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New Market Rates Insight Report Projects Further Decline in Deposit Interest Rates in the First Half of 2010.

The newly-mandated FDIC rate cap, the high unemployment rate, and low Fed rate will suppress deposit interest rates; inflation is the wild card

SAN ANSELMO, Calif. (December 15, 2009) – A new report from Market Rates Insight (MRI, www.marketratesinsight.com), a leading research firm that tracks rates for deposits, loans, and fees for financial institutions, projects that deposit interest rates will continue to decline or remain flat during the first half of 2010. At this point, it is not clear how deposit interest rates will evolve during the second half of 2010 mainly due to the big unknown factor – inflation.

The analysis in the report examines four different factors that are very likely to have an impact on deposit interest rates through 2010: 1) the newly mandatory FDIC rate caps and undercapitalized banks, 2) the unemployment rate, 3) the Fed rate, and 4) the inflation wild card. Based on empirical analysis, Market Rates Insight concludes that these four factors will play a major role in the level of interest rate for deposit products in 2010.

“Each of the four main factors that we examined points in the direction of rate reduction for the first half of next year,” said Dr. Dan Geller, Executive Vice President at Market Rates Insight. “It is not clear as yet how deposit rates will evolve in the second half of 2010, largely because inflation remains an unknown factor, which may push interest rates up because we are already seeing an increase in demand for inflation-protected investments, such as inflation-indexed bonds and mutual funds.”

These four factors are going to suppress deposit interest rates for a number of reasons:

1. Undercapitalized banks tend to price deposits more aggressively compared to well-capitalized banks, up to the point of failure or rate restrictions by the FDIC.
2. Small and mid-size banks tend to price deposits higher than the top 19 banks (the “stress-test” banks).

3. Undercapitalized banks will find it harder to compete on rates in nine states, where the average maximum rate is higher than the FDIC rate cap.
4. The unemployment rate is a predictor of deposit interest rates. When the unemployment rate is high, the interest rate on deposits is low and vice versa.
5. The Fed rate is not likely to increase in the first half of 2010, and possibly not until 2011.
6. Inflation is not likely to increase in the first half of 2010, but may become a factor in the second half of the year.

The complete analysis can be viewed on the Market Rates Insight website at this location:
<http://marketratesinsight.com/docs/NPIYE09.pdf>.

About Market Rates Insight

For more than two decades, Market Rates Insight (MRI) has been helping subscribers price with precision by providing banks, thrifts, credit unions, and other financial institutions with accurate market intelligence on deposits, loans, and fees. MRI uses deposit surveys, mortgage and consumer loan surveys, fee and feature studies, scanned ads, new product alerts, and market share and money fund reports to give subscribers the intelligence they need to profitably react to emerging trends. MRI's products include customized, web-enabled market research tools that report on rates, as well as online searchable databases, gauges, alerts, and dashboards that aggregate key client data to provide real-time views on how they stack up against market competitors.

Market Rates Insight is located in San Anselmo, California. For more information, see www.marketratesinsight.com.

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