



Interest Rate Risk Exam Checklist



When preparing for an upcoming exam, this checklist offers items to review for the Interest Rate Risk Management portion of the exam so your bank is best prepared when and if questions arise.

1. The BancPath report complies with all aspects of the 1996 Joint Advisory on IRR Management, and subsequent updates.
2. The Income Simulations provide the following scenarios: 3 Year Ramped and Shocked Parallel rate change scenarios (+/-500 bp), and Nonparallel Curve Shifts. Joint Agency advisories require the use of a Static Balance Sheet for this analysis.
3. Market Value of Equity (MVE) is calculated using discount rates determined by actual prior period business booked for loans and time deposits as well as appropriate discount rates (LIBOR, SOFR, BROKERED DEP or FHLB) for non-maturity deposits. A static balance sheet is again required for this analysis.
4. There is an interest rate risk trend report to view how interest rate risk for Income and MVE has changed over time.
5. Late-Term Aggregation of Client Data is performed so that account detail is used for all analysis and simulations.
6. A Deposit Beta Calculator is built into the model so updated Deposit Beta Assumptions are calculated every period.
7. Non-Maturing Deposit Average Life is calculated by both Retention & Decay Rate Methods every period and the client has the option to choose either method. BancPath recommends using Retention Rate for this analysis.
8. Be familiar with the methods used in creating all primary assumptions, including assumptions for deposit betas, deposit retention (or decay) and portfolio prepayments and verify that a discussion of your assumptions and the committee's "comfort level" with the methodologies used has been recorded in the minutes of the ALCO, and if a "User Defined" assumption is preferred, that it has been properly communicated to the BancPath staff.
9. Stress tests for key assumptions are provided in the Addendum of the report. These stress tests recalculate Income and Market Values for a change in the assumptions for deposit mix, deposit betas, deposit durations and prepayments on loans and deposits.
10. The Repricing Drift Report shows current portfolio durations and how these have changed over the last 24 months. This report also shows the percent of earning assets maturing or repricing broken down by <1year, 1-3 years, 3-5 years and >5 years, also over the last 24 months.

11. A more detailed repricing schedule for the current balance sheet is included in the Addendum section and in the Audit Report package.
12. Regressions for treasury yields are included in the Addendum section that show each treasury maturity and the number of standard deviations from the mean over the last 10 years, and helps to inform the Most Likely Rate Scenario.
13. The Audit Report package available for download from our website has all the information from the report available in Excel so all scenarios and formulas can be viewed.
14. Review the Methodology and Disclosures section in the Addendum of the BancPath report. Note how assumptions are calculated and handled within the report for your institution. The Bank Profile section in the addendum of the reports is a good place to see most of the assumptions in one place. The Input Audit page is a good place to see how offering rates on new business are calculated for your institution.
15. MVE sensitivity is a 3-part test:
 - MVE Ratio > 6.00%
 - % Change in MVE vs Guideline
 - MVE >= 90% of Book. If there is a violation of the volatility test in test 2, does this volatility impair the bank, or the capacity of the bank to maintain earnings given this violation? Is the resulting MVE greater than 90% of current book capital? If so then there has been no impairment to the capital position and the bank will have "deemed to have passed" the volatility guideline.
16. Policies should be up to date. This list includes: Investment Policy, Contingent Funding Policy, A/L Policy, Capital Management Policy & Derivatives Policy.
17. Verify that Policy Guidelines are updated and complete in the Ratios Report pages in the BancPath report as well as Policy Guidelines for Net Interest Income and MVE sensitivity analyses.
18. There is a Back Test Report in the addendum section of our report that is provided as a courtesy to assist clients in the back testing process. The report compares your current position to what was projected by the model for your current position one year ago. The month 12 column of the Income Simulation – Base Case from your report from one year ago is the model projection used and is usually around page 29 of the report. The Performance Report Card, which is usually page 15 of our report, is a good page to view the current position. The back test report reconciles the differences due to balance and yield changes between the current position and what the model projected for the current position one year ago, and is available in EXCEL format in the Audit Report.
19. The Performance Report Card compares what the model projected last period for the current position for this period to this period's actual current position.
20. Our Ratios Report calculates all the standard ratios for earnings, liquidity, balance sheet and capital. In addition, our report compares your ratios to your UBPR group, a custom peer group you can create, the BancPath client average and the top 25% of your UBPR group. The ratio trend report shows how your ratios have changed over time. There is also a Formula Index in the Audit Report available on your web portal that shows the calculation of each ratio.
21. Check your Red Flag Report. This report compares your ratios for liquidity, asset quality, capital and earnings to general market guidelines to help identify red flags prior to an exam. This report is calculated from call report data so this report can be produced for banks that are not BancPath clients as well. This report can be downloaded from the web portal.

22. In addition to all the standard liquidity ratios calculated in the ratios section of the BancPath report, the report provides Liquidity Stress Scenarios that reduce deposits by 5%, 10% and 20% over a couple weeks, a three month period and a 1 year period, respectively. The Severe Stress Event (reducing by 20%) is the most scrutinized. If the 181-365 day period is negative or marginally positive, be prepared to produce your Contingency Funding Policy. Even if your numbers are solidly positive in the last time bucket, it is still imperative that this policy be updated, accurate, reasonable, comprehensive, and most importantly, an effective tool to provide the liquidity needed.
23. Regular, periodic ALCO meetings should be held and the minutes of these meetings should be up to date and include all relevant discussions items including Investment Strategies, IRR Management Strategies, Assumptions Review and any measurements outside policy limits. Remember, if it's not in the minutes, it didn't happen.
24. BancPath's IRR System Model Certification Statement is provided in the Addendum of every IRR report. This third party review satisfies OCC Bulletin 2011-12 and other regulatory directives with respect to the software component of an institutions overall model validation and verification. Verify that your Model Certification is current for the version of the model currently being run. This does not, however, satisfy the Independent Review requirement for the IRR management process for the bank, discussed in the next paragraph.
25. Has the bank addressed the Independent Review requirement for the IRR management process? The 1996 Policy Statement on IRR says that banks not only need to measure IRR, but the process to measure this risk needs to be reviewed by someone independent of the ALM process, which means ALCO members are not eligible to be reviewers. The FDIC released a Supervisory Insight in the winter of 2014 addressing how a community bank can address the Independent Review requirement for the IRR management process. The document provides some specific direction on how to accomplish this with someone within the bank. It points out that if there isn't someone that is qualified to perform such a review, then the bank should consider looking to an outside source. BancPath provides a list of Independent Review Partners on the first page of www.bancpath.com

The FDIC's supervisory insights can be found here:

<https://www.fdic.gov/bank-examinations/supervisory-insights>

Note: clicking this link will take you to a website other than BancPath's.

26. Contact your BancPath Representative for a detailed review of your reports, and the information they convey regarding the risk position of your institution.

If you have questions, please reach out to a BancPath representative. to discuss ahead of your exam. (800) 226-1923 or email us at BancPath@countryclubbank.com.

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