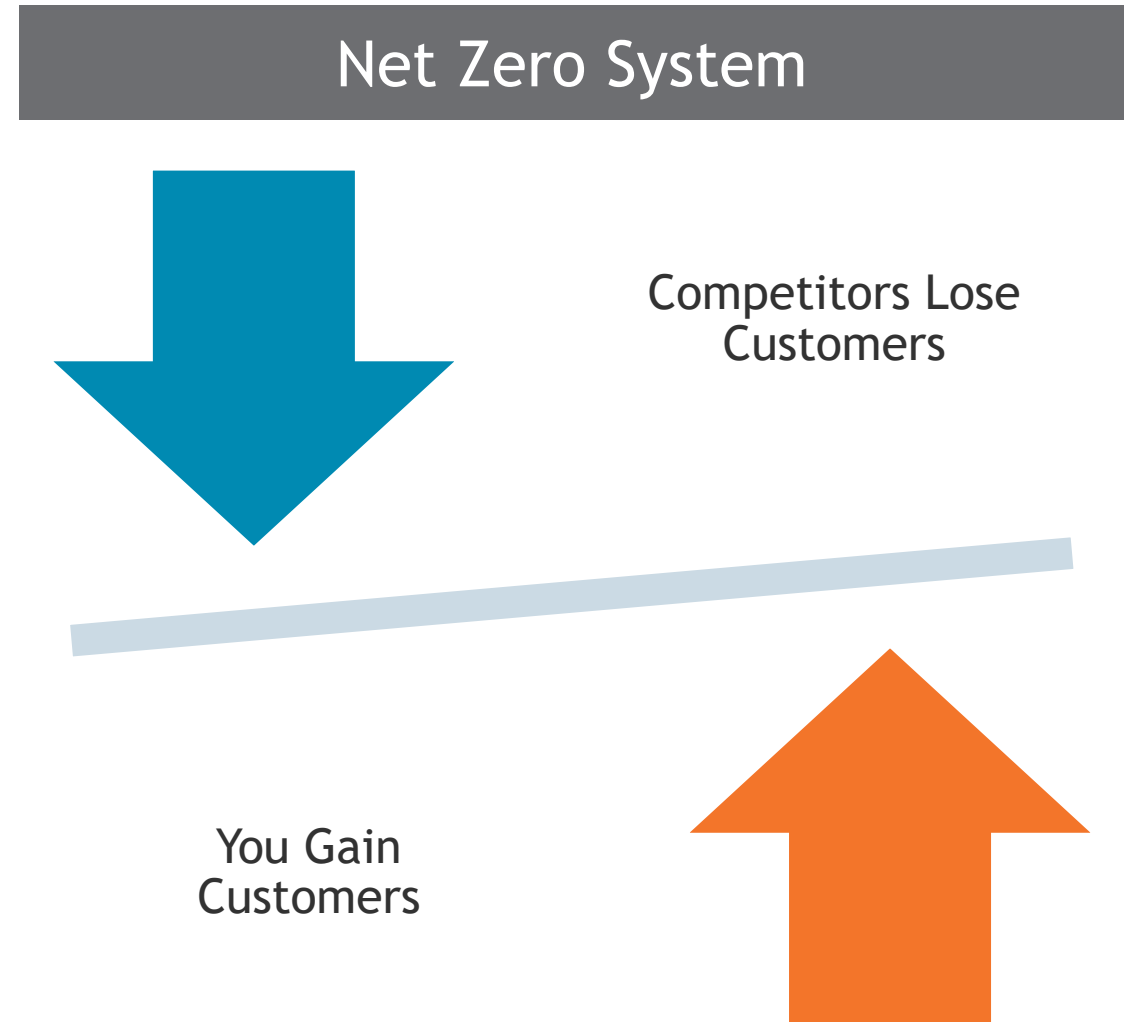
# The Market . . . conventional wisdom





# No One Wants To Switch, BUT...

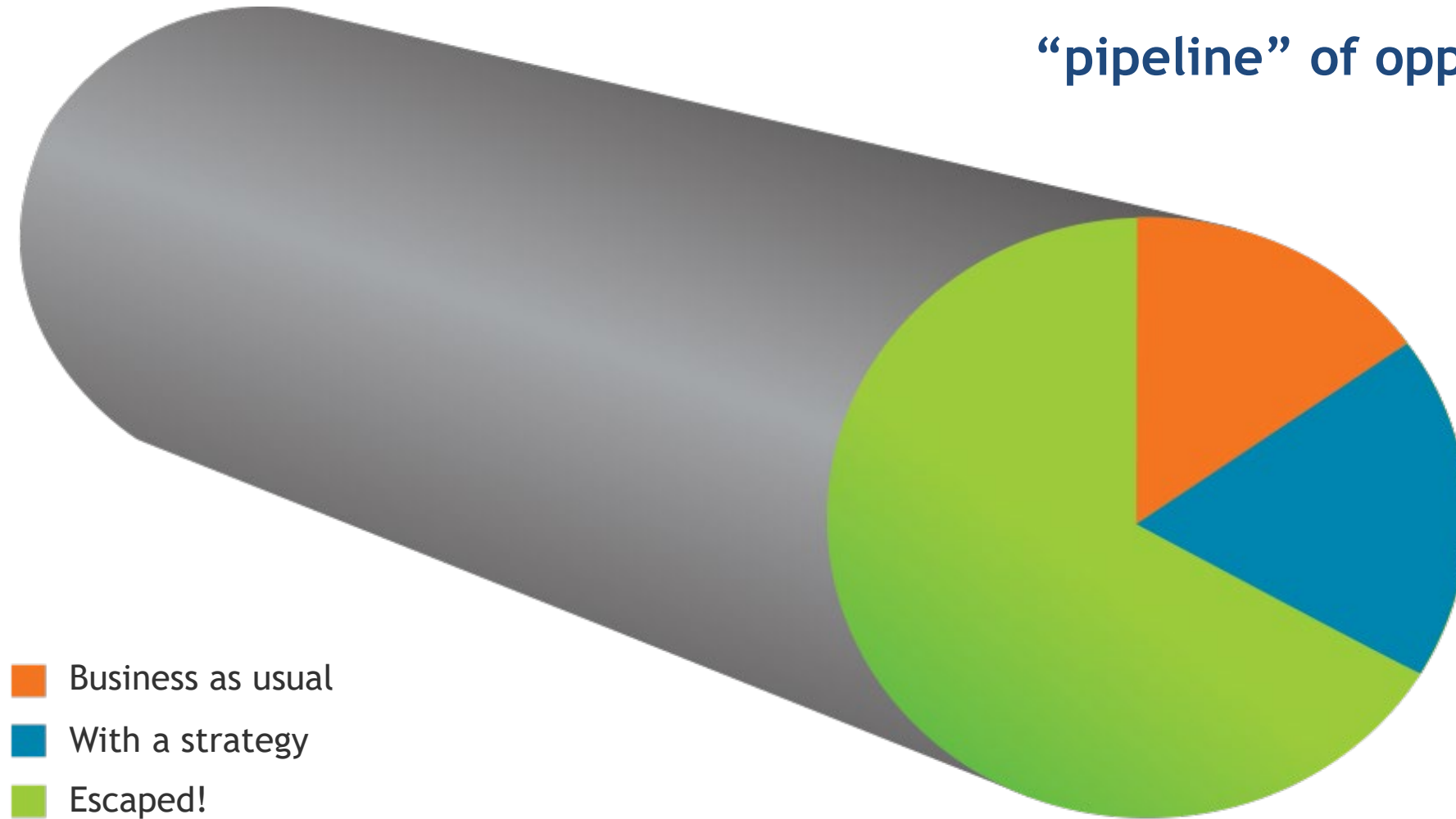
In a given year, about  
**8% - 12%**  
of the households and  
businesses  
“change banks.”





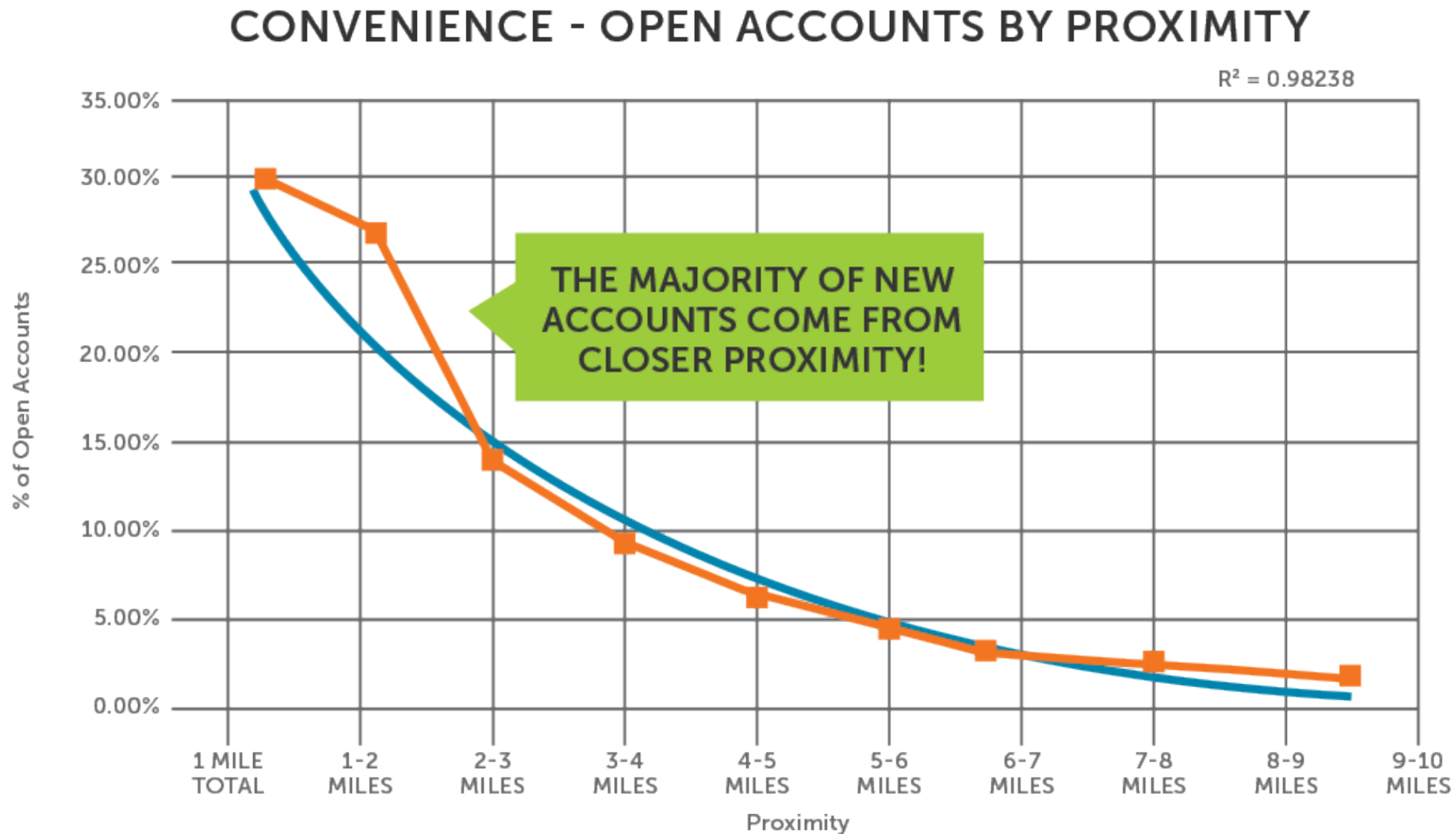
# The Good News!

There is an infinite  
“pipeline” of opportunity!





# Convenience is Important





# How Haberfeld Defines Convenience

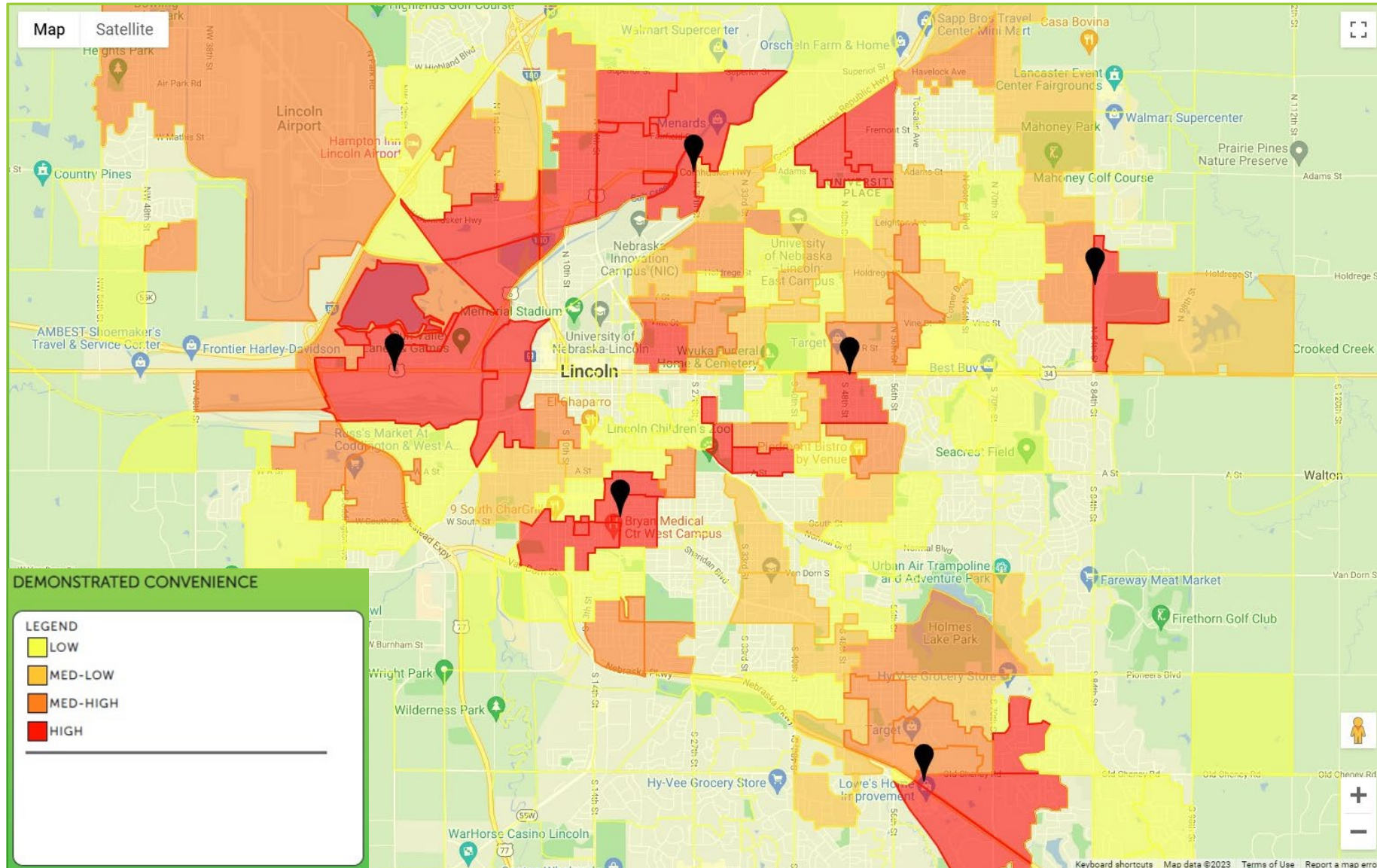
## Demonstrated Convenience

- They are the neighbors of the customers you already have
- They live around your branches





# Driving More Traffic: Demonstrated Convenience

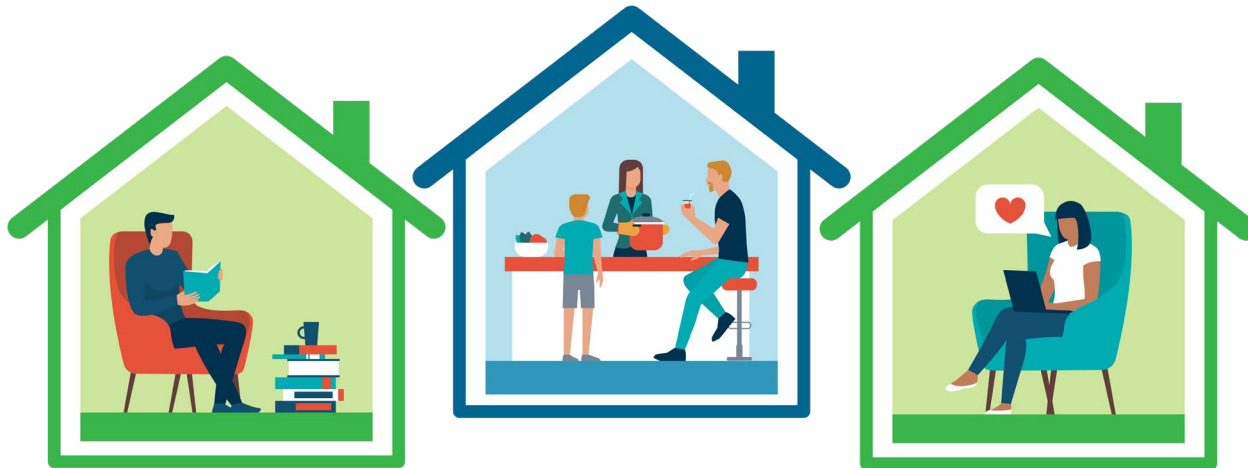




# How Haberfeld Defines Convenience

## Demonstrated Convenience

- They are the neighbors of the customers/members you already have
- They live around your branches



Neighbor

Customer

Neighbor

## Predicted Convenience

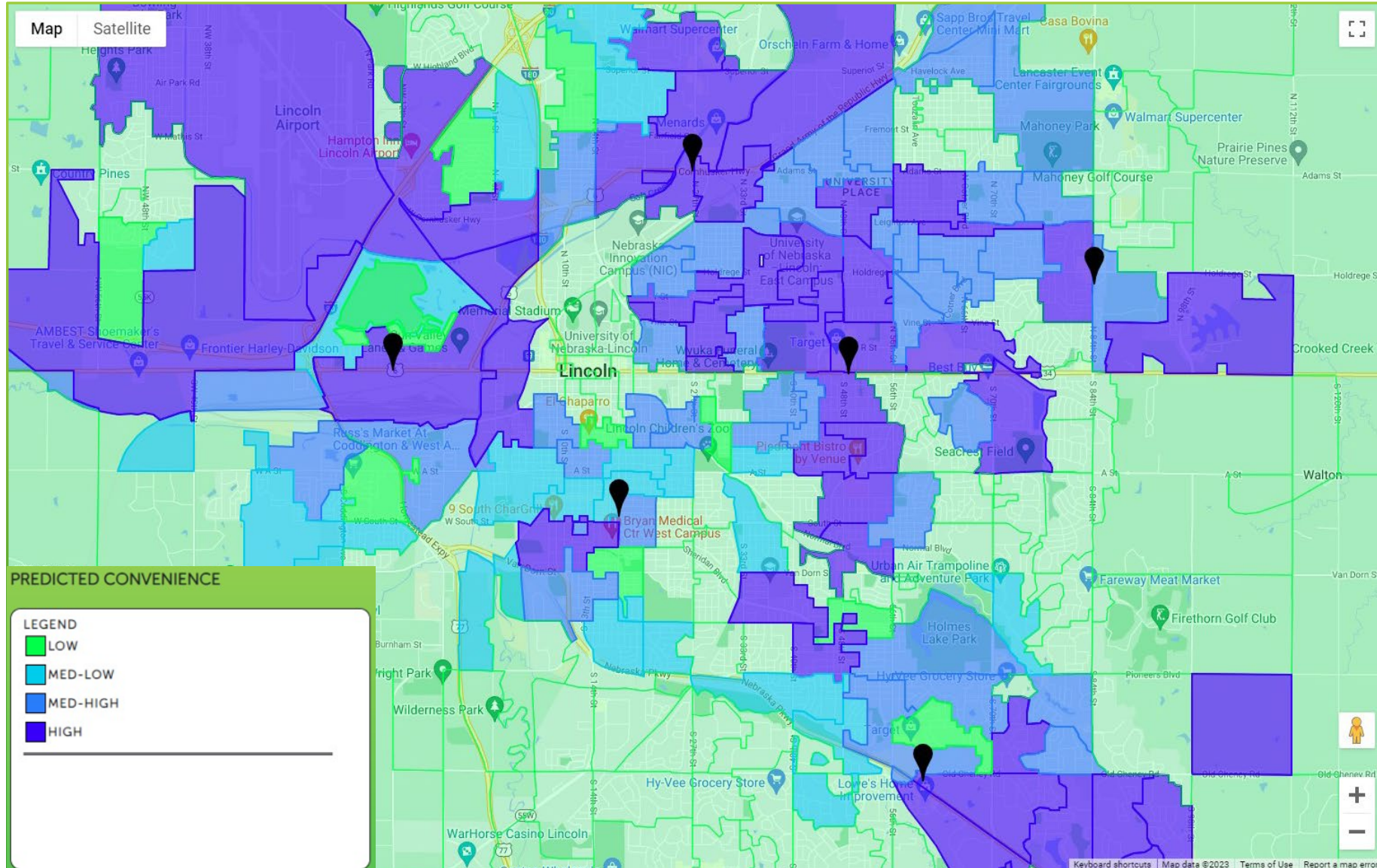
- They work around your branches
- They walk, shop or eat near your branches with regularity
- They drive by your branches

**MobilePredict**  
by Haberfeld





# Driving More Traffic: Predicted Convenience





# Dynamic Scoring Prospect Targets

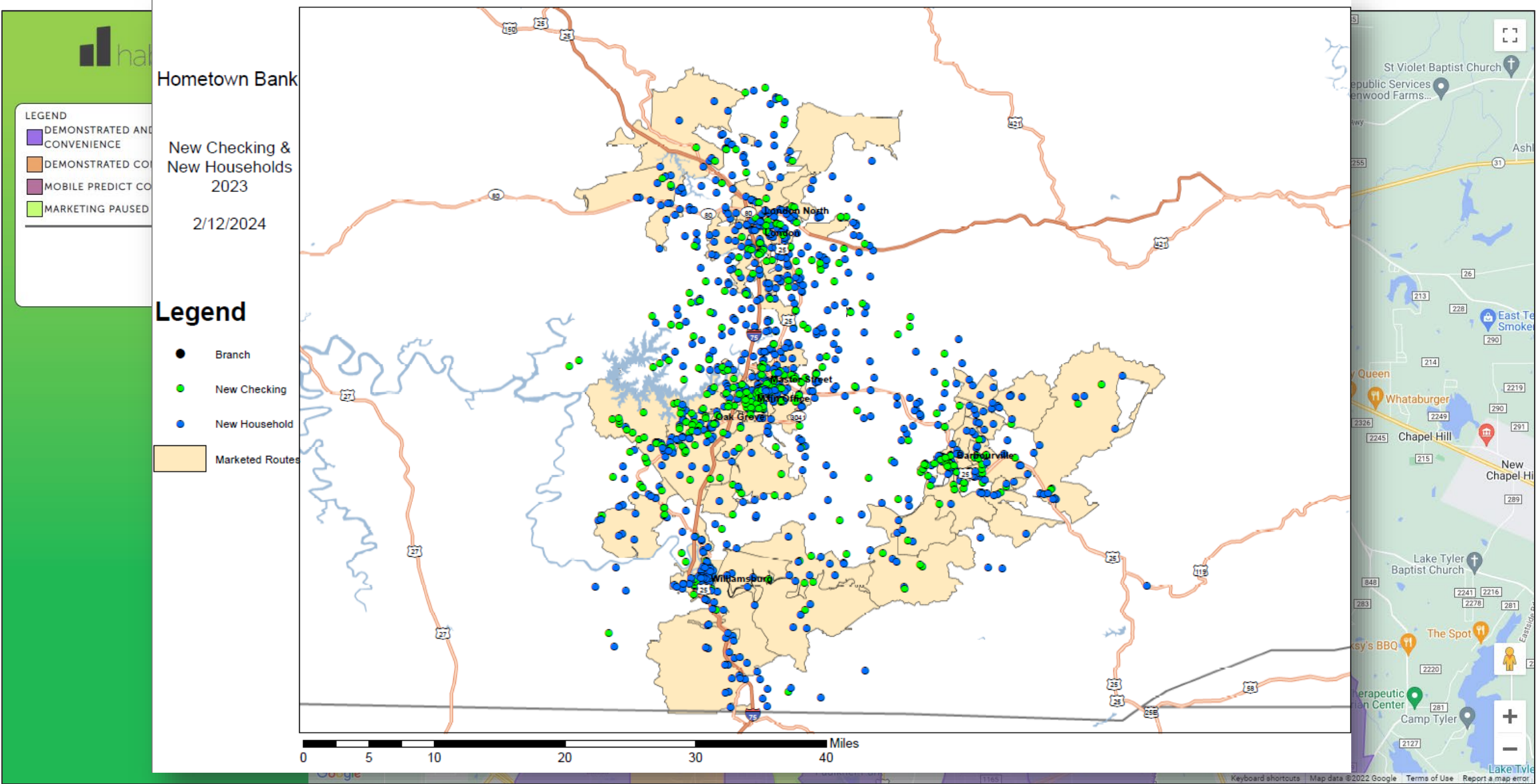


## Stack Rank Every Household & Business In Your Markets

		Opening Activity Score <i>Demonstrated Convenience</i>													
		0	1	2	3	4	5	6	7	8	9	10	11	12	Total
MobilePredict™ Score <i>Predicted Convenience</i>	0		37,751	2,176	1,441	553		99	67	564	226	142	443	51	43,513
	1		42,215	8,889			131								51,235
	2		31,721	8,908	1,535	663		911							43,738
	3		29,295	9,236	3,125	522	388		138						42,704
	4		21,989	6,868	6,541	4,005	1,633	931	477						42,444
	5		14,275	12,003	7,370	5,495		1,518			161				40,822
	6		11,293	8,293	10,005	4,195	5,162	182	562	1,434	836		369		42,331
	7		7,726	6,837	8,159	9,279	1,517	3,250	1,956	1,921	1,360		266		42,271
	8		6,479	8,771	9,004	6,045	5,088	694	2,003	1,059	1,753	511			41,407
	9	600	5,721	2,388	7,050	4,536	4,478	4,417	2,330	1,794	5,950	459	471		40,194
	10	560	2,476	4,981	7,177	7,663	3,939	1,391	2,974	2,008	3,081	1,116	89		37,455
	11		3,925	8,322	7,757	3,101	6,379	512	1,506	851	4,811	372		96	37,632
	12	526	2,170	3,411	7,678	4,277	2,849	2,033	572	732	3,960	1,073	271	168	29,720
Total		1,686	217,036	91,083	76,842	50,334	31,564	15,938	12,585	10,363	22,138	3,673	1,909	315	535,466

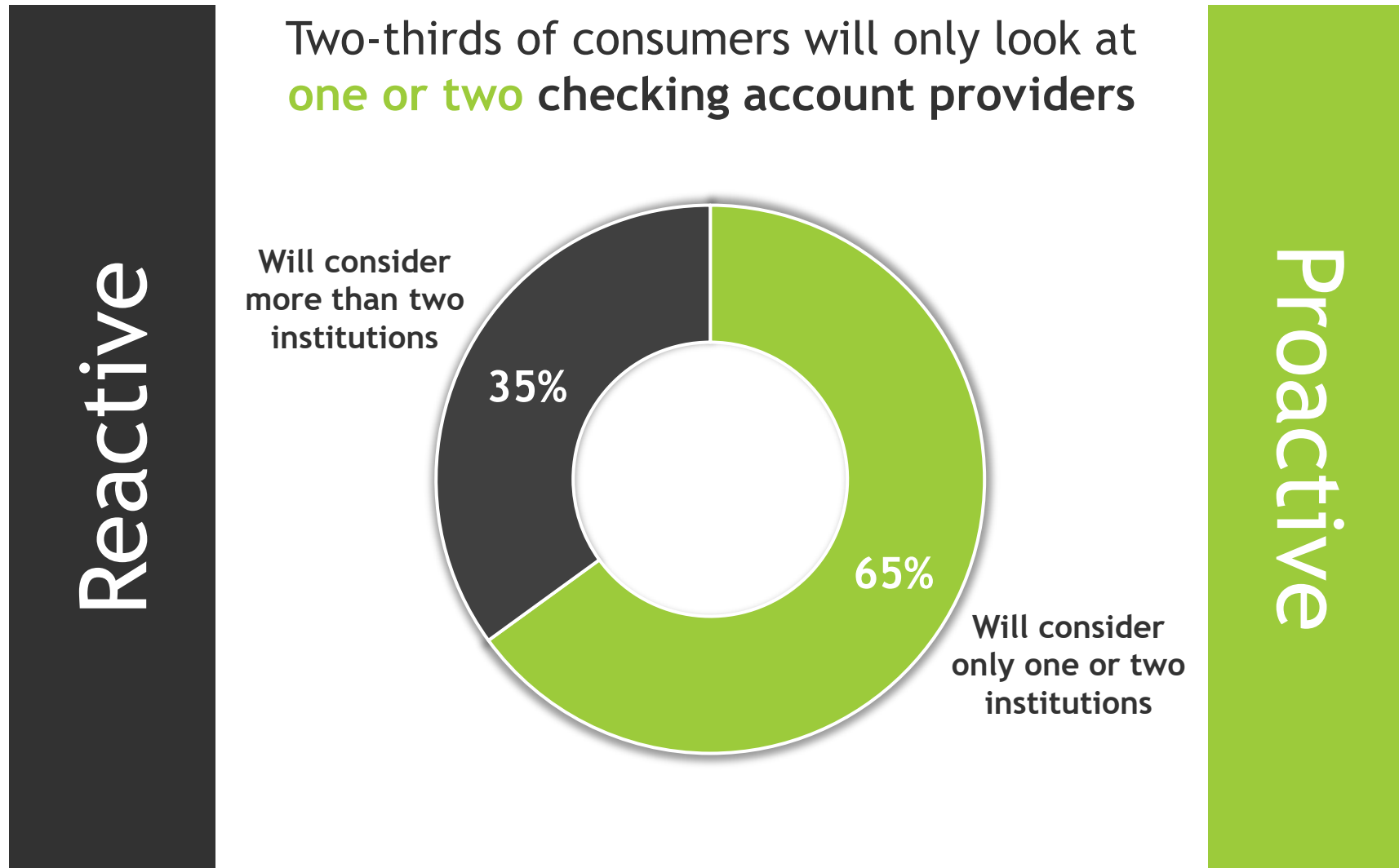


# Dynamic Shift of Prospect Targets





# PFI Outreach - A Different Marketing Strategy



Source: The Financial Brand



# Always-On Omnichannel Marketing



Average **12** Marketing Contacts Per Prospect Household Per Campaign

ACCELERATING GROWTH



# Digital Metrics

	Display			Retargeting			Search			Total			Landing Page	
Big Day	Impressions	Clicks	CTR	Impressions	Clicks	CTR	Impressions	Clicks	CTR	Impressions	Clicks	CTR	Page Views	Unique Users
05/02/2022	93,776	143	0.152%	-	-	0.000%	156	12	7.692%	93,932	155	0.165%	291	266
06/13/2022	93,299	126	0.135%	117	-	0.000%	1,979	138	6.973%	95,395	264	0.277%	262	253
07/25/2022	107,603	128	0.119%	2,666	10	0.375%	2,320	170	7.328%	112,589	308	0.274%	225	220
09/12/2022	97,710	159	0.163%	3,428	18	0.525%	1,706	133	7.796%	102,844	310	0.301%	292	256
10/24/2022	81,309	123	0.151%	4,170	10	0.240%	1,213	120	9.893%	86,692	253	0.292%	347	320
11/28/2022	87,755	119	0.136%	9,407	44	0.468%	2,743	278	10.135%	99,905	441	0.441%	524	505
2022 - Total	561,452	798	0.142%	19,788	82	0.414%	10,117	851	8.412%	591,357	1,731	0.293%	1,941	1,820
01/23/2023	71,219	120	0.168%	3,179	14	0.440%	2,083	190	9.121%	76,481	324	0.424%	336	331
03/06/2023	73,557	145	0.197%	4,036	7	0.173%	2,555	216	8.454%	80,148	368	0.459%	312	291
04/24/2023	75,002	125	0.167%	4,909	12	0.244%	2,335	239	10.236%	82,246	376	0.457%	291	261
06/12/2023	65,147	106	0.163%	4,357	21	0.482%	2,305	282	12.234%	71,809	409	0.570%	334	300
07/24/2023	78,740	125	0.159%	6,890	31	0.450%	2,813	418	14.860%	88,443	574	0.649%	347	306
09/11/2023	73,442	116	0.158%	5,758	27	0.469%	2,007	281	14.001%	81,207	424	0.522%	339	310
10/23/2023	66,386	297	0.447%	4,541	15	0.330%	1,896	224	11.814%	72,823	536	0.736%	576	530
11/27/2023	116,452	676	0.580%	17,159	90	0.525%	2,833	329	11.613%	136,444	1,095	0.803%	886	795
2023 - Total	619,945	1,710	0.276%	50,829	217	0.427%	18,827	2,179	11.574%	689,601	4,106	0.595%	3,421	3,124
Total	1,181,397	2,508	0.212%	70,617	299	0.423%	28,944	3,030	10.468%	1,280,958	5,837	0.456%	5,362	4,944



# How Do You Significantly Increase Core Customer and Deposit Acquisition?

Product &  
Process



# Keys to Good Product



Simple

One Pricing Variable per product  
—easy to understand,  
easy to sell

## Welcome!

### Every new personal checking account includes:

**FREE** Instant Issue Debit Card • **FREE** Online Banking • **FREE** Bill Pay  
**FREE** Mobile Banking with Mobile Deposit • **FREE** eStatements  
**FREE** Thank You Gift • **FREE** Gifts for referring others  
**BUY BACK** of your debit cards and unused checks from another financial institution of up to \$10

1

To earn a higher rate of interest, will you always keep more than \$2,500 in your checking account?

yes

no

2

Will there be anyone 50 years or better signing on this account?

yes

no

3

Does anyone plan to have direct deposit or an automatic payment with this account?

yes

no

### PREMIER INTEREST CHECKING

*An account for those interested in higher interest!*

- FREE basic checks
- Higher interest rate with a balance of \$2,500 or more
- Competitive interest if balance falls below \$2,500
- Only \$7 monthly charge if minimum balance falls below \$2,500

### VARSITY 50+ INTEREST CHECKING

*A perfect account for customers 50 and better!*

- FREE basic checks
- Competitive interest
- No minimum balance
- No monthly service charge

### DIRECT INTEREST CHECKING

*Earn interest with the convenience of direct deposit or any automatic payment!*

- Competitive interest
- No minimum balance
- No monthly service charge

### SIMPLY FREE CHECKING

*A FREE account for anyone!*

- No minimum balance
- No monthly service charge



Save time and money with these great products and services:

### ● Savings Plans

Will you make six or more withdrawals from your savings account each month?

yes

→ Additional Checking Account

no

→ Will you always keep more than \$2,500 in your savings account?

yes

→ Premier Savings Account

no

→ Simply Savings Account

- FREE Instant Issue Debit Card
- Direct Deposit
- Automatic Payments
- FREE Online Banking
- FREE Bill Pay
- FREE Mobile Banking
- FREE Mobile Deposit
- FREE eStatements
- Investment Services
- FREE Business Checking

Other fees such as non-sufficient funds, overdraft, sustained overdraft fees, etc. may apply. See fee schedule for details. Minimum opening deposit is only \$50. Ask us for details. Bank rules and regulations apply. Offer good on personal accounts only; not on about our outstanding options for your business or organization. Free gift may be reported on a 1099-INT or 1099-DISC. Free gift provided at the time of account opening. Up to \$10 for debit cards and unused checks from another financial institution given at the time the check/debit cards are presented.




Price Indifference

Do what's right for the customer and the bank will be just fine—no product-pushing




# Keys to Good Product




**Simple**


One Pricing  
Variable per  
product  
—easy to  
understand,  
easy to sell



types



describe the  
account



customer



**Price  
difference**

Do what's  
right for the  
customer and  
the bank will  
be just fine—  
no product-  
pushing

The best test for your products?

Go home and ask your front-line  
team members



# Operations & Compliance

Do your Operations and Compliance rules help you get more customers or repel them?

Do your written rules match your frontline practices?





# Operations & Compliance

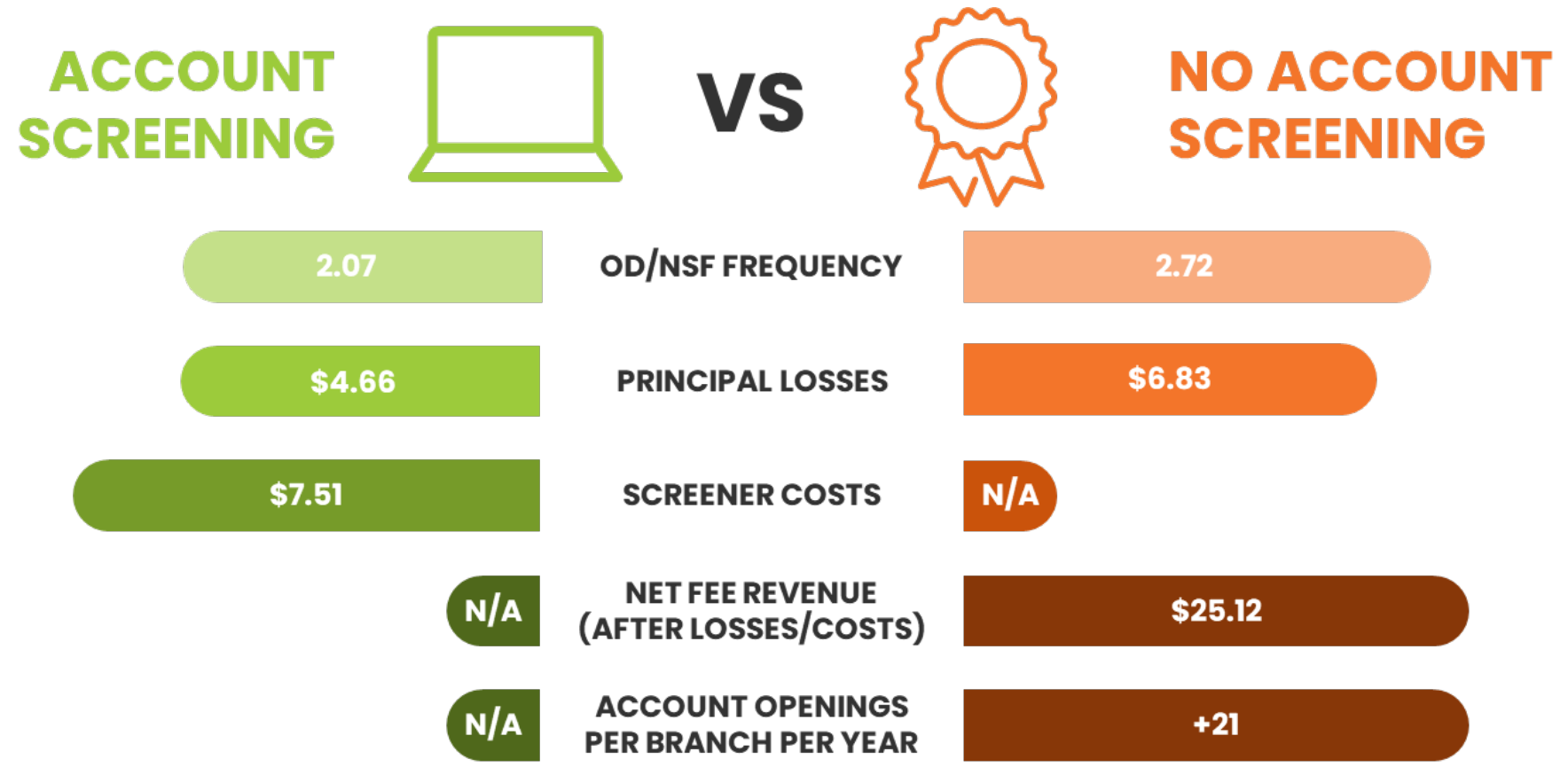
How easy is it to become your customer?

- How many and what forms of ID?
- What if the second signer isn't present?
- Proof of address?
- Credit score?
- Business documentation?



# Account Screening

## Risk Management or Profit Prevention?





# Account Screening

## A Recent Client Experience

Flagged as “Would not have been opened with eFunds”		
Accounts opened	202	
Accounts still active	157	78%
Accounts with chargeoff	21	10%

Fee Income Analysis 7 Months	
Gross OD Income	\$15,600
Debit Card Interchange	\$4,100
Chargeoff	(\$4,612)
<b>Net Impact</b>	<b>\$15,088</b>

\* Before the cost savings from not screening

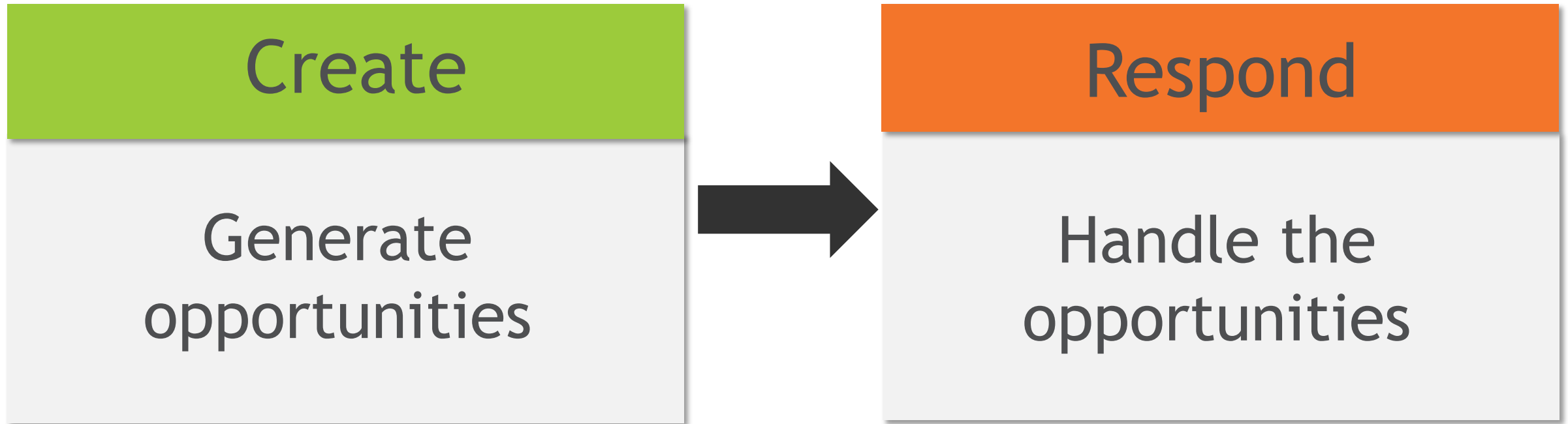


# How Do You Significantly Increase Core Customer and Deposit Acquisition?

Execution

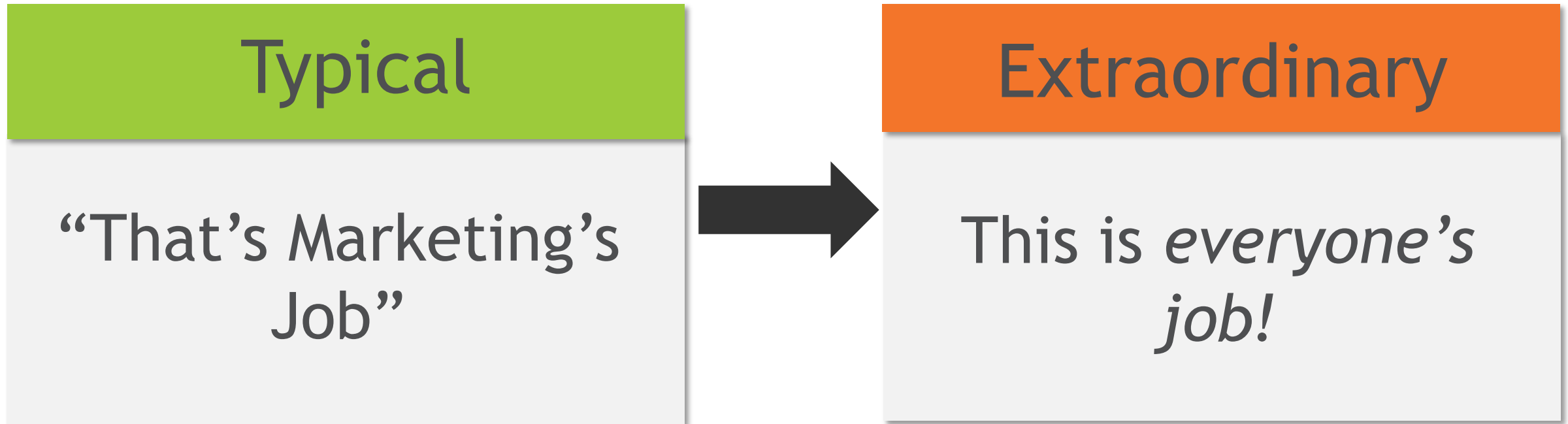


# Create & Respond to Opportunities





# Creating Opportunities





# Respond to Opportunities

Keys to an  
effective response



Pride in  
Company

Pride in  
Product



# Respond to Opportunities

Keys to an  
effective response



Pride in  
Company

Pride in  
Product

Culture of  
doing right by  
the customer



# Respond to Opportunities

Keys to  
effective

Pride in

## Welcome!

### Every new personal checking account includes:

**FREE** Instant Issue Debit Card • **FREE** Online Banking • **FREE** Bill Pay  
**FREE** Mobile Banking with Mobile Deposit • **FREE** eStatements  
**FREE** Thank You Gift • **FREE** Gifts for referring others  
**BUY BACK** of your debit cards and unused checks from another financial institution of up to \$10

1

To earn a higher rate of interest, will you always keep more than \$2,500 in your checking account?

yes

### PREMIER INTEREST CHECKING

*An account for those interested in higher interest!*

- FREE basic checks
- Higher interest rate with a balance of \$2,500 or more
- Competitive interest if balance falls below \$2,500
- Only \$7 monthly charge if minimum balance falls below \$2,500

2

Will there be anyone 50 years or better signing on this account?

yes

### VARSITY 50+ INTEREST CHECKING

*A perfect account for customers 50 and better!*

- FREE basic checks
- Competitive interest
- No minimum balance
- No monthly service charge

3

Does anyone plan to have direct deposit or an automatic payment with this account?

yes

### DIRECT INTEREST CHECKING

*Earn interest with the convenience of direct deposit or any automatic payment!*

- Competitive interest
- No minimum balance
- No monthly service charge

no

### SIMPLY FREE CHECKING

*A FREE account for anyone!*

- No minimum balance
- No monthly service charge



Save time and money with these great products and services:

### ● Savings Plans

Will you make six or more withdrawals from your savings account each month?

yes

→ **Additional Checking Account**

no

→ Will you always keep more than \$2,500 in your savings account?

yes

→ **Premier Savings Account**

no

→ **Simply Savings Account**

○ **FREE Instant Issue Debit Card**

○ **Direct Deposit**

○ **Automatic Payments**

○ **FREE Online Banking**

○ **FREE Bill Pay**

○ **FREE Mobile Banking**

○ **FREE Mobile Deposit**

○ **FREE eStatements**

○ **Investment Services**

○ **FREE Business Checking**

Other fees such as non-sufficient funds, overdraft, sustained overdraft fees, etc. may apply. See fee schedule for details. Minimum opening deposit is only \$50. Ask us for details. Bank rates and regulations apply. Offer good on personal accounts only; ask us about our outstanding options for your business or organization. Free gift may be reported on a 1099-B or 1099-MISC. Free gift provided at the time of account opening. Up to \$10 for debit cards and unused checks from another financial institution given at the time the check/debit cards are presented.



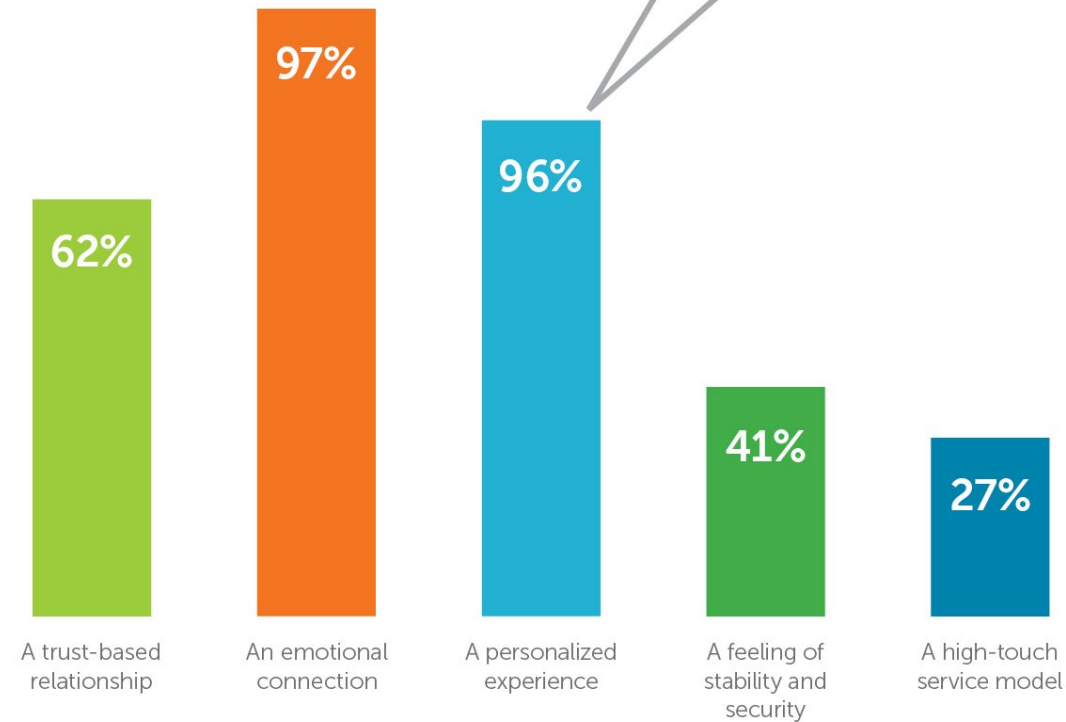
# The Service Experience—as good as we think?

- We have to share bad news
- Our branches have been understaffed—if not in reality, then in perception
- We’ve been pushing people toward digital channels
- Lingering frustrations over past “wrongs”



# The Human Touch

The unique value that banks and credit unions believe humans add to branches

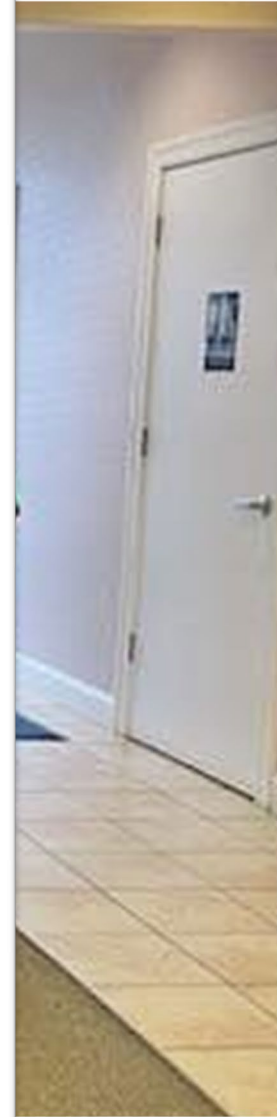


SOURCE: Efma/Synechron, The Financial Brand











# Service

## Traditional Approach

- Customer service policies
- Training sessions
- Rules...

## Alternate Approach

**Culture of  
Valuing People**



“Culture eats strategy  
for breakfast.”

Peter Drucker





# Conclusions



Growing core customers  
is the key to growing  
core deposits. You need  
more core customers!

More customers = more  
options and more  
opportunities.





# Parting Questions

Are your marketing  
resources being  
deployed  
strategically?



# Parting Questions

Are your products  
and processes truly  
designed so  
*everyone* wins?

Pro tip:  
ask your employees

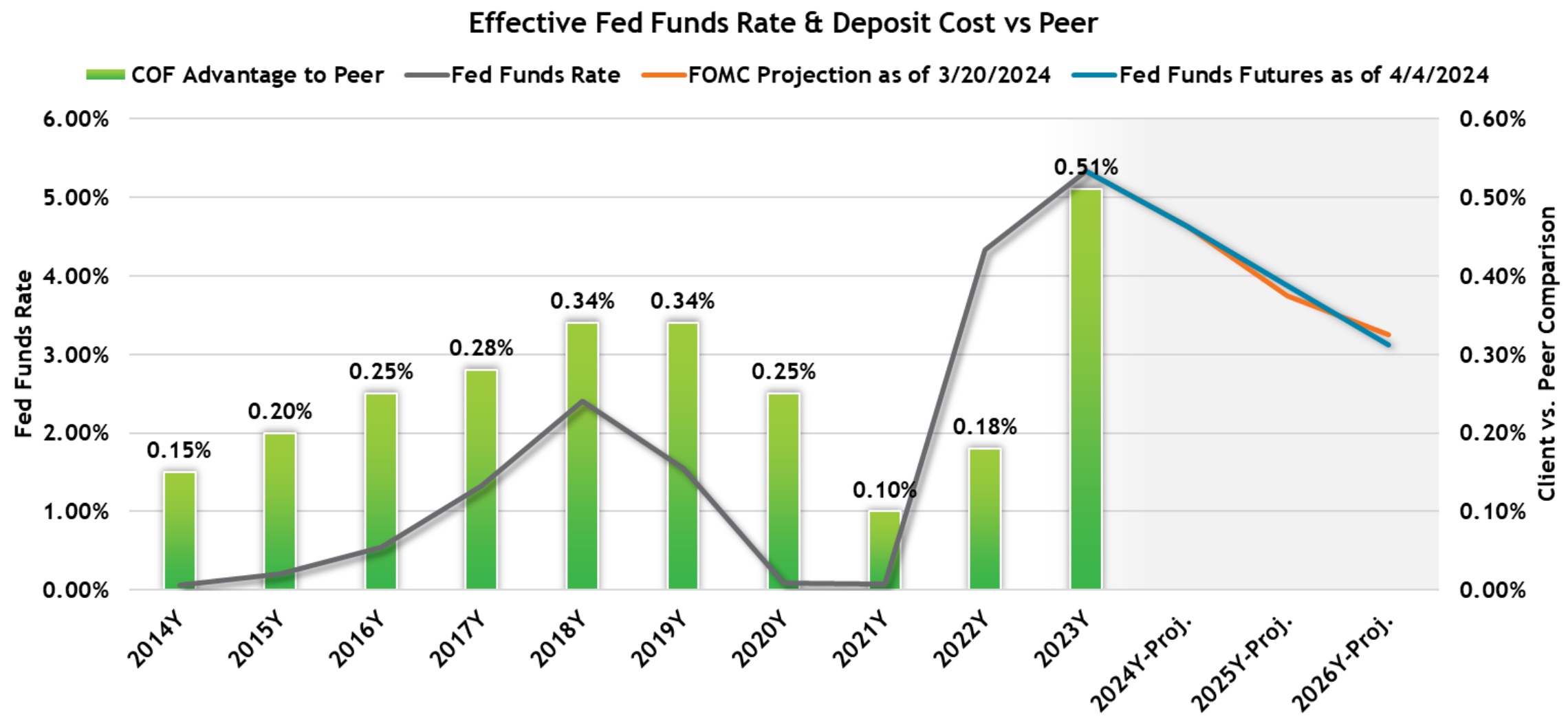


# Parting Questions

Are your people and culture equipped to execute at the highest level?



# Cost of Funds – Hometown Bank vs. Peers





# Under Pressure: Cost of Funds Strategies in a Rising Rate Environment

Tim Barnes

President/CEO

(606) 526-2717

[tbarnes@ahometownbank.com](mailto:tbarnes@ahometownbank.com)



Robb Rempel

Executive Vice President

