

With all of the attention focused lately on mark-to-market accounting and security valuation, understanding and managing the interest rate risk in your investment portfolio has become more crucial than ever before. Commonly referred to as “shock testing” or “FASB 115 reporting,” Portfolio Analysis Reports provide insight into how your marketable securities portfolio may perform in various interest rate scenarios.

### WHAT IS THIS INFORMATION USED FOR?

There are a number of reasons why credit union professionals require this information, other than simply to satisfy regulatory requirements. Some of these include:

- **ALM MODELING:** As a key task required of an ALM model, an NEV calculation provides a credit union with vital information about how the valuation of each asset and liability class will perform in various interest rate scenarios. However, ALM models generally do not accurately value securities with embedded options. To improve the reliability of the modeling, an external portfolio management system (such as Yield Book) can be used to model the investment portfolio, with results uploaded into the ALM model. This may provide more accurate results than asking the ALM software to handle a task it was not designed to support.
- **PORTFOLIO MANAGEMENT:** The need for portfolio analytical reports may be driven by diversification, as credit unions look to generate additional income in the current interest rate environment. While corporate credit union deposits, and many bank certificates, do not need to be marked-to-market, marketable securities held as available for sale need to be valued on a monthly basis. These reports provide a quick snapshot of bond performance at the CUSIP level and help to improve decision making on future purchases.
- **SOUND BUSINESS PRACTICES:** Used on a quarterly basis, portfolio analysis reports allow financial managers an external review of their securities. It may make sense to evaluate your portfolio’s risk to a sudden change in rates.

EasCorp can provide this information through its ALM Modeling Service or on a stand-alone basis. For EasCorp’s ALM service users, marketable securities are modeled in Yield Book, with results uploaded into the model. The output reports, including data such as weighted-average life, duration and convexity, in addition to the traditional scenario valuations, are included with each ALM report. EasCorp can provide the same portfolio analytical reports to credit unions that model internally, which can be used either as a model input or as a separate report for the management team or elected officials.

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