

Interest Rate Risk Assumption Checklist¹

**Read through the list below and
check the ones you've completed.**

All critical model assumptions and inputs should be identified in writing, supported with qualitative AND quantitative analysis, and periodically reviewed (at least annually; more frequently in periods of significant changes in market rates). Most models require assumptions for the areas listed below:

IRR Modeling

- ☐ If the model gives the user the option to assign driver rates to each rate sensitive asset (RSA) and liability (RSL) category;
 - ☐ Have driver rates been assigned to all RSA and RSL categories?
 - ☐ Are the selected driver rates generally consistent with the term and risk characteristics of the RSAs and RSLs that they are assigned to?

Prepayments/Amortization (Loans and Securities)

- ☐ Are dynamic prepayments (varying by shock scenario) assumed for fixed and adjustable rate loan categories with material balances?
- ☐ Are dynamic prepayments assumed for fixed and adjustable rate asset-backed security (MBSs, CMOs, etc.) categories with material balances?
- ☐ Are prepayment assumptions based on institution-specific data (rather than market/peer data)?
- ☐ If available, are amortization settings activated?
- ☐ Are callable securities identified in the model, and are related model inputs activated/used?

Early Withdrawals of CDs

- ☐ If available in the model, have assumptions been set for CD early withdrawals for rising rate scenarios?

More Items on Reverse!

Repricing Assumptions (Loans, Securities, and Deposits)

- ☐ Are loan and security floors and ceilings included in pricing assumptions?
- ☐ Has institution-specific historical data been considered (and documented) in setting pricing assumptions?
- ☐ For deposit pricing assumptions, did the historical analysis cover a full rate cycle of rising and falling rates (2004 through current)?
- ☐ In setting deposit assumptions, were qualitative factors considered, including, but not limited to: a) the current rate environment, b) competition, c) customer demographics, d) pricing lags, and e) surge deposits?

Non-maturity Deposit (NMD)² Decay Rates

- ☐ Have decay assumptions been applied to all NMD categories with material balances?
- ☐ Are decay assumptions based on a study of institution-specific data that at a minimum considers items such as the duration of currently open and previously closed accounts and deposit run-off rates (the balances of accounts should be incorporated in such studies)?
- ☐ Was the level/volume of potential surge deposits incorporated into the decay study?

Discount Rates

- ☐ If the model defaults to using current or next month's offering rates for discounting, have alternate discount rates been assigned to NMDs?

Missing a few checks?

Contact Plansmith today and make sure you are fully prepared for the next exam.

¹ This checklist is designed to assist banks and credit unions in identifying potential weaknesses in their interest rate risk (IRR) modeling process. Since required inputs and assumption formats vary by model, this checklist is only a general guide. It is not an all-encompassing list and should not be used to confirm that any particular IRR model is being used appropriately or to its fullest potential.

² Non-maturity deposits include Demand Deposit, NOW, Savings, and Money Market Accounts.