

ALM Model Validation

Could your credit union benefit from another set of expert eyes reviewing the asset/liability management (ALM) risk model you use to make strategic balance sheet decisions? Would you like to validate the strengths of your current modeling system, or perhaps expose potential vulnerabilities? Do you need to comply with more rigorous interest rate risk (IRR) management parameters, board policy requirements or regulatory examination findings? If you answered “yes” to any of these questions, we can help.

Using our ALM Model Validation service, Balance Sheet Solutions generates ALM IRR modeling results. We then compare these risk measurements to your credit union’s internally-generated IRR results – or results you have obtained from another third party. Our analysis includes stochastic net economic value (NEV) and net interest income (NII) simulations, run through interest rate shock scenarios. After comparing key risk measures between the two models, we identify and explain the material differences. The findings are summarized in an ALM Model Validation report.

ALM Model Validation can reinforce the risk modeling process and balance sheet assumptions that your credit union currently uses. It can also provide the insight and documentation you may need, if a change in modeling practices or modeling assumptions is warranted. This service looks at critical modeling assumptions including: fair market discount rates, prepayment speeds, asset re-pricing, decay rates, non-maturity share behavior, and more.

Our ALM Model Validation analysis helps your credit union comply with NCUA’s Part 741 Interest Rate Risk Policy and Program requirements, as well as fulfill industry best-practice guidelines.

Ease of Use

For modeling purposes, we request instrument-level balance sheet data files from your credit union (typically already loaded and processed through another ALM risk model). There is no need to create new data files. We also request a copy of the other ALM IRR analysis, in order to compare results. Our team sets up and runs the data through the ZMdesk risk model, develops and evaluates the analysis, and guides you in understanding the model validation results.

Staff Expertise

Our team includes asset/liability management professionals and financial analysts who bring their broad experience to each credit union they serve. View their biographies at www.balancesheetsolutions.org.

Advantages

- **Ease.** Data is extracted from your credit union data files that typically already exist.
- **Accuracy.** We will set up your existing chart of account structure in a similar manner, which makes risk model comparisons more accurate and reliable.

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Advantages (continued)

- **Flexibility.** The ZMdesk risk model can accommodate any balance sheet size and complexity. Credit union clients range from under \$100 million to over \$10 billion in assets. Clients may seek a one-time model validation analysis, or use this service on a periodic cycle (every one to two years) to maintain confidence in their primary risk modeling process.
- **Recommendations.** We identify and summarize critical modeling variances and explain the results. Process improvements and/or best-practice recommendations are provided, if identified during the analysis.

Getting Started

Simply contact Balance Sheet Solutions to learn more about our services at 888-796-6389 or info@balancesheetsolutions.org.