Top Regulatory Concerns Demystified

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The most common thing that we hear from bankers these days is is has to do with interest rate risk model assumptions that in all likelihood they have have had an exam or they heard from other other peers that that's gotten a lot of attention during exams and the need to have institution-specific assumptions, particularly in the big three areas, which we always say are loan prepayments, deposit repricing and non-maturity deposit decay rates. Gone are the days of being able to use market data or industry data. Now the expectation is that you have institution-specific data that's thoroughly documented, and that it supports the underlying assumptions in the model.

I always tell them that, I think back to the 20-plus years I spent at the FDIC, we were seeing a real trend towards this at the time I left back in 2012. The years I've been at Plansmith, it's only grown this expectation to have those types of assumptions documented.

We've also seen a movement towards going beyond just documenting the assumptions but also then sensitivity-testing them. And in many cases now the expectation is for back testing. So when you call me, we tend to talk about those things and and I usually try to recommend that to start gathering that type of data and trying to figure, you know, how you will react, how you will change in terms of pricing, and how you expect your clients will react say for pre-payments or deposit withdrawals if and when rates continue to go up. How that might change and the impact that will have on both short-term and long-term interest rate risk.

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