Pricing

Although your prospects will *consider* your bank when a funding need arises, that doesn't mean they will *choose* your bank. To sell specific products and services to your prospects, you must also compete on pricing.

For your ***commercial loans***, pricing is related to the interest rates you offer on new loans:

- For Lines of Credit, the Rate you enter is the amount above a benchmark used to calculate the interest rate each year
  - In the simulation, the benchmark is the Secured Overnight Funding Rate or SOFR (set in advance by the Simulation Administrator)
    - SOFR is a benchmark based on prices related to overnight repurchase agreements between banks secured by US Treasuries
  - The Rate you enter is the number of basis points above SOFR that customers will be charged
  - In other words, if you set a Rate of 125 basis points (equal to 1.25%) and SOFR in Round 1 is 3.00%, your Line of Credit customers will pay an interest rate of 4.25% (3.00% + 1.25%)
  - If SOFR rises to 3.50% in Round 2, these same customers will pay an interest rate of 4.75% in Round 2 (3.50% + 1.25%)
  - For Lines of Credit, interest is paid on revolving balances

- For Commercial Real Estate Loans, the Percentage Rate is the fixed interest rate paid for the life of the loan
  - As you adjust this Percentage Rate, only new customers receive the new interest rate

As you raise your interest rates, you will increase the amount of interest you earn from each loan. At the same time, as you raise interest rates, you become less attractive to customers and prospects, leading to:

Interest Rate	Interest Income	Retention Rate	Response Rate
↗	↗	↘	↘
As you raise your Interest Rate…	...your interest income will grow…	…but your retention rate will fall….	…as will your response rate from new customers

- Lower retention rates on existing customers
- Fewer applications for new loans

Of course, the opposite is also true. As you lower interest rates, you will decrease the interest you earn from each loan. However, you do become more attractive to customers and prospects, leading to:

- Higher retention rates on existing customers
- More applications for new loans

In this simulation, “high” and “low” rates are relative to your competition. In other words, if you offer your customers a rate of 5.00%, and your competition offers 6.00%, your pricing is low and you will get more applications than expected and higher retention rates. However, if you offer your customers 5.00% and your competition offers 4.00%, your pricing is high and you will get fewer applications than expected and lower retention rates.

More specifically, for ***Lines of Credit*** and ***Commercial Real Estate Loans***:

- If your Interest Rate is within +/- 15% of the market average, there is no impact on your response rates
- If your Interest Rate is outside this +/- 15% range, your response rates will be adjusted by 120% of the difference between your rate and the market average

See Sample Calculation C-2 for an example.