Rate

The Percentage Rate is the interest rate you offer to checking account or savings account customers.

As you lower this interest rate, you will lower the interest you need to pay to your deposit customers. At the same time,

Percentage Rate	Interest Expense	Retention Rate	Response Rate
↘	↘	↘	↘
As you lower your Percentage Rate…	…your interest expense will drop…	…but your retention rate will fall….	…as will your response rate from new customers

if you offer lower rates on deposits, you become less attractive to customers and prospects, leading to:

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

Alternatively, as you raise interest rates, you will increase the interest you need to pay to your deposit customers, increasing your interest expense. However, you do become more attractive to customers and prospects, leading to:

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

Again, in this simulation, "high" and "low" rates are relative to your competition. In other words, if you offer your customers a rate of 2.00% on savings accounts, and your competition offers 2.50%, your pricing is low and you will get lower than expected retention and response rates. However, if you offer your customers 2.00% and your competition offers 1.50%, your pricing is high and you will get higher than expected retention and response rates.

More specifically:

- If your Percentage Rate is within +/- 10% of the market average, there is no impact on your response rates
- If your Percentage Rate is outside this +/- 10% range, your response rates will be adjusted by 50% of the difference between your rate and the market average

See Sample Calculation R-5 for an example.

Attracting and retaining depositors is a very challenging task for a bank. It directly impacts a bank's cost of funds and profitability. It also directly impacts its ability to use these funds to create earning assets in the form of loans and securities.