

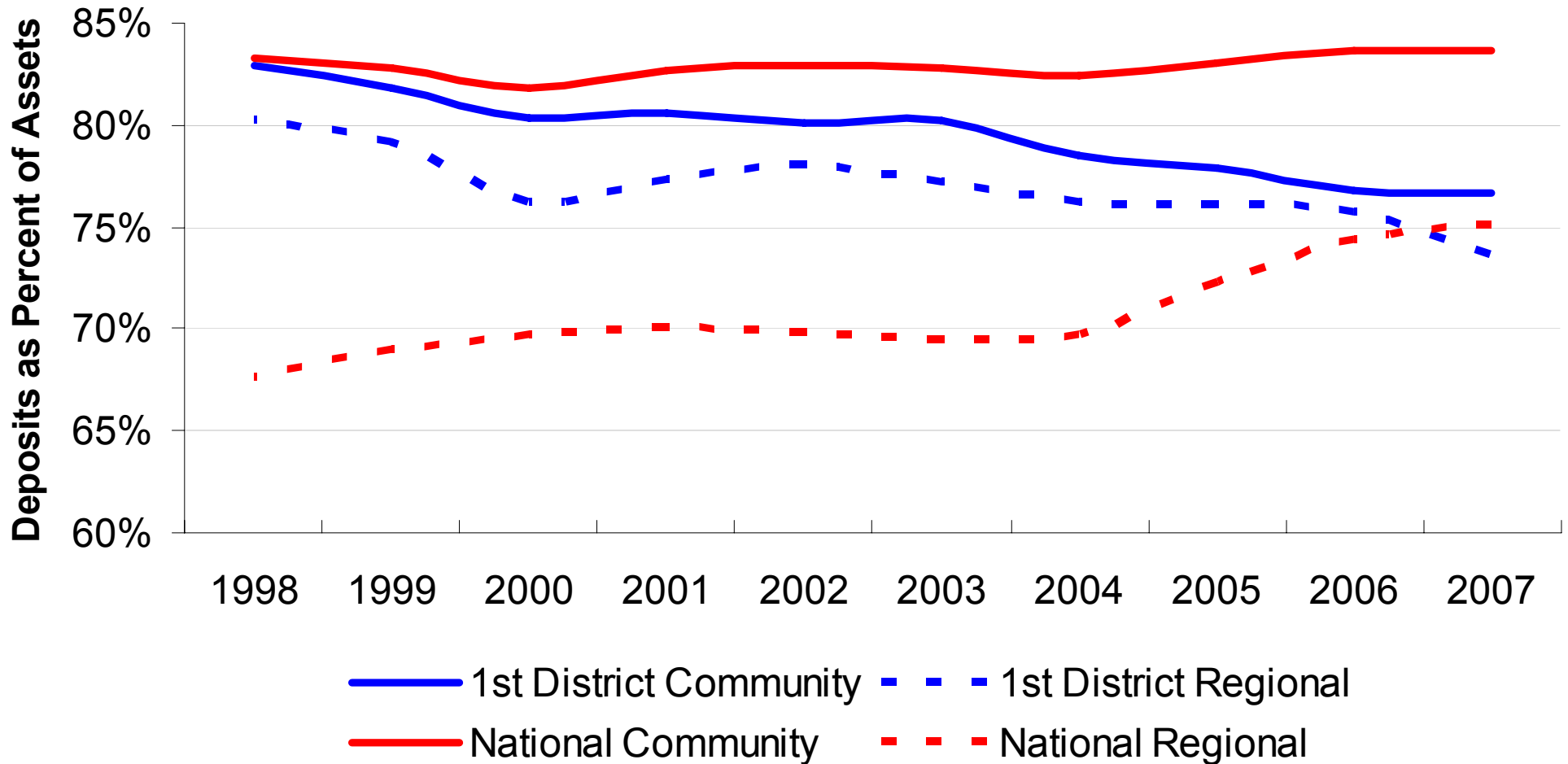
The Deposit Dilemma

Trends, Challenges, and Responses

Ron Adams
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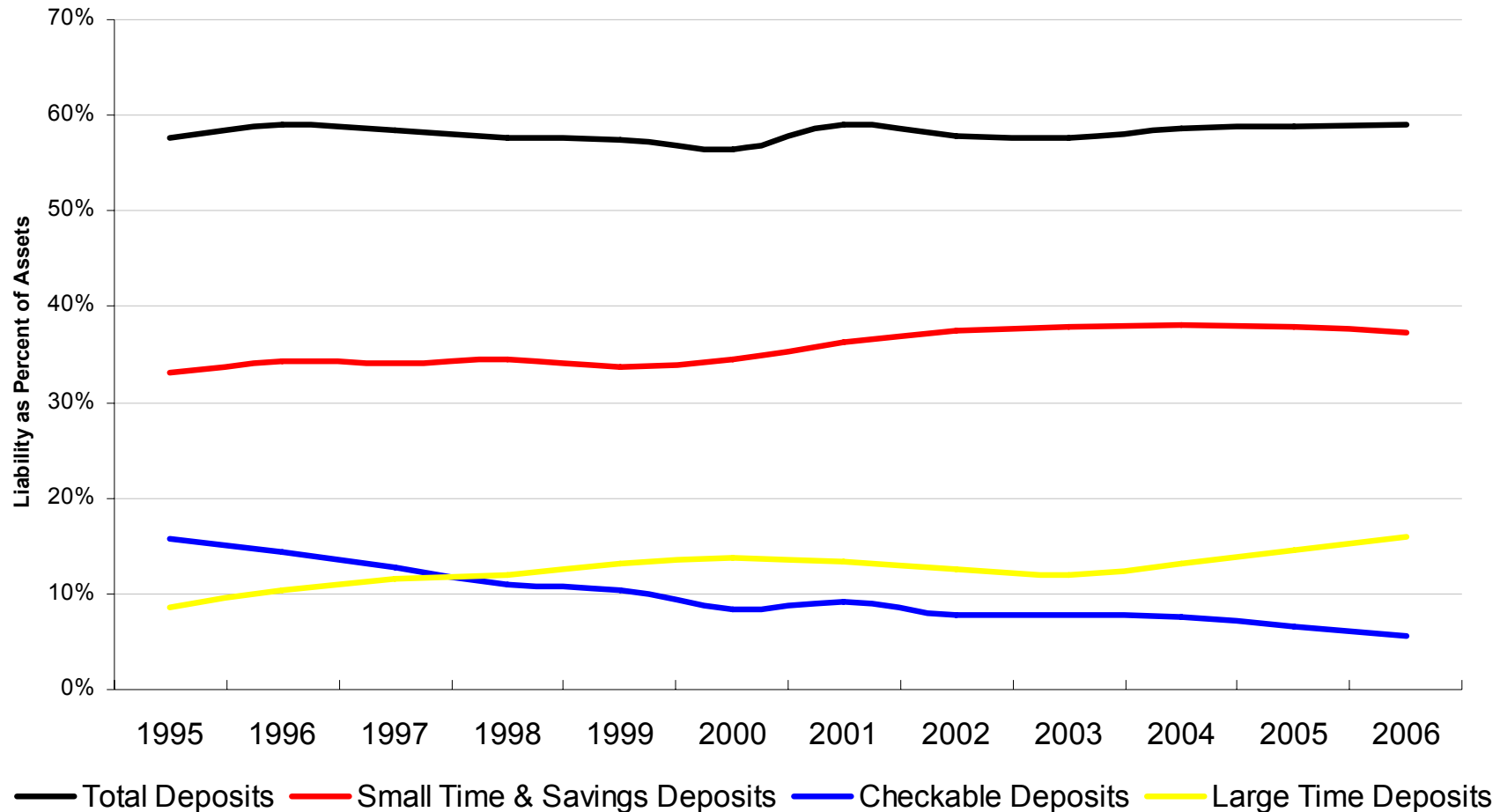
Part I: Trends

First District trails in deposits



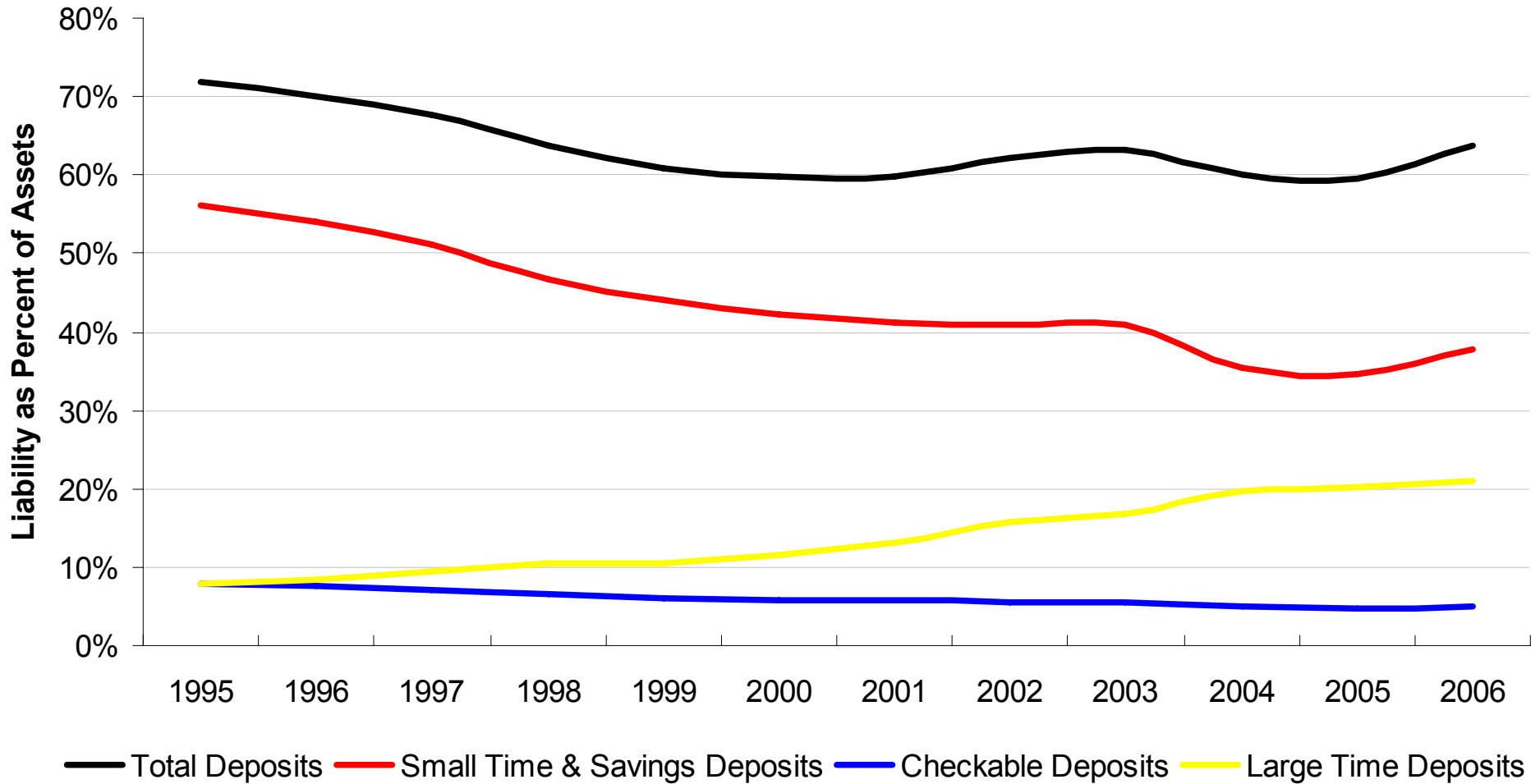
Source: FDIC Merger Adjusted Call Report Data

Commercial banks held steady with jumbo CDs compensating for deposits lost elsewhere



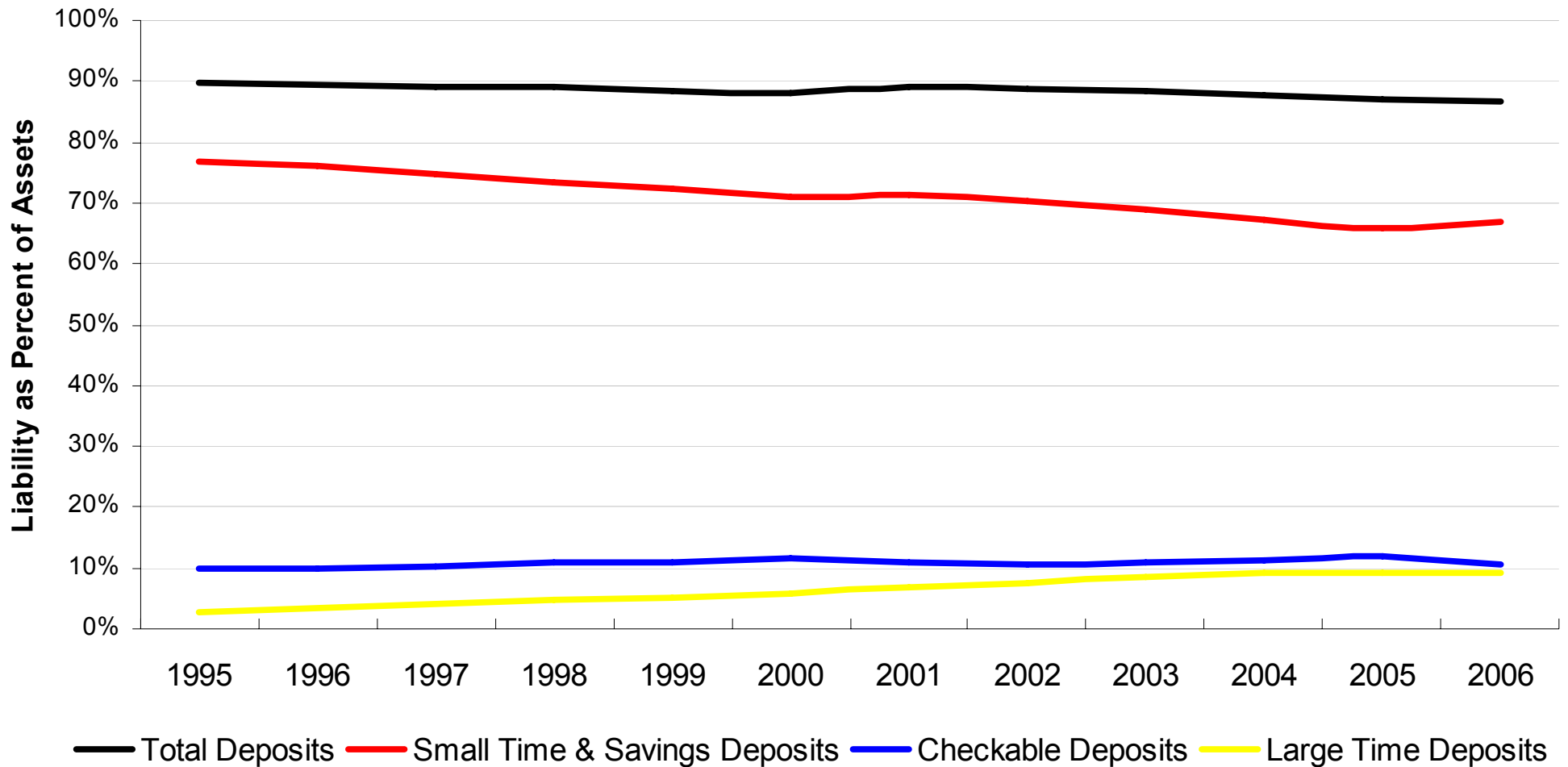
Source: Flow of Funds Data, www.federalreserve.gov

Total deposits at savings institutions fell by 8% since 1995



Source: Flow of Funds Data, www.federalreserve.gov

Credit unions also fell but by a smaller margin

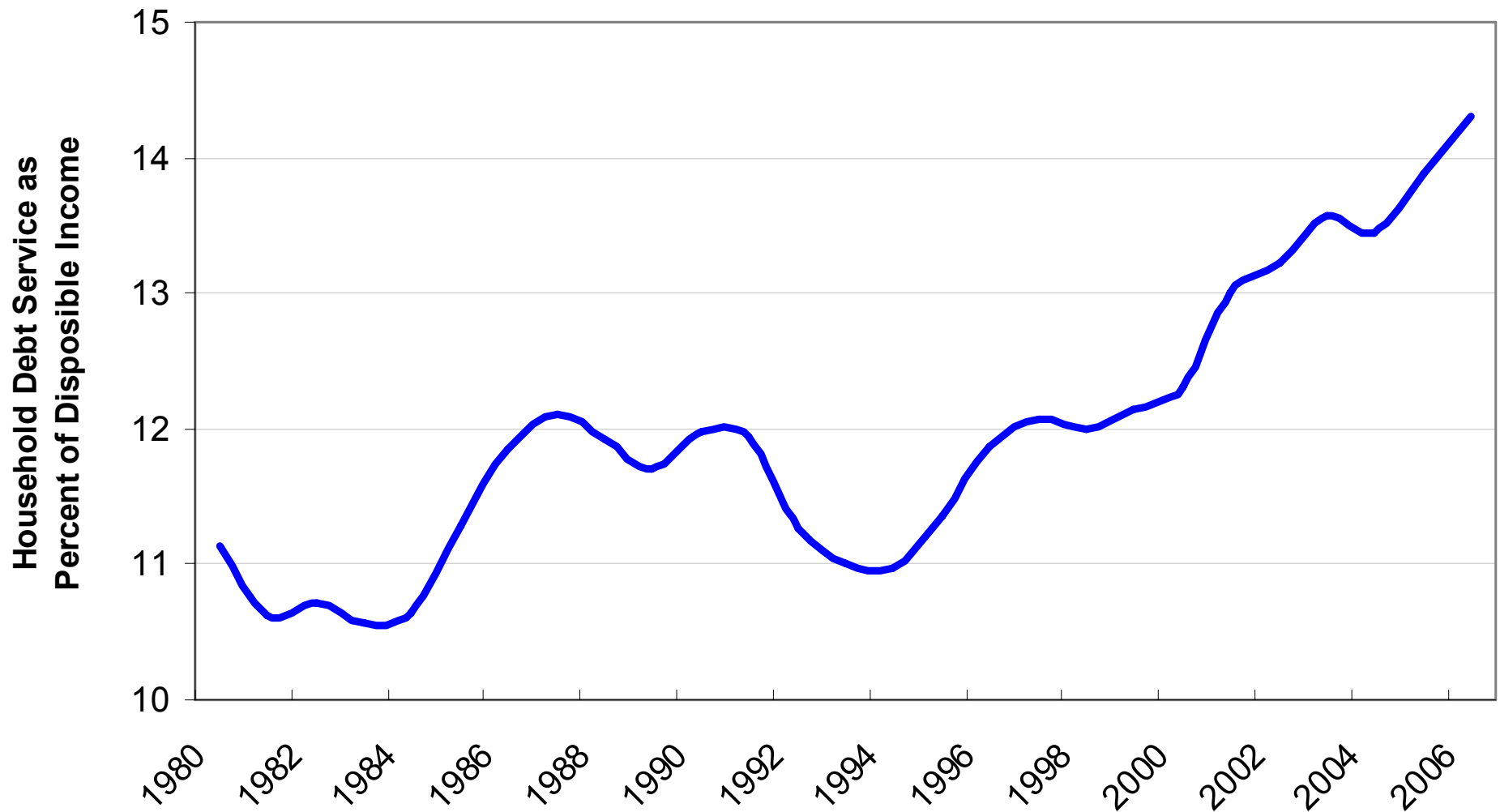


Source: Flow of Funds Data, www.federalreserve.gov

Part II: Challenges

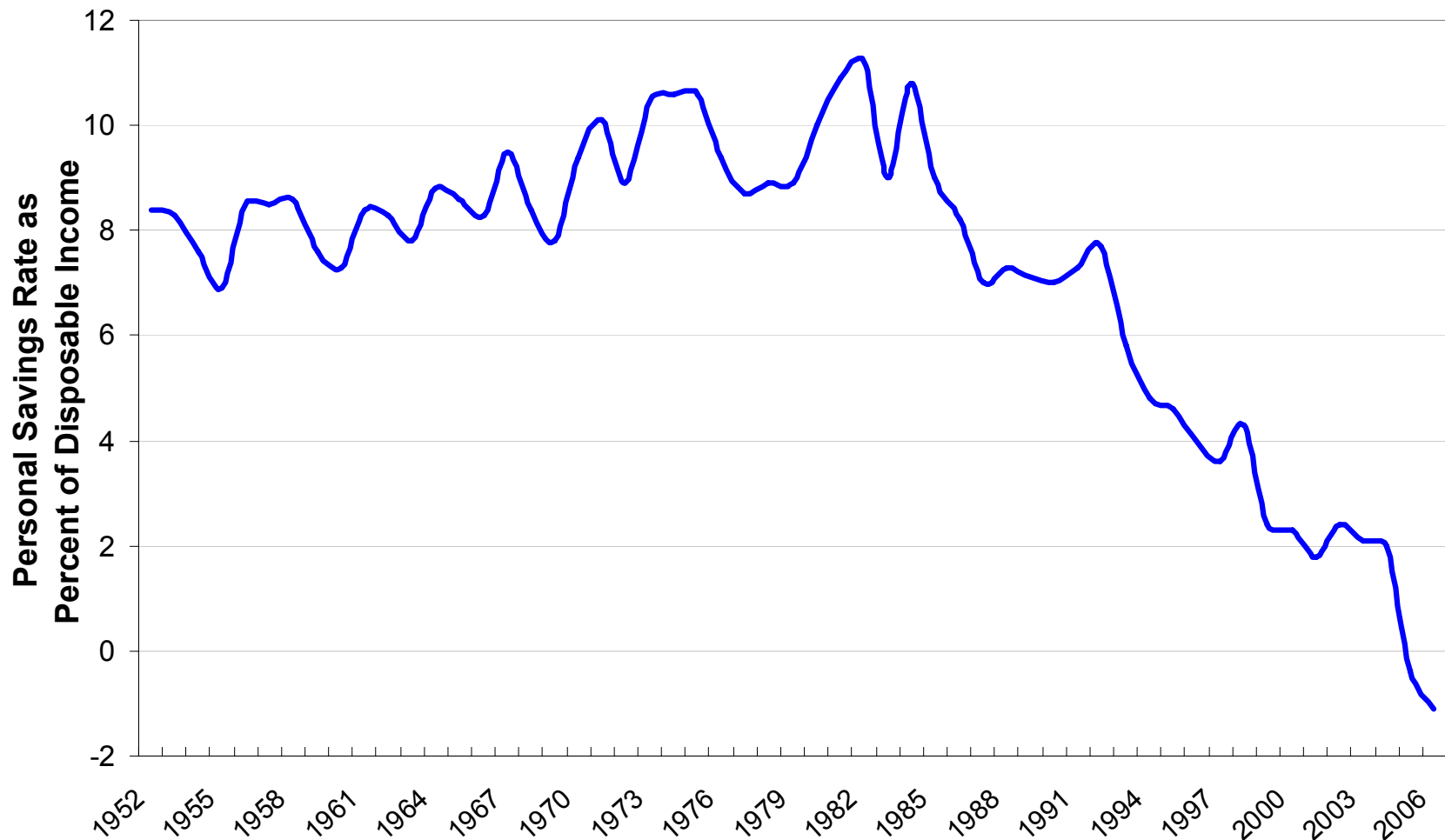
- **Consumer behavior**
- Direct banks
- Demographics
- Local competition

Households are borrowing more



Source: www.federalreserve.gov

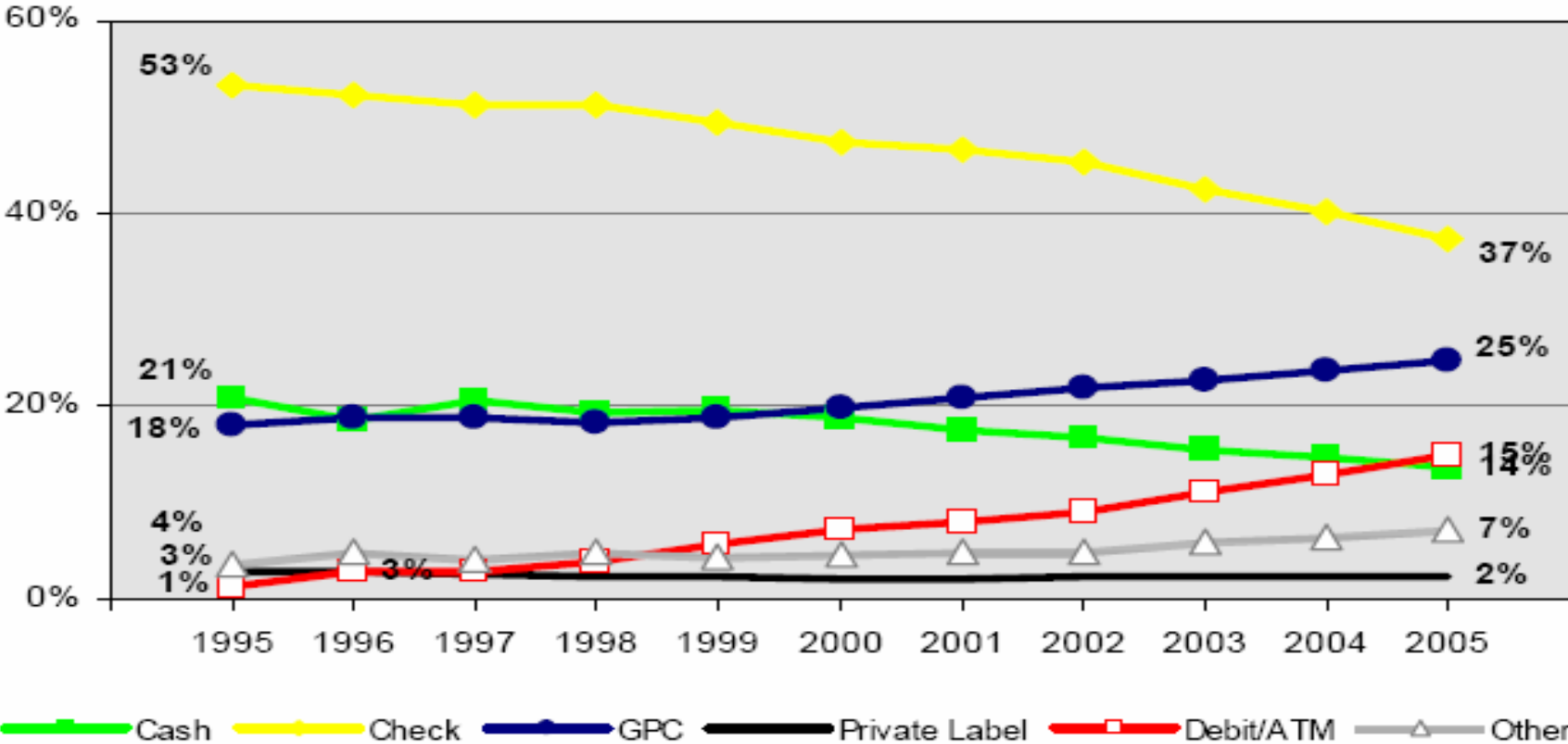
Saving less



Source: National Income and Product Account Tables - Bureau of Economic Analysis (www.bea.gov)

And using fewer checks for their purchases

Payment Method Share of Total Dollar Volume
- All Merchant Categories -

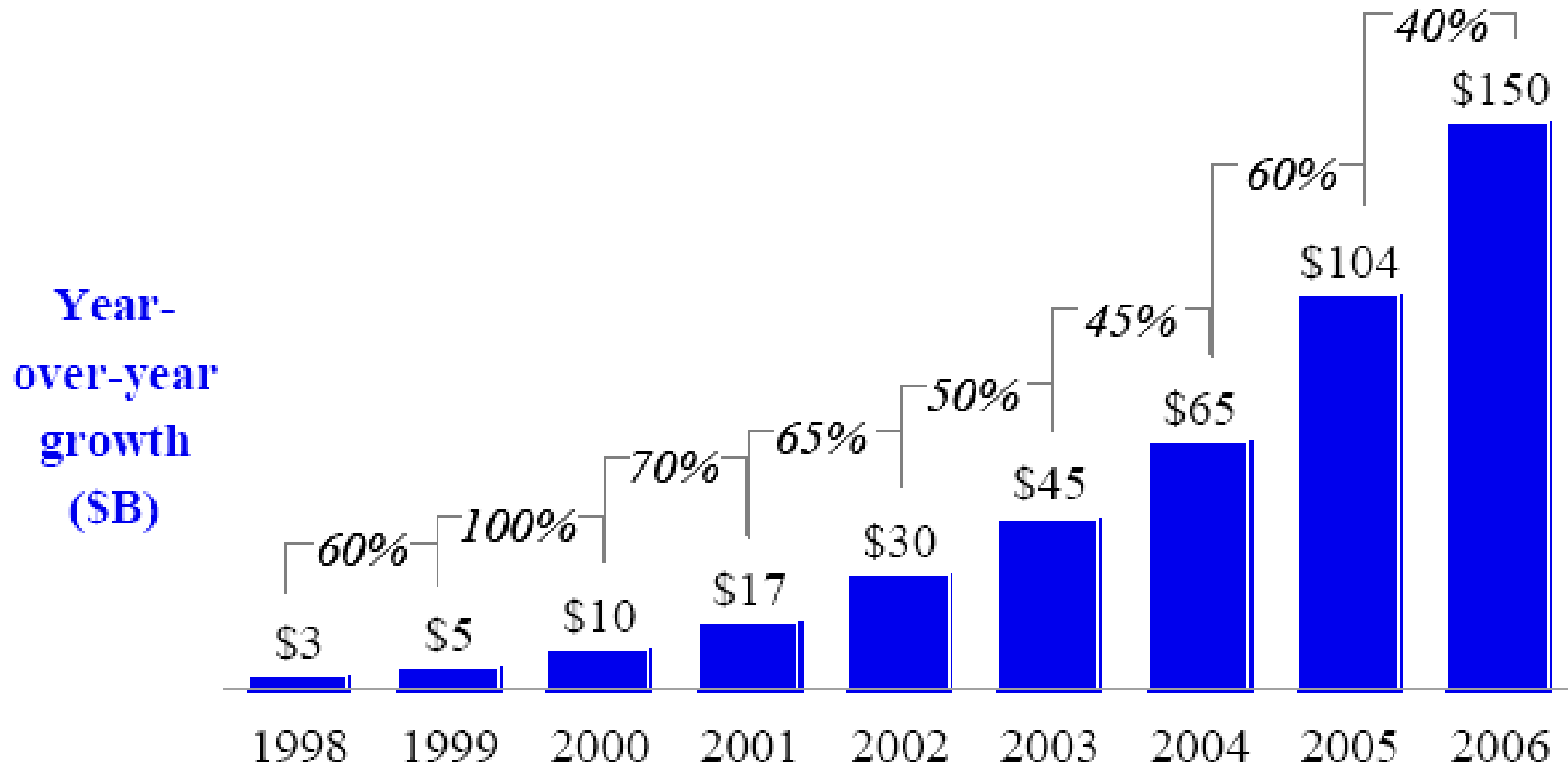


Source: Visa USA Research Services 2006 - Visa Payment Panel Study

Part II: Challenges

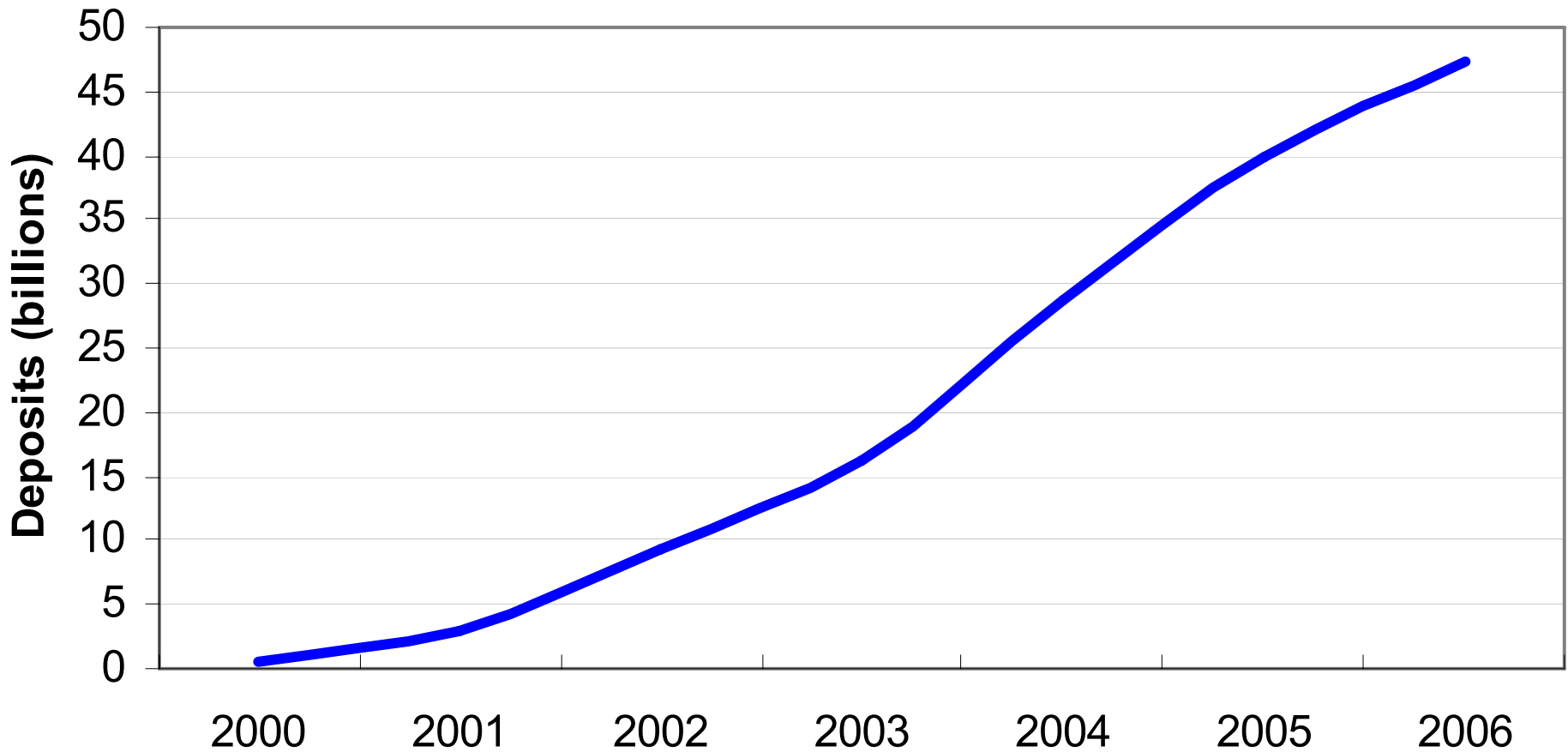
- Consumer behavior
- **Direct banks**
- Demographics
- Local competition

Direct banks have become a major player in deposit markets



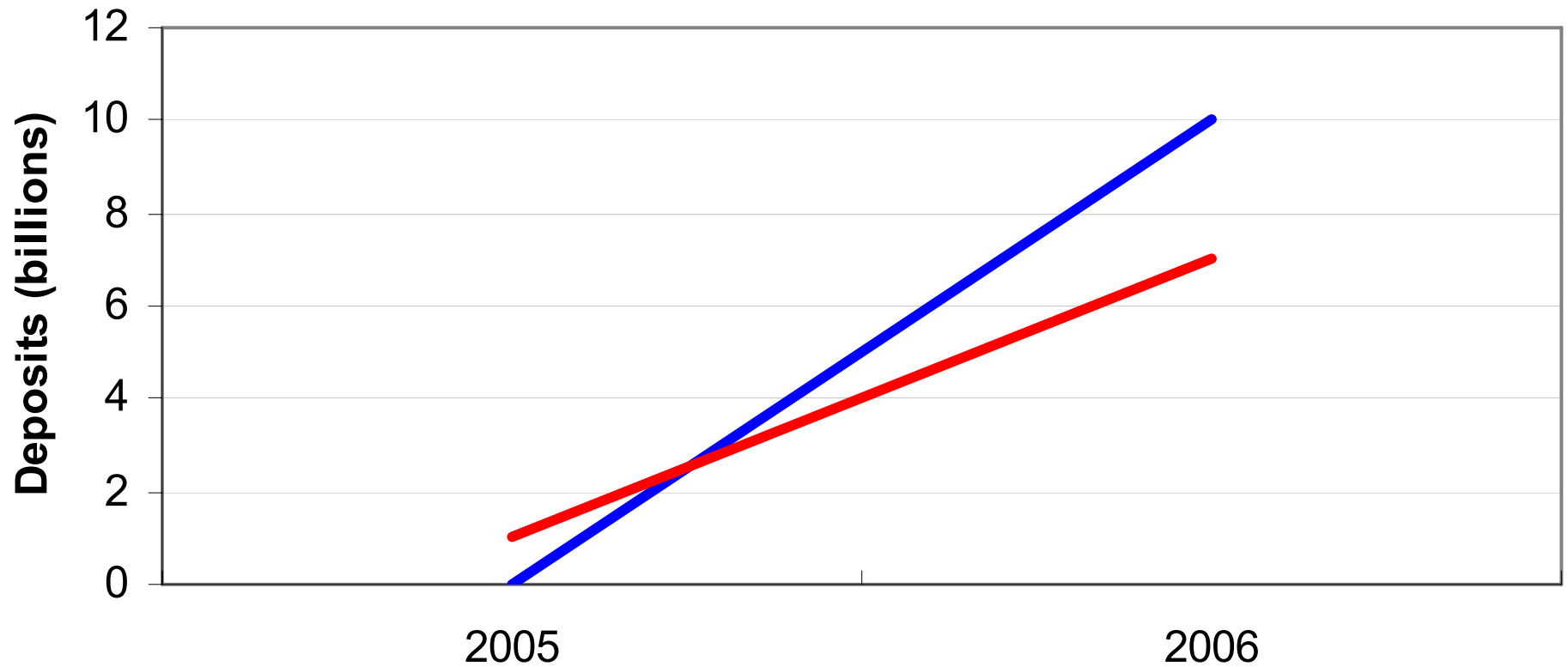
Source: First Manhattan Consulting Group, 2007

ING Direct took an early lead



Source: FDIC Call Report Data

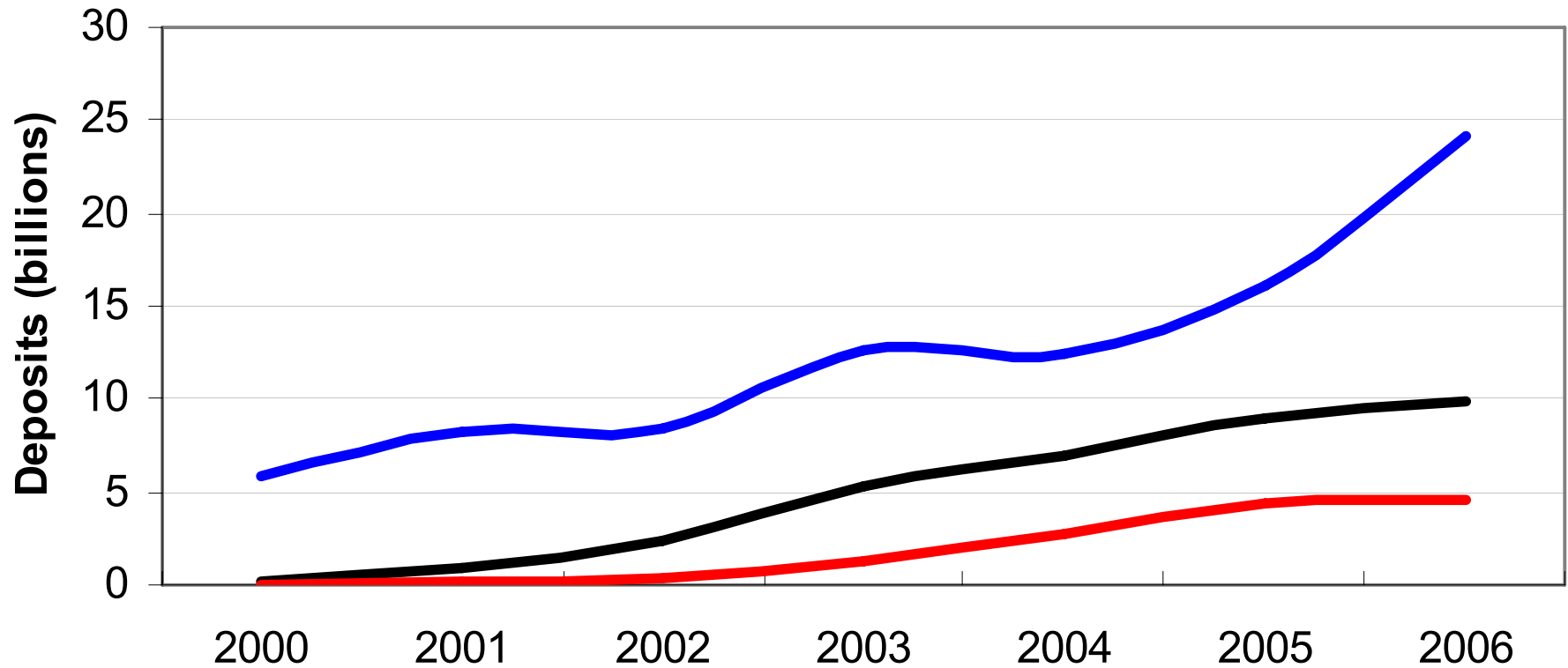
Other large banks are now following



Source: SEC 10k Reports

— Citi Direct — HSBC Direct

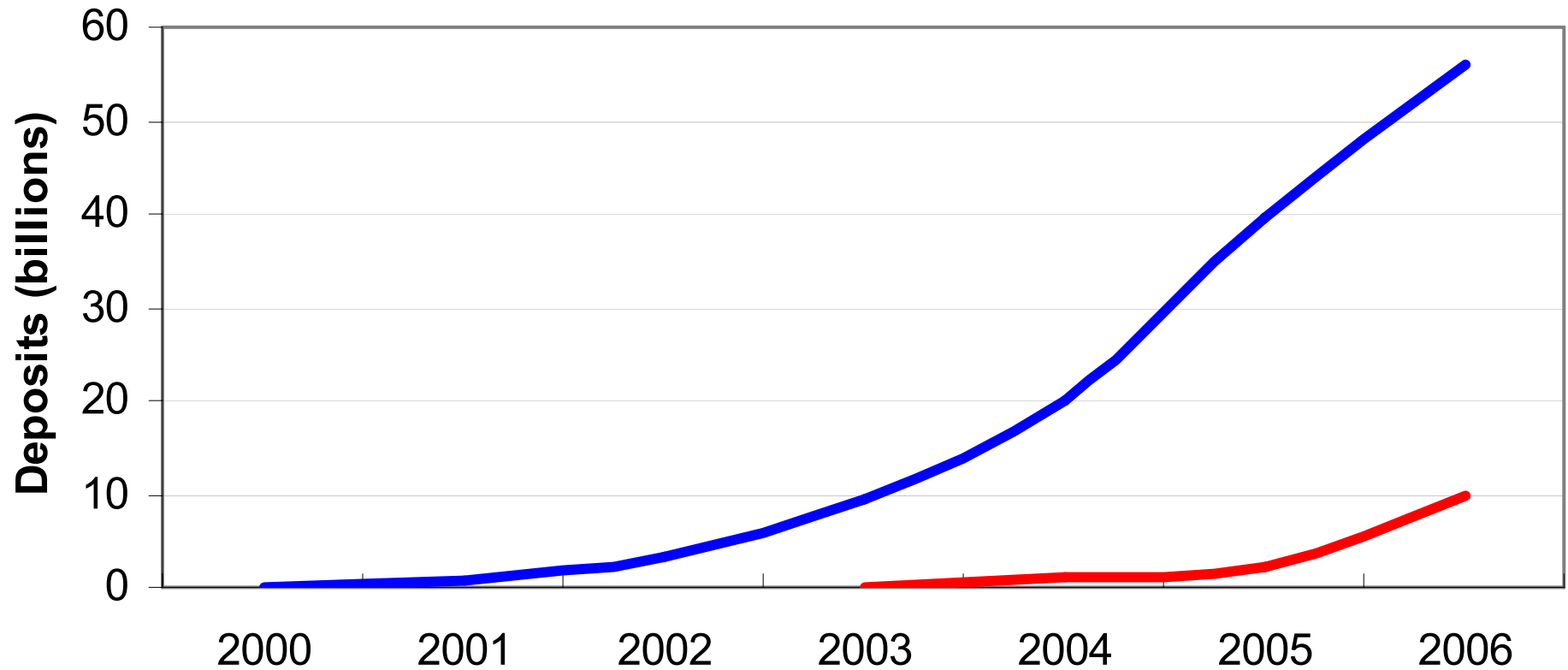
Their success has attracted non-banks



Source: FDIC Call Report Data

— State Farm — Met Life — E*Trade

Consumer lenders have also taken note



Source: FDIC Call Report Data

— Countrywide — GMAC

Part II: Challenges

- Consumer behavior
- Direct banks
- **Demographics**
- Local competition

New England's population growth is below average

	Population Change 2000-2007 (%)	Projected Population Change 2008-2012 (%)
Connecticut	4.44	2.89
Maine	6.09	3.83
Massachusetts	2.85	1.92
New Hampshire	9.47	6.10
Rhode Island	3.58	1.78
Vermont	4.56	2.86
United States	8.86	6.26

Source: SNL DataSource: Based on 2000 Census Bureau data with Projections provided by ESRI

And above average loss of the most productive workers and savers

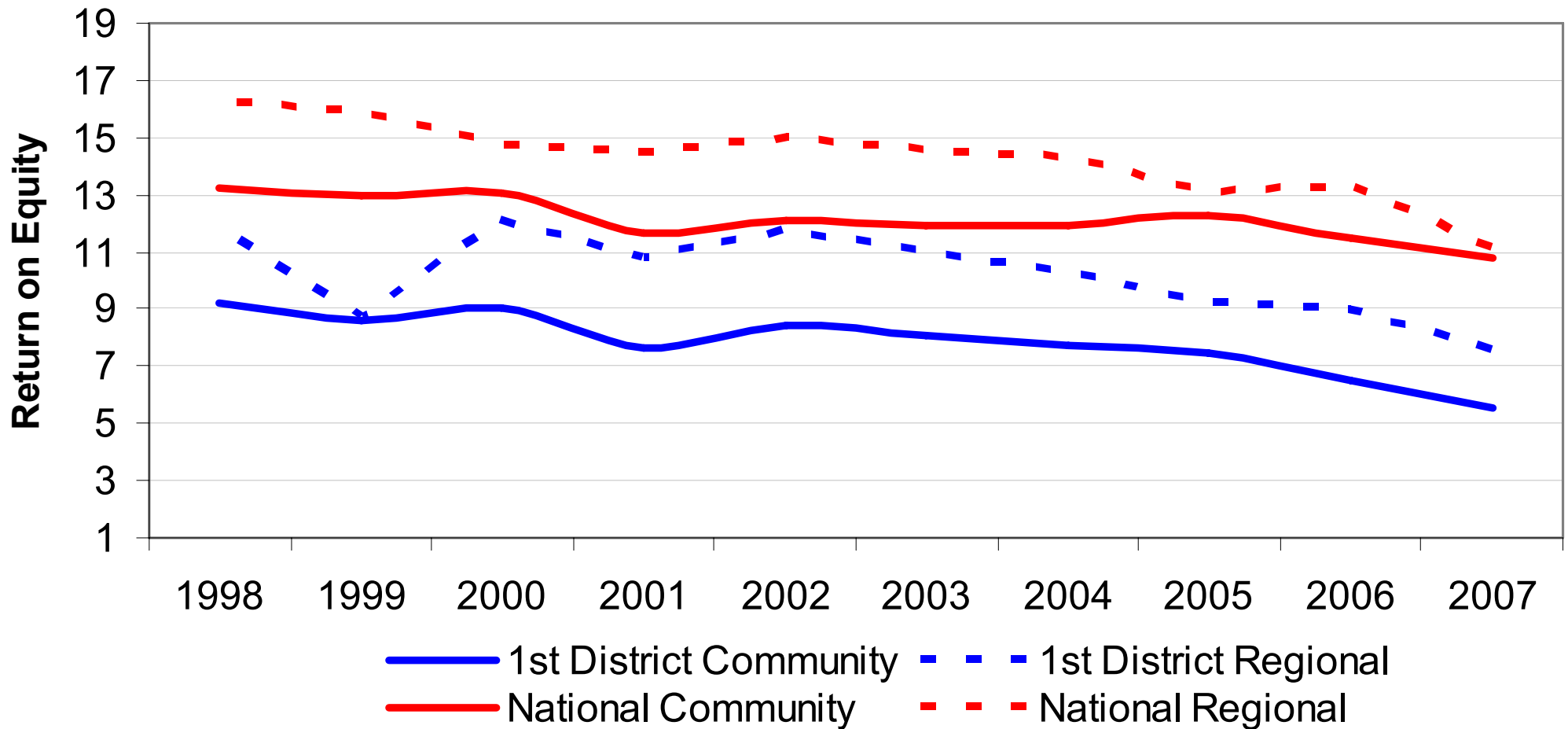
% Change 2007 - 2012	US	CT	ME	MA	NH	RI	VT
Total Population:	6.26	2.89	3.83	1.92	6.10	1.78	2.86
0-14 Age Group (%):	3.60	-1.65	0.14	-2.95	1.73	-3.55	-1.29
15-34 Age Group (%):	5.02	5.60	1.98	2.22	7.41	4.32	2.21
35-54 Age Group (%):	1.98	-2.23	-3.64	-1.97	-0.79	-4.16	-5.12
55+ Age Group (%):	15.35	10.02	16.12	10.25	16.87	9.84	15.74

Source: SNL Datasource based on ESRI projections

Part II: Challenges

- Consumer behavior
- Direct banks
- Demographics
- **Local competition**

Banking in New England is highly competitive



Source: FDIC Merger Adjusted Call Report Data

New England has some of the most concentrated banking markets in the country

2006 HHI	Median	Average
New England	1216	1637
Pacific	1036	1685
South Atlantic	1021	1313
Mountain	1017	1377
National	958	1239
Middle Atlantic	875	1021
East South Central	820	767
East North Central	678	662
West South Central	551	637
West North Central	424	1444

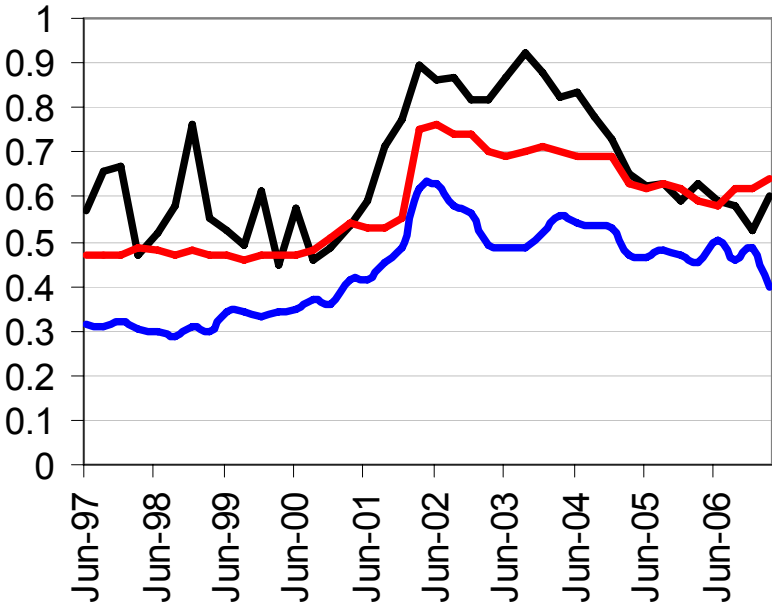
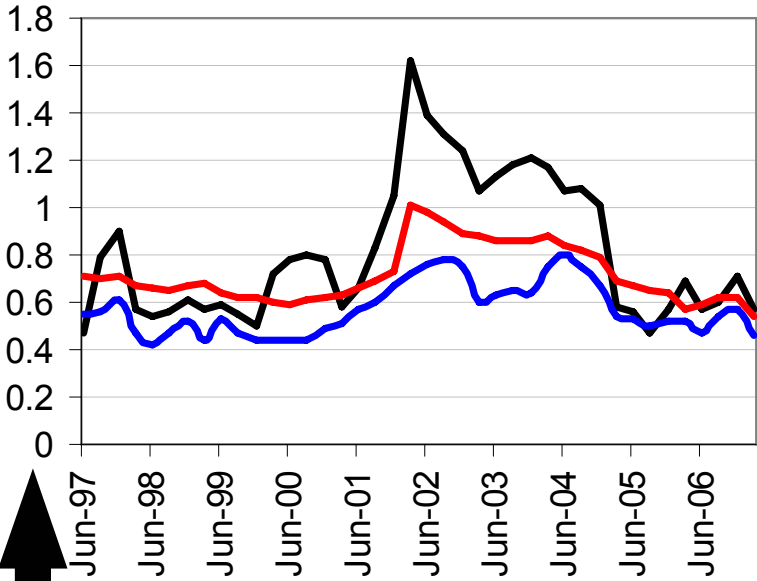
	2006 HHI	Rank
Rhode Island	3399	2
New Hampshire	1935	9
Massachusetts	1287	13
Vermont	1144	15
Connecticut	1099	17
Maine	958	26

Source: SNL DataSource

The intensity of the competition reflected in the pricing of CDs

Jumbo CDs

CDs < \$100,000



- Large Banks
- Community Banks
- New England Banks

Difference in CD rates between banks paying the most and those paying the least

Increasing competition in the wholesale market?

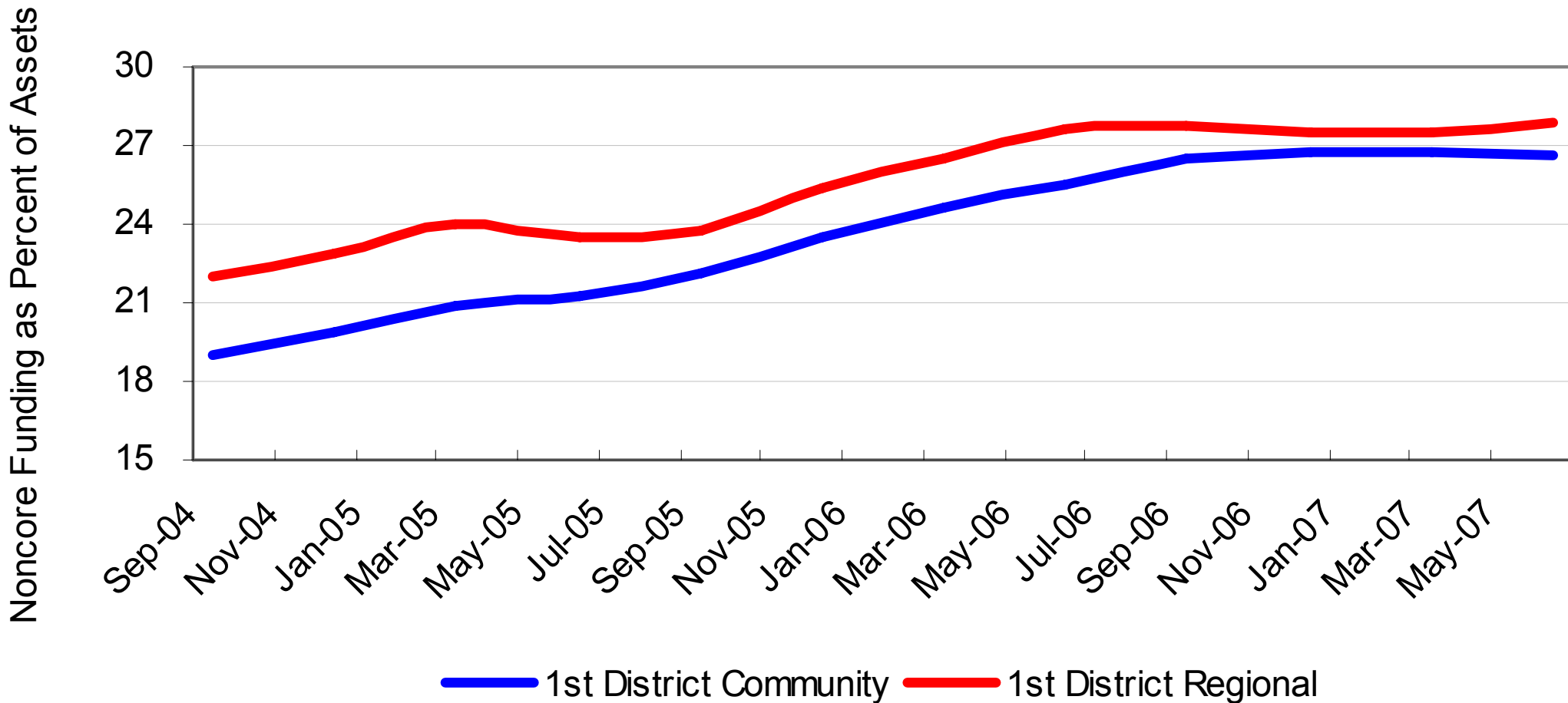
Bidder	Bid (Sep 2007)	Bid (Sep 2006)	Rate
Citibank	1	NA	5.330%
Sovereign Bank	2	1	5.325%
Local Competitor	3	26	5.276%
Bank of America	4	58 (out)	5.275%
JP Morgan Chase	5	12	5.271%

Source: www.bidmass.com

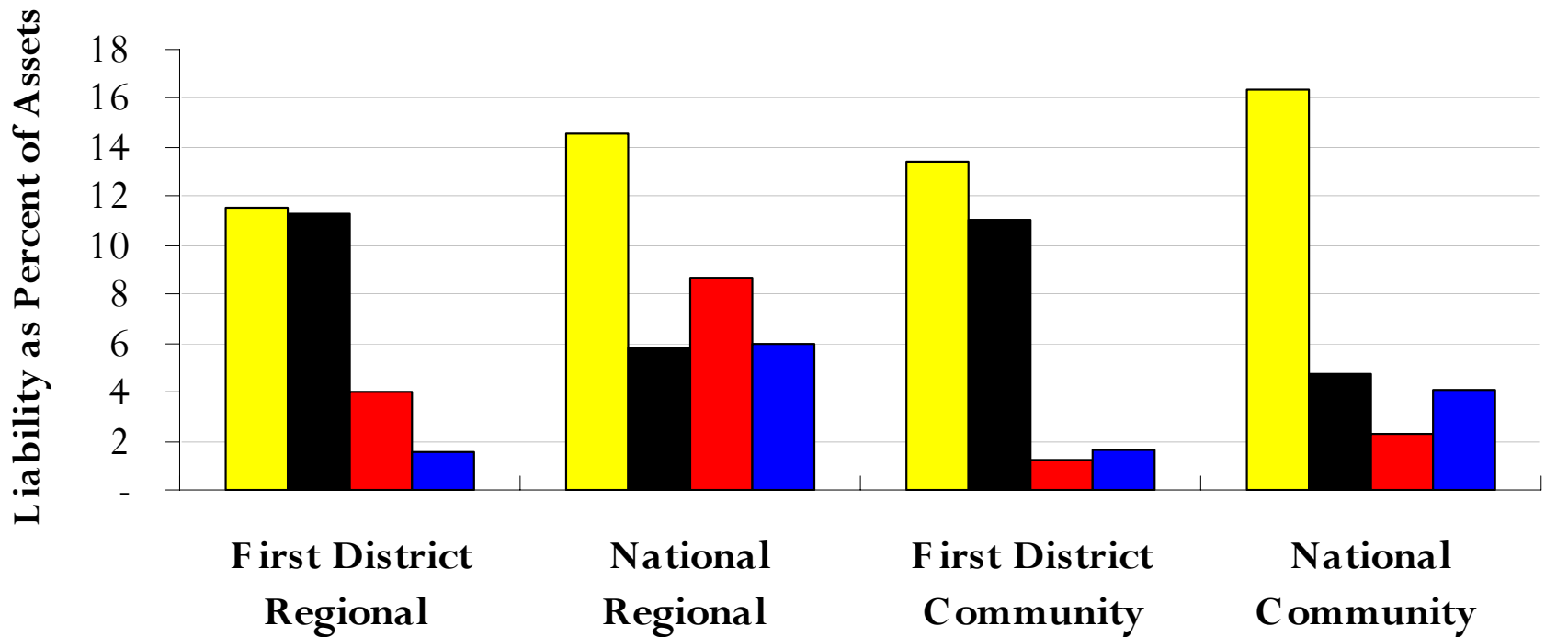
Part III: Responses

- **Wholesale funding**
- Branching
- Integrated approach

Rely on wholesale funding



With a regional preference for the FHLB



■ CDs > \$100 Thousand
 ■ FHLB Borrowings
 ■ Other Borrowings
 ■ Brokered Deposits

Source: FDIC Merger Adjusted Call Report Data

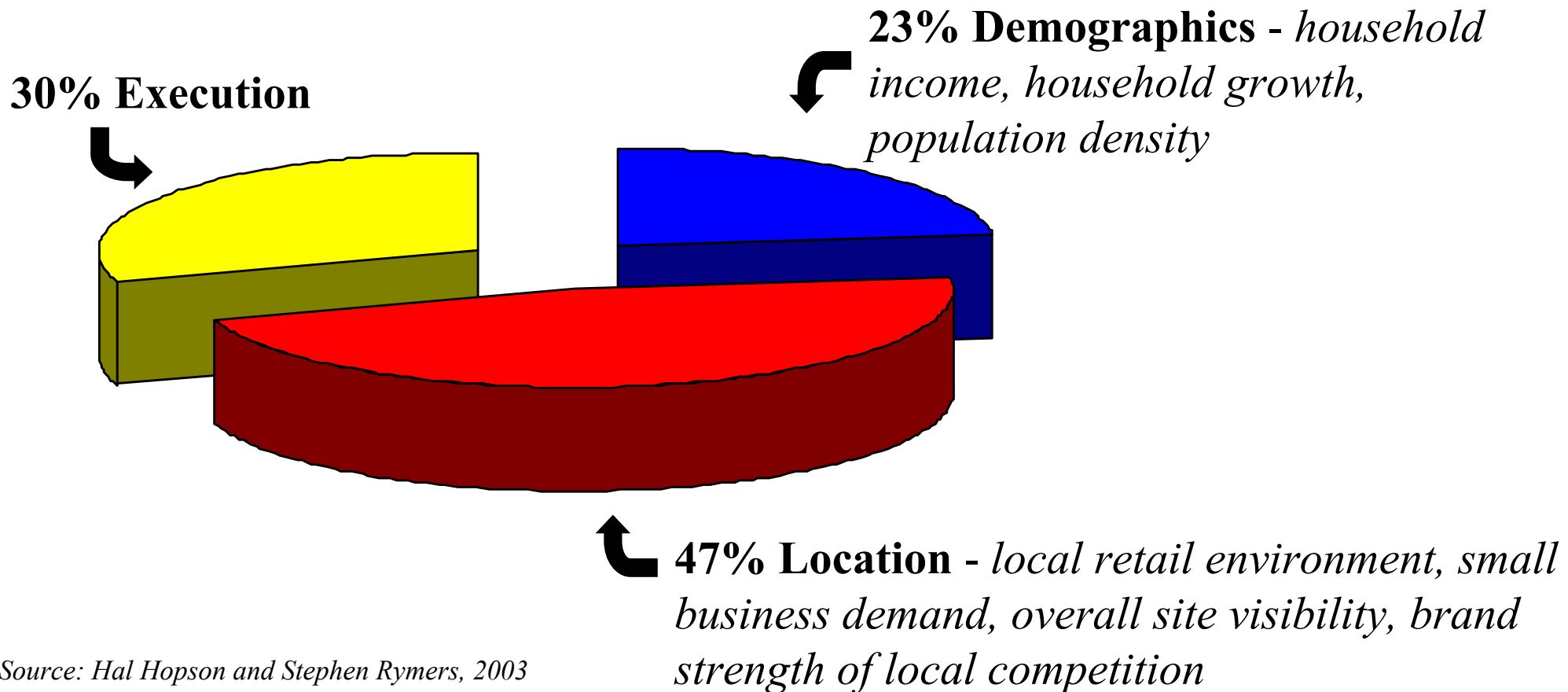
Part III: Responses

- Wholesale funding
- **Branching**
- Integrated approach

Build more branches

- Examined impact of:
 - Net change in branches
 - Deposit rates
 - Changes in personal income
 - Banking concentration
- New branch associated with a \$63.2 million increase in deposits
- New branches come at a cost: average cost in 2006 was over \$2.5 million

In better locations

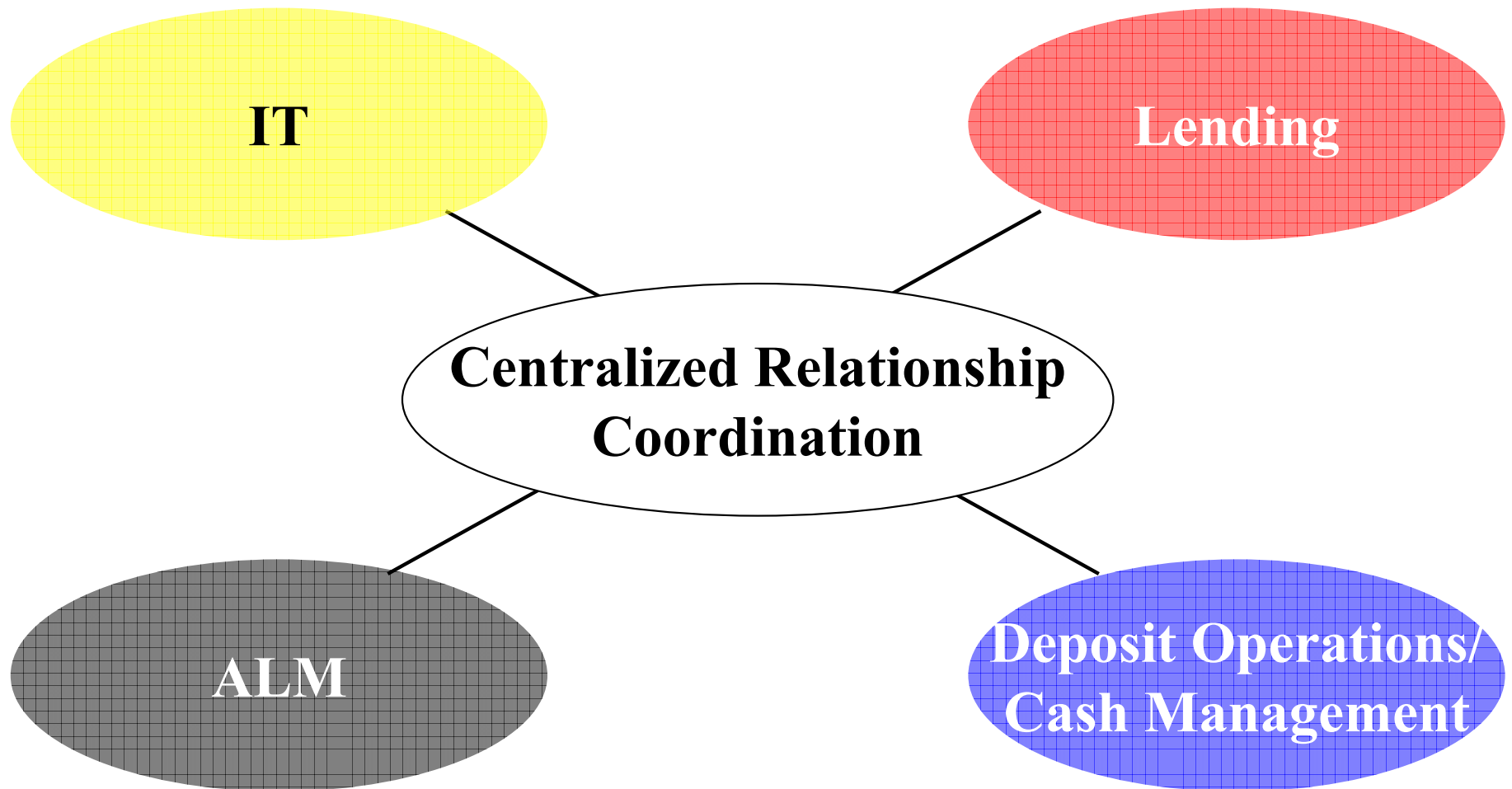


Source: Hal Hopson and Stephen Rymers, 2003

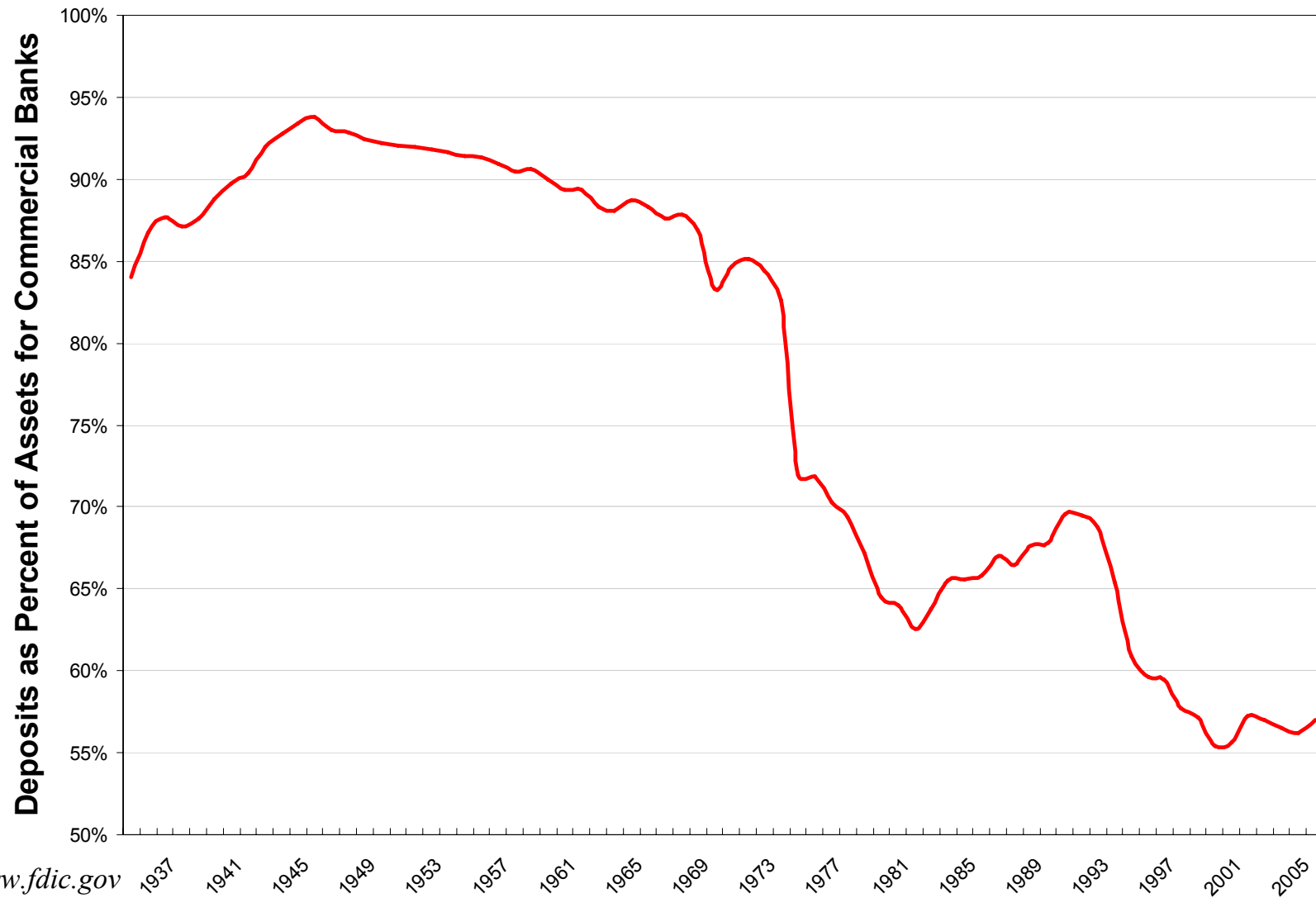
Part III: Responses

- Wholesale funding
- Branching
- **Integrated approach**

Integrate deposit gathering into the entire customer relationship



~~The Deposit Dilemma Dynamic~~



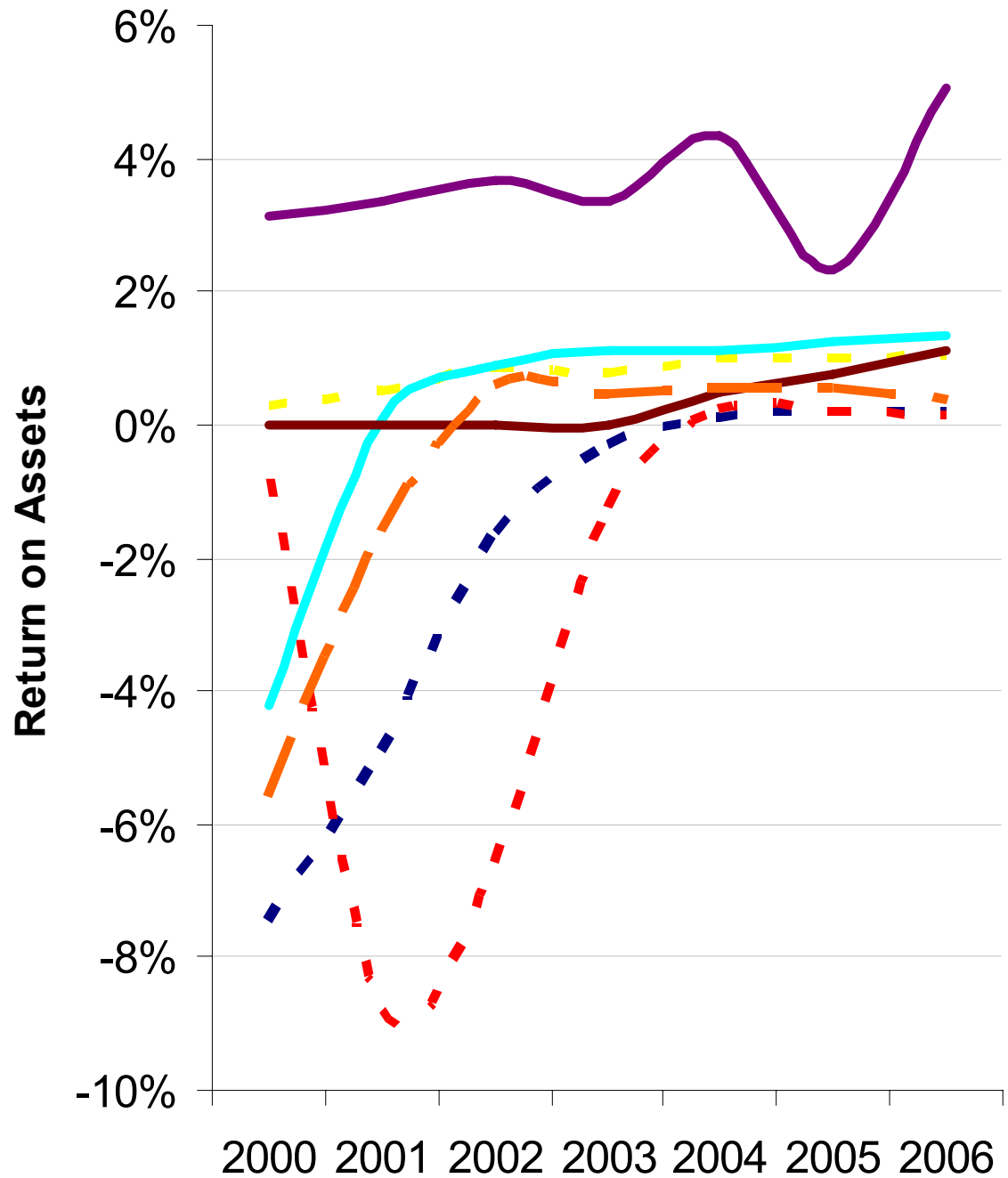
Source: www.fdic.gov

All Presentations are available online at:

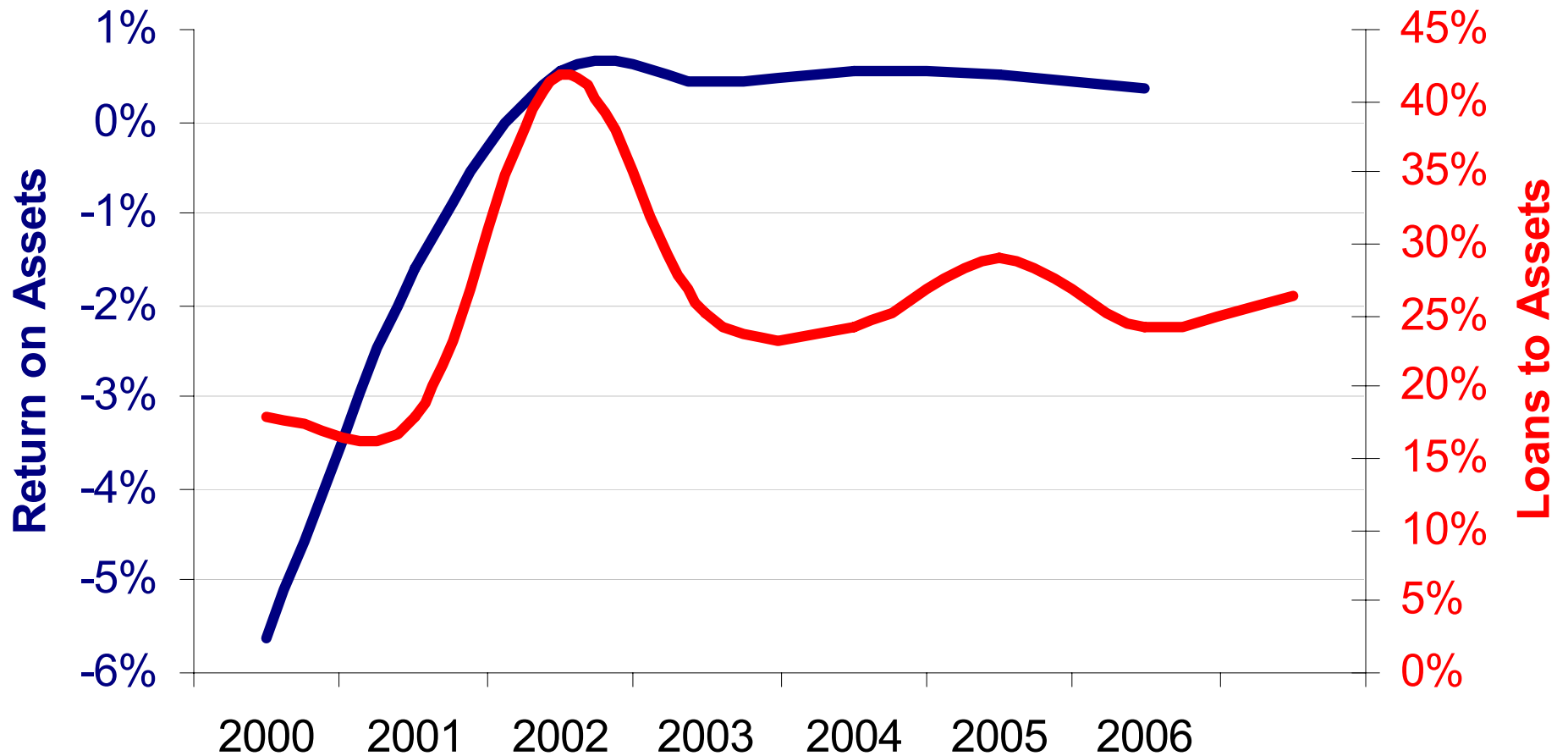
www.bos.frb.org/bankersconference2007

Return on assets of various direct banks

- STATE FARM BK FSB
- METLIFE BK NA
- E*Trade Bank
- COUNTRYWIDE BK FSB
- DISCOVER BK
- GMAC BK
- ING Direct

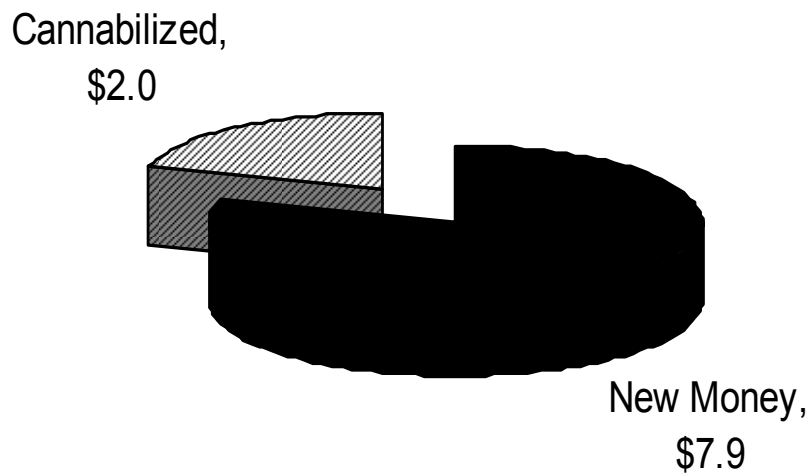


ING direct loan growth and ROA

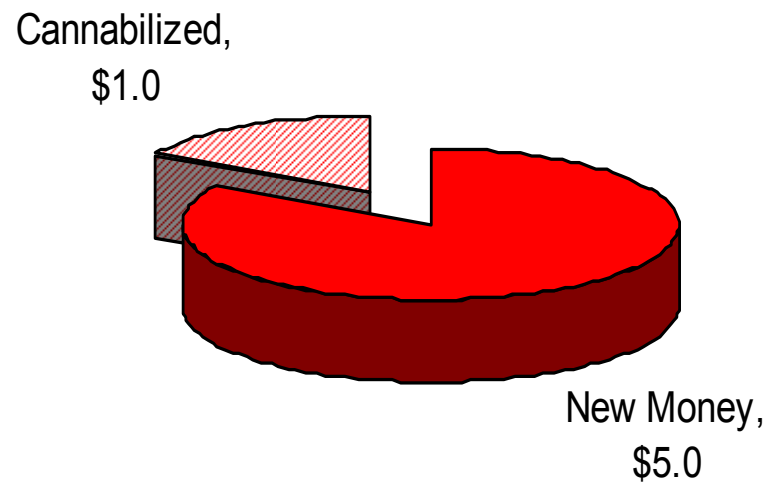


New verses existing money

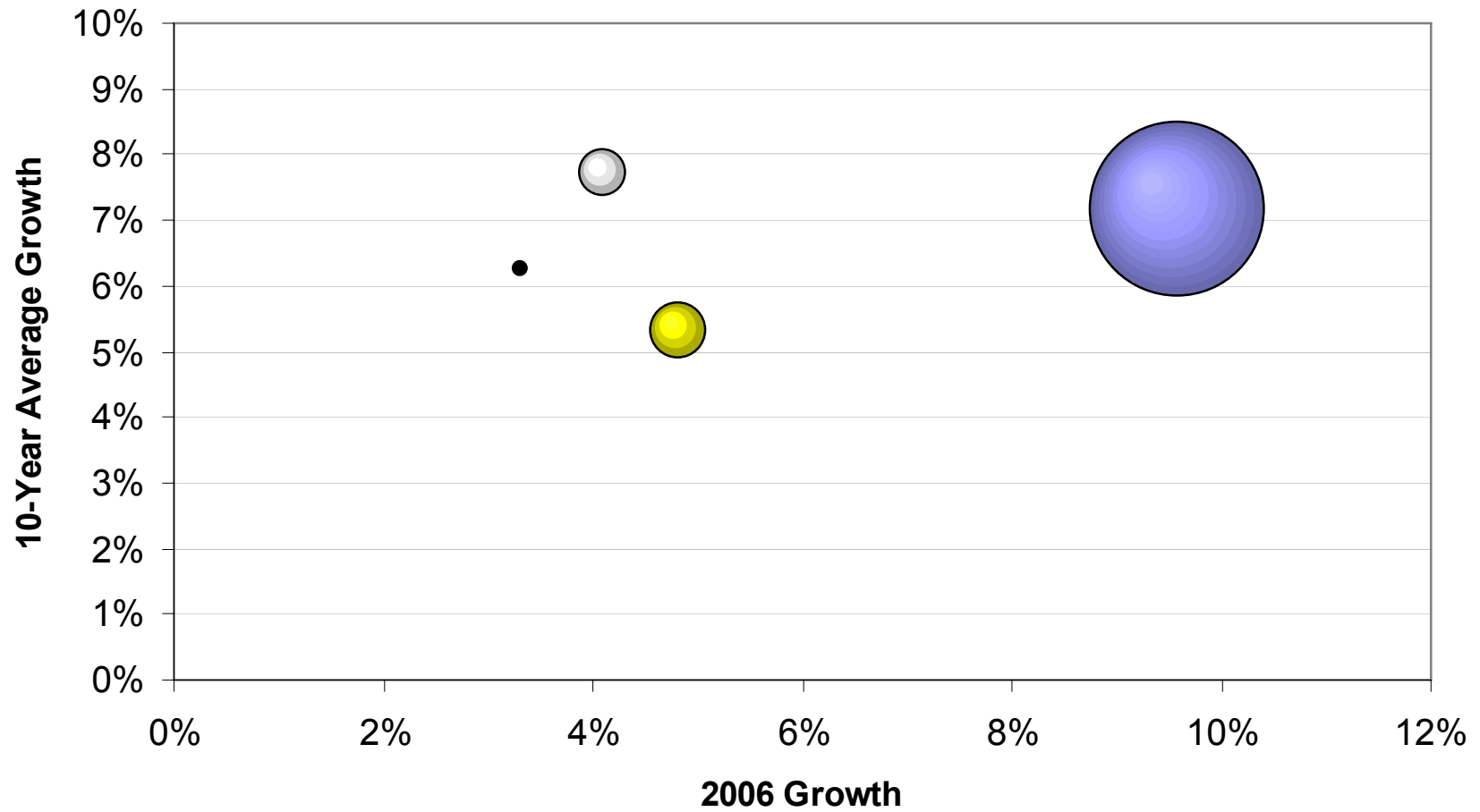
Citi Direct



HSBC Direct

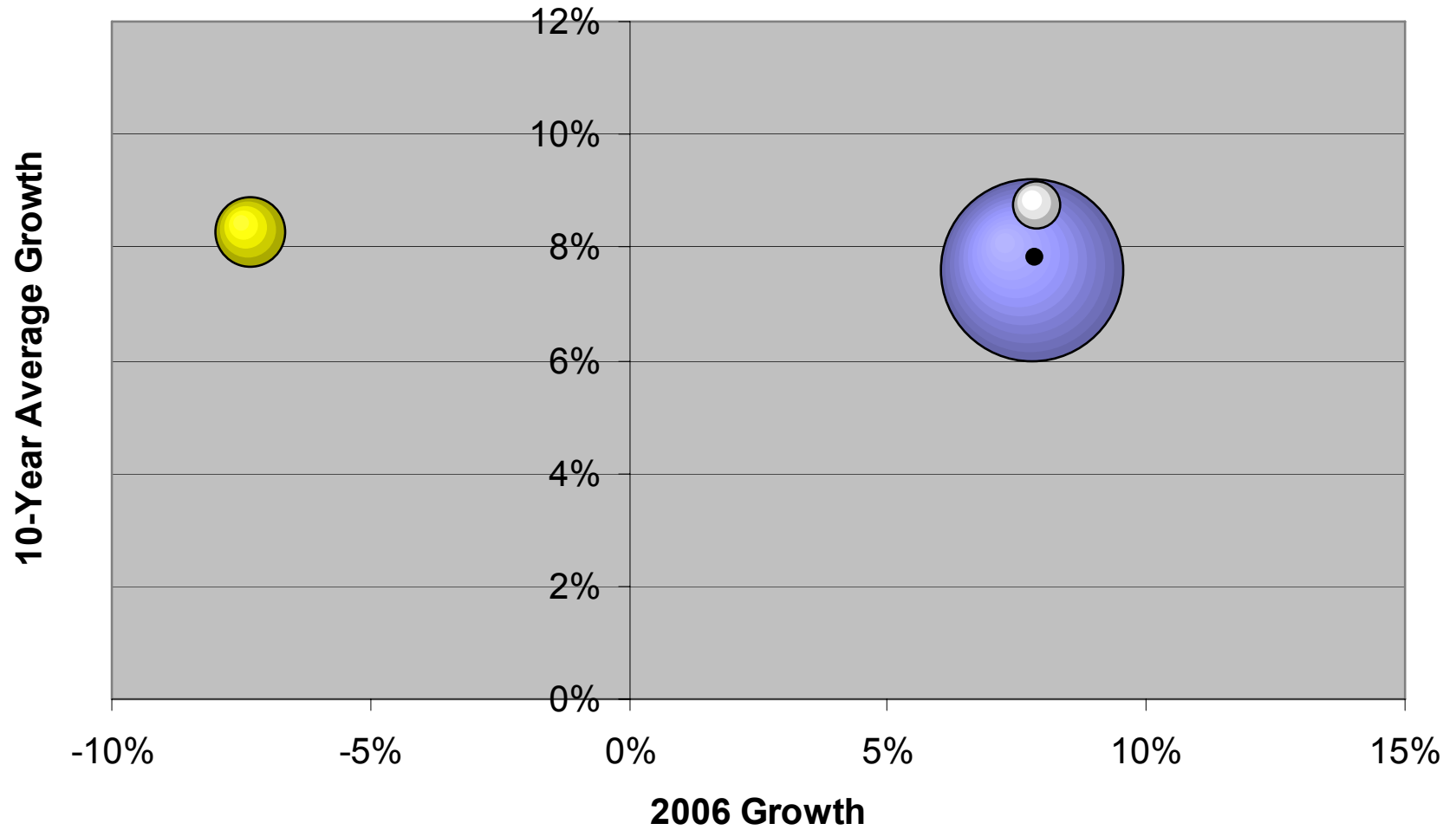


Deposit growth



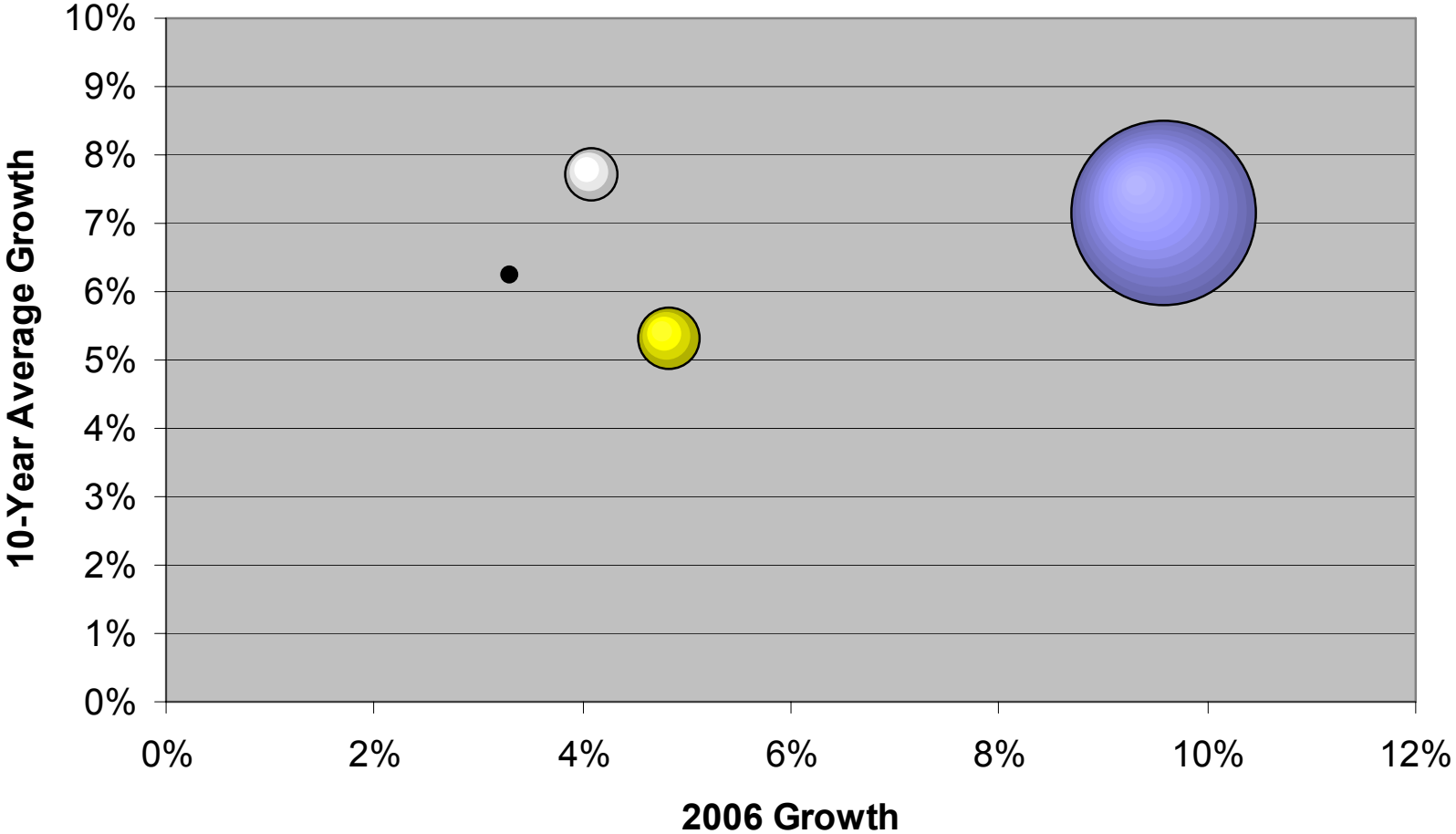
● Banks ● Thrifts ○ Credit Unions ● Mutuals

Loan growth



● Banks ● Thrifts ○ Credit Unions ● Mutuals

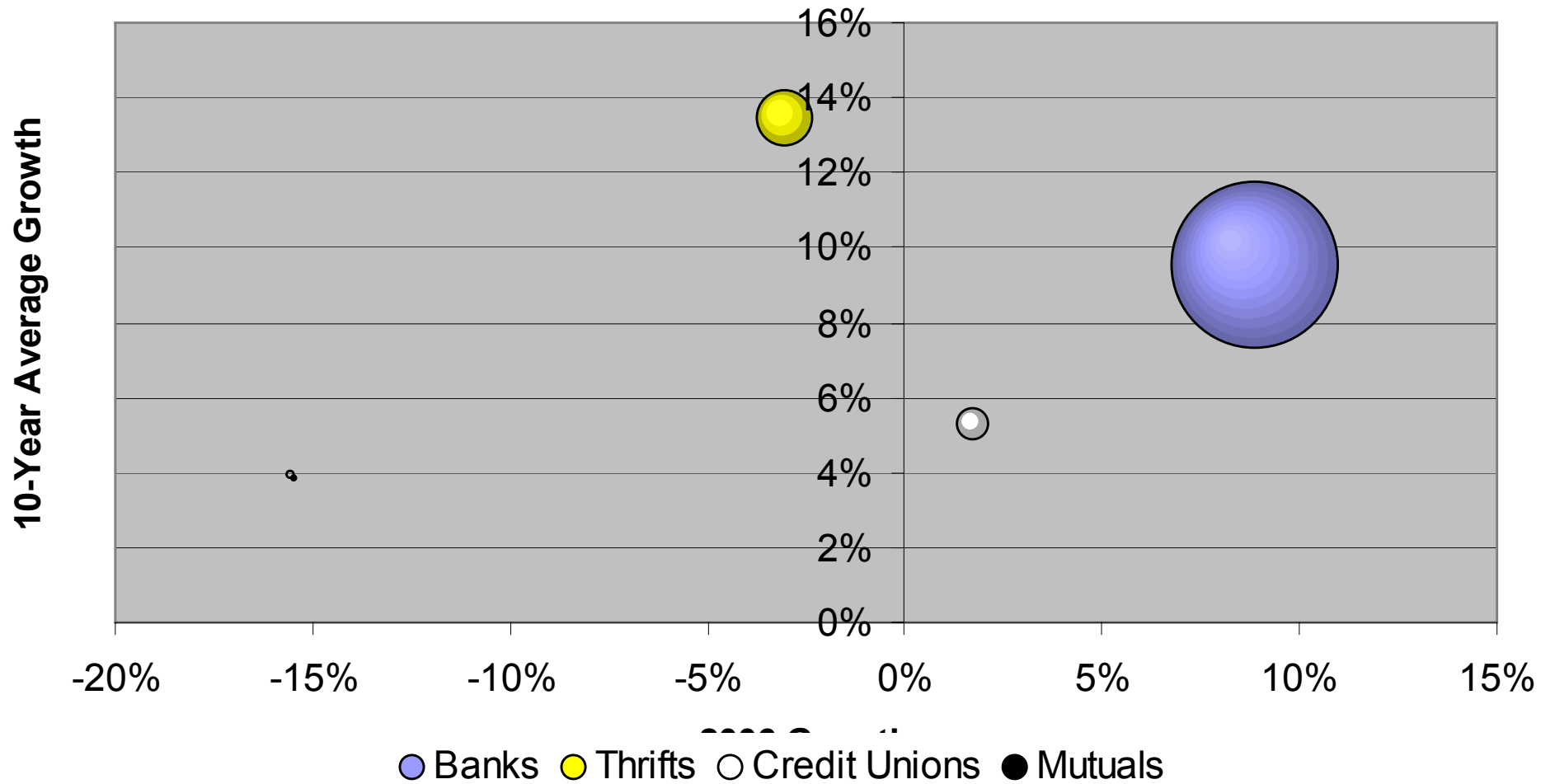
Asset growth



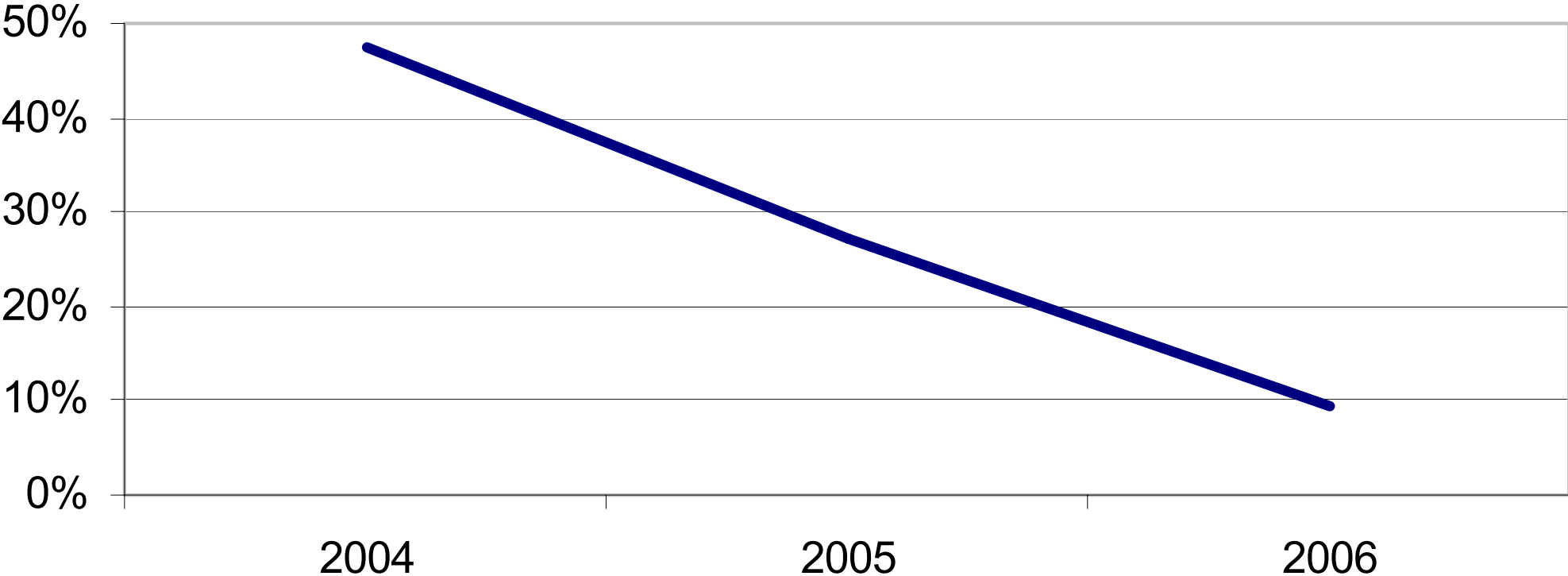
● Banks ● Thrifts ○ Credit Unions ● Mutuals

Trends ● Challenges ● Solutions

Net income growth

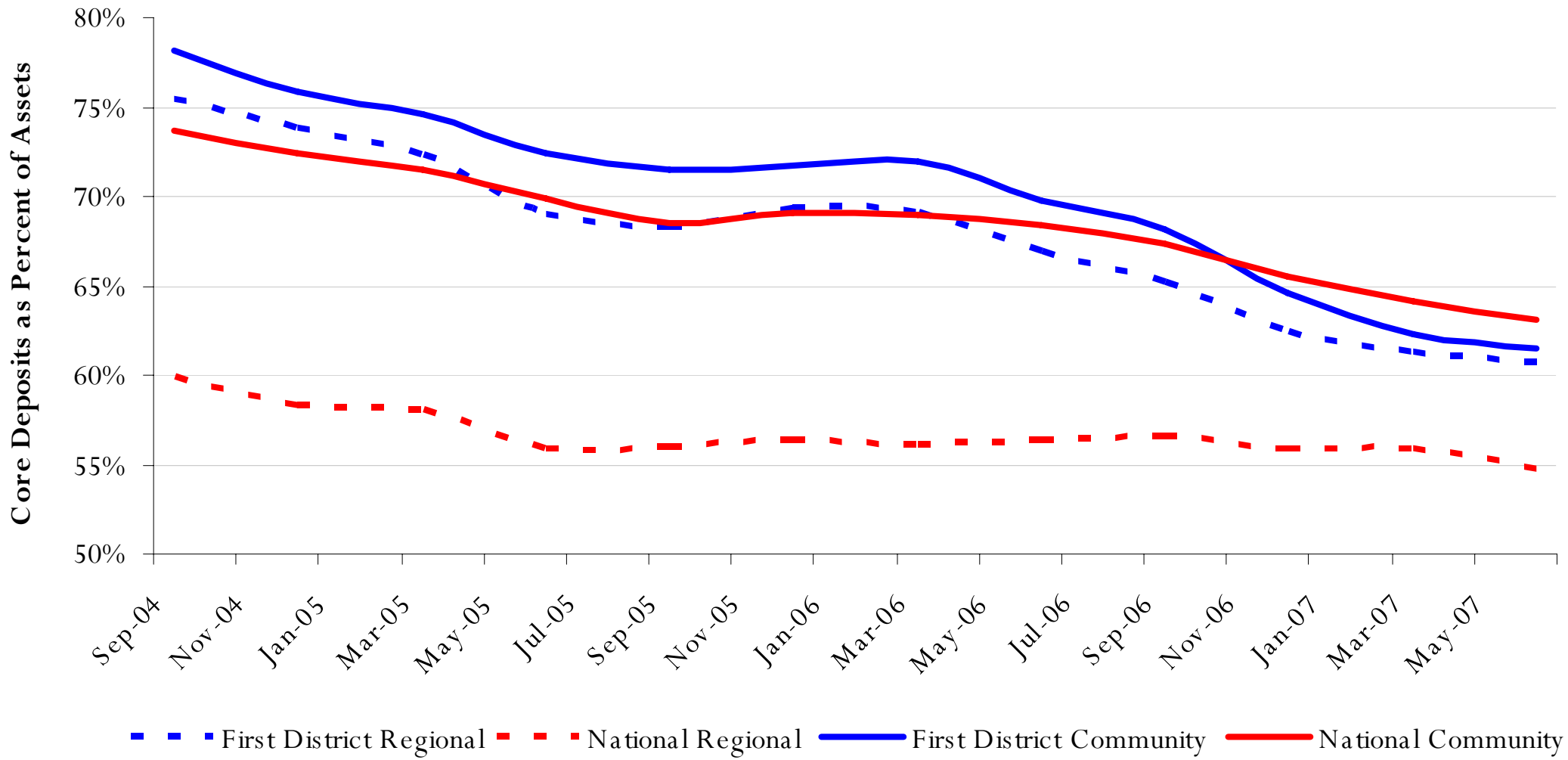


Annual growth in online banking customers

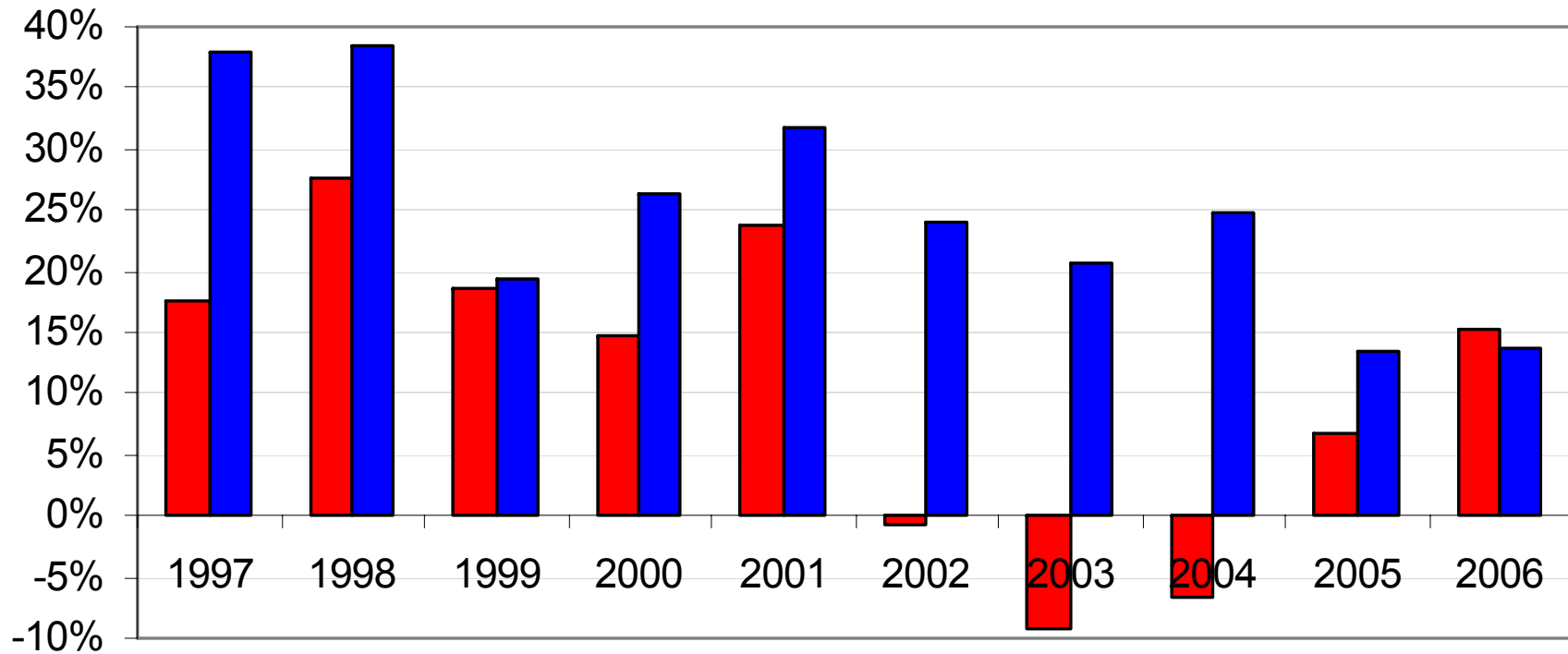


Source: comScore, 2007

Core deposit as percent of assets



MMDA growth rates



■ Mutual Funds ■ Commercial and Savings Banks