Interest Rates

Interest Rates are the rates you charge your lending customers for borrowing money.

- For Credit Card customers, the APR (annual percentage rate) is the interest rate paid on revolving balances
  - As you adjust this APR, the APR paid by all Credit Card customers is adjusted
- For Consumer Loan customers, the APR is the interest rate paid for the life of the loan
  - As you adjust this APR, only new customers receive the new interest rate
- For Fixed-Rate Mortgages, the Rate is the fixed interest rate paid for the life of the loan
  - As you adjust this APR, only new customers receive the new interest rate
- For Variable-Rate Mortgages, 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 yield on 1-year Treasury Bills (set in advance by the Simulation Administrator)
  - The Rate you enter is the number of basis points above the yield on 1-year Treasury Bills that customers will be charged
  - In other words, if you set a Rate of 150 basis points (equal to 1.50%) and the yield on 1-year Treasury Bills in Round 1 is 3.25%, your variable rate customers will pay an interest rate of 4.75% (3.25% plus 1.50%)
  - If the yield on 1-year Treasury Bills rises to 3.75% in Round 2, these same customers will pay an interest rate of 5.25% in Round 2 (3.75% plus 1.50%)

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

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

- Lower retention rates on existing customers
- Lower response rates from prospects

As you lower interest rates, you will decrease the interest you earn from lending customers. However, you do become more attractive to customers and prospects, leading to:

- Higher retention rates on existing customers
- Higher response rates from prospects

In this simulation, “high” and “low” rates are relative to your competition. In other words, if you offer your customers a rate of 10.00%, and your competition offers 11.00%, your pricing is low and you will get higher than expected retention and response rates. However, if you offer your customers 10.00% and your competition offers 9.50%, your pricing is high and you will get lower than expected retention and response rates.

More specifically, for ***Credit Cards***:

- If your Interest Rate is within +/- 10% of the market average, there is no impact on your response rates
- If your Interest Rate is outside this +/- 10% range, your response rates will be adjusted by 15% of the difference between your rate and the market average

See Sample Calculation R-12 for an example.

The impact on retention rates is similar, but your existing customers are less sensitive than new customers:

- If your Interest Rate is within +/- 30% of the market average, there is no impact on your retention rates
- If your Interest Rate is outside this +/- 30% range, your retention rates will be adjusted by 10% of the difference between your rate and the market average

See Sample Calculation R-13 for an example.

This holds true for all of your lending products:

- For **Consumer Loans**:
  - If your Interest Rate is within +/- 10% of the market average, there is no impact on your response rates
  - If your Interest Rate is outside this +/- 10% range, your response rates will be adjusted by 75% of the difference between your rate and the market average
  - If your Interest Rate is within +/- 30% of the market average, there is no impact on your retention rates
  - If your Interest Rate is outside this +/- 30% range, your retention rates will be adjusted by 30% of the difference between your rate and the market average
- For **Mortgage Loans**:
  - If your Interest Rate is within +/- 5% of the market average, there is no impact on your response rates
  - If your Interest Rate is outside this +/- 5% range, your response rates will be adjusted by 100% of the difference between your rate and the market average
  - If your Interest Rate is within +/- 15% of the market average, there is no impact on your retention rates
  - If your Interest Rate is outside this +/- 30% range, your retention rates will be adjusted by 30% of the difference between your rate and the market average