CREDIT AND INSTITUTIONAL DEPOSITORS

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Credit plays a significant role in wholesale and institutional depositors' decisions when choosing financial institutions to work with. These depositors, often managing substantial funds, and are particularly concerned with the safety and creditworthiness of the financial institutions they engage with. Here's how credit influences their decision-making process:

1. CREDIT RATINGS AND ASSESSMENTS:

Wholesale and institutional depositors closely examine the credit ratings and assessments assigned to financial institutions by reputable rating agencies such as Moody's, Standard & Poor's and Fitch Ratings. These ratings provide an independent evaluation of a financial institution's financial strength, stability and ability to meet its obligations. Higher credit ratings indicate lower credit risk and can attract more wholesale deposits. Conversely, lower ratings may deter institutional depositors due to concerns about a financial institution's financial health.

2. COUNTERPARTY RISK MITIGATION:

Institutional depositors are often concerned about counterparty risk, which refers to the risk of default or non-payment by the financial institution. They may prioritize placing deposits with financial institutions that have strong credit profiles, as this mitigates the potential for counterparty risk. Robust creditworthiness reduces the likelihood of loss in case of a financial institution's financial distress or failure, providing reassurance to wholesale depositors.

3. CREDIT SPREAD AND YIELD:

The credit spread, or the difference between the interest rate on risk-free investments (such as government bonds) and the rate offered by a financial institution, is an important factor for wholesale and institutional depositors. These depositors assess whether the additional yield offered by a financial institution compensates for the credit risk they are taking. Financial institutions with higher credit ratings often command lower credit spreads, as their perceived credit risk is lower. Wholesale depositors are more likely to deposit with financial institutions offering competitive yields while maintaining a favorable credit risk profile.

4. RISK MANAGEMENT AND CAPITAL ADEQUACY:

Institutional depositors analyze a financial institution's risk management practices and capital adequacy to assess its ability to withstand financial shocks and protect depositor funds. Robust risk management frameworks, prudent lending practices and adequate capital buffers are indicators

of a financial institution's creditworthiness. Financial institutions with a strong track record in managing credit risk and maintaining adequate capital levels are more likely to attract wholesale and institutional deposits.

5. REGULATORY COMPLIANCE:

Institutional depositors, especially those subject to regulatory oversight, consider a financial institution's compliance with regulatory requirements. Adherence to regulations ensures that a financial institution operates within prescribed guidelines and reduces the likelihood of financial misconduct or non-compliance issues. Financial institutions with a strong compliance culture and a track record of regulatory compliance are more attractive to wholesale depositors seeking to mitigate operational and reputational risks.

6. TRANSPARENCY AND DISCLOSURES:

Open and transparent communication is essential for financial institutions to gain the trust of wholesale and institutional depositors. Providing comprehensive and accurate information about a financial institution's financial performance, risk exposure and credit quality helps build confidence in its operations. Clear disclosures about loan portfolios, asset quality and risk management practices enable depositors to assess a financial institution's creditworthiness and make informed decisions about deposit placements.

In summary, creditworthiness, as reflected in credit ratings, risk management practices, capital adequacy, regulatory compliance, and transparency, plays a crucial role in wholesale and institutional depositor's decision-making process. These depositors prioritize the safety of their funds and seek to mitigate credit and counterparty risks when selecting financial institutions to deposit with.

About D. James Lutter

D. James (Jim) Lutter is the Chief Funding and Trading Officer at PMA Financial Network and PMA Securities where he oversees PMA Funding, a service of both companies that provides over 1,000 financial institutions with a broad array of cost-effective funding alternatives. Mr. Lutter is a Registered Representative with PMA Securities and Investment Advisor Representative with PMA Asset Management. Mr. Lutter has the following FINRA licenses with PMA Securities, LLC: Series 7, 24, 50, 53, 63, 65 and 99.

About Todd Terrazas

Todd joined the firm in 2014 as a Financial Analyst for PMA's credit team, and currently serves as Vice President, Institutional Investment Sales Manager. He is responsible for developing bank partner relationships and managing funding product solutions and association affiliations. Todd also engages in strategic planning and identifying market trends through extensive market research. He earned his Bachelor of Arts in Finance from Calvin College. Todd is currently not licensed with PMA Securities, LLC.