

Home Federal Bank partners with Abrigo experts for core deposit analysis

Case Study

Home Federal Bank of Tennessee is a \$2.8 billion mutual federal savings bank. Without shareholders, the bank runs on a thinner margin and acts as a large community bank serving Knoxville and the surrounding counties. Home Federal's six-member accounting department stays busy handling all accounting functions, including accounts payable, balancing the general ledger, financial reporting, tax reporting, quarterly reporting, and asset/liability management (ALM).

CFO Andrew Harper is proud that each team member can specialize in one role without donning too many hats. Home Federal's utilization of Abrigo Advisory Services is one way the bank has saved Harper's team time, enabling them to focus on their areas of expertise.

Home Federal's long relationship with Abrigo began when they started using Farin, an Abrigo legacy brand, for their ALM model in 2010. After Farin became part of Abrigo, the bank continued using Abrigo products and services, most recently performing a core deposit study and a loan prepayment study with Abrigo Advisory Services.

ANSWERING CORE QUESTIONS WITH ABRIGO

Home Federal decided to run a core deposit study when interest rates rose mainly to understand how their customers were reacting to rising rates and confirm that their model's assumptions were correct in terms of beta and lag. They also performed a prepayment study to see how quickly the fixed-rate loans on their books were prepaying. These insights were essential to the bank's new loan loss reserve standard, which requires them to estimate the life of loans and project losses over those estimated lives.

Harper's most significant takeaway from the core deposit study was that Home Federal has a strong core deposit that affords them some stability.

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Andrew Harper

CHIEF FINANCIAL OFFICER

HOME FEDERAL BANK OF
TENNESSEE

ABOUT HOME FEDERAL BANK



A full-service banking institution based in Knoxville since 1924, Home Federal Bank offers a complete line of personal, home, business and commercial banking services. From mortgage and consumer loans, checking and savings plans and accounts, personal and business trusts and investment planning—to retail services, ATM/Debit cards, credit cards, a mobile app and easy, convenient online banking, Home Federal is able to serve customers' diverse financial needs.

Learn more at homefederalbanktn.com

"It showed us that we don't have to make rapid decisions just as soon as the competition starts changing their rates," Harper said. "We want to offer our customers what every other bank offers, but that can be expensive, and there is a lot of competition for deposits in our area. It's good to know we can afford to wait."

The prepayment study showed which of Home Federal's assumptions about prepayments were correct and highlighted those that needed adjustments. Harper was pleasantly surprised by the average life of the bank's loans but expects them to become much longer in the future, especially for low fixed-rate loans. In another year or two, the bank may update its prepayment study again to confirm this prediction.

"It's easy to do these studies because Abrigo has all our account history," Harper said. "We know the examiners and regulators have confidence in our model, and we've always found the people we work with to be knowledgeable, professional, and responsive to what we need."

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LEVERAGING ABRIGO FOR PEACE OF MIND

For banks like Home Federal that developed their own loan loss calculation, a prepayment study can be a helpful, budget-friendly tool for double-checking assumptions. And understanding core deposits can help banks manage those deposits and better understand their customer base. Harper would encourage financial institutions considering portfolio analysis to seek out a well-established vendor with industry-specific knowledge.

"Unless you have the time and resources to hire people with years of experience, you need to find a company like Abrigo that can provide you with that experience," Harper advised. "It's helpful to have support that can confirm your assumptions are correct in your model."

ABOUT ABRIGO

Abrigo enables U.S. financial institutions to support their communities through technology that fights financial crime, grows loans and deposits, and optimizes risk. Abrigo's platform centralizes the institution's data, creates a digital user experience, ensures compliance, and delivers efficiency for scale and profitable growth.

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