FEDERAL DEPOSIT INSURANCE CORPORATION

Interest Rate Risk in an Uncertain Environment

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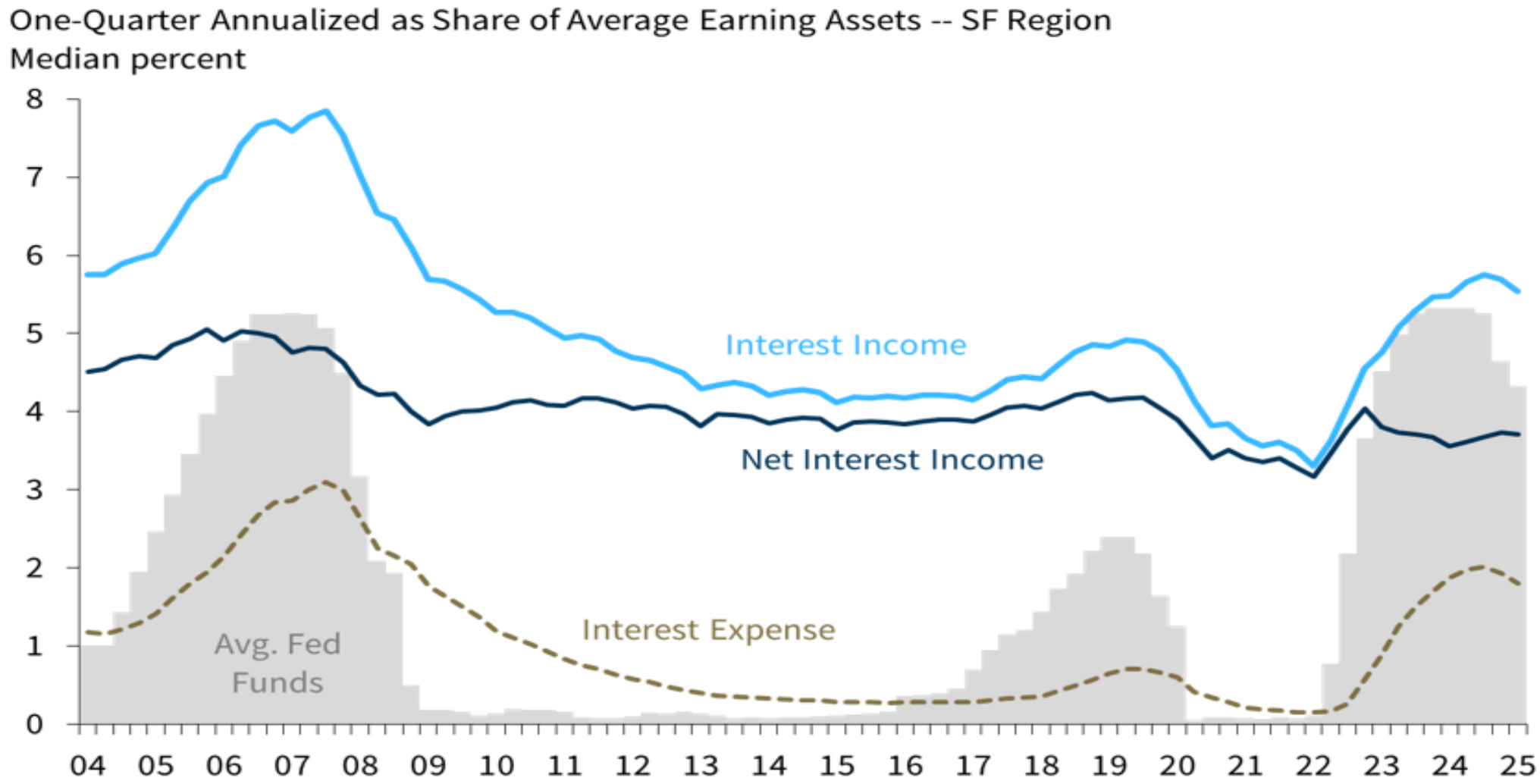
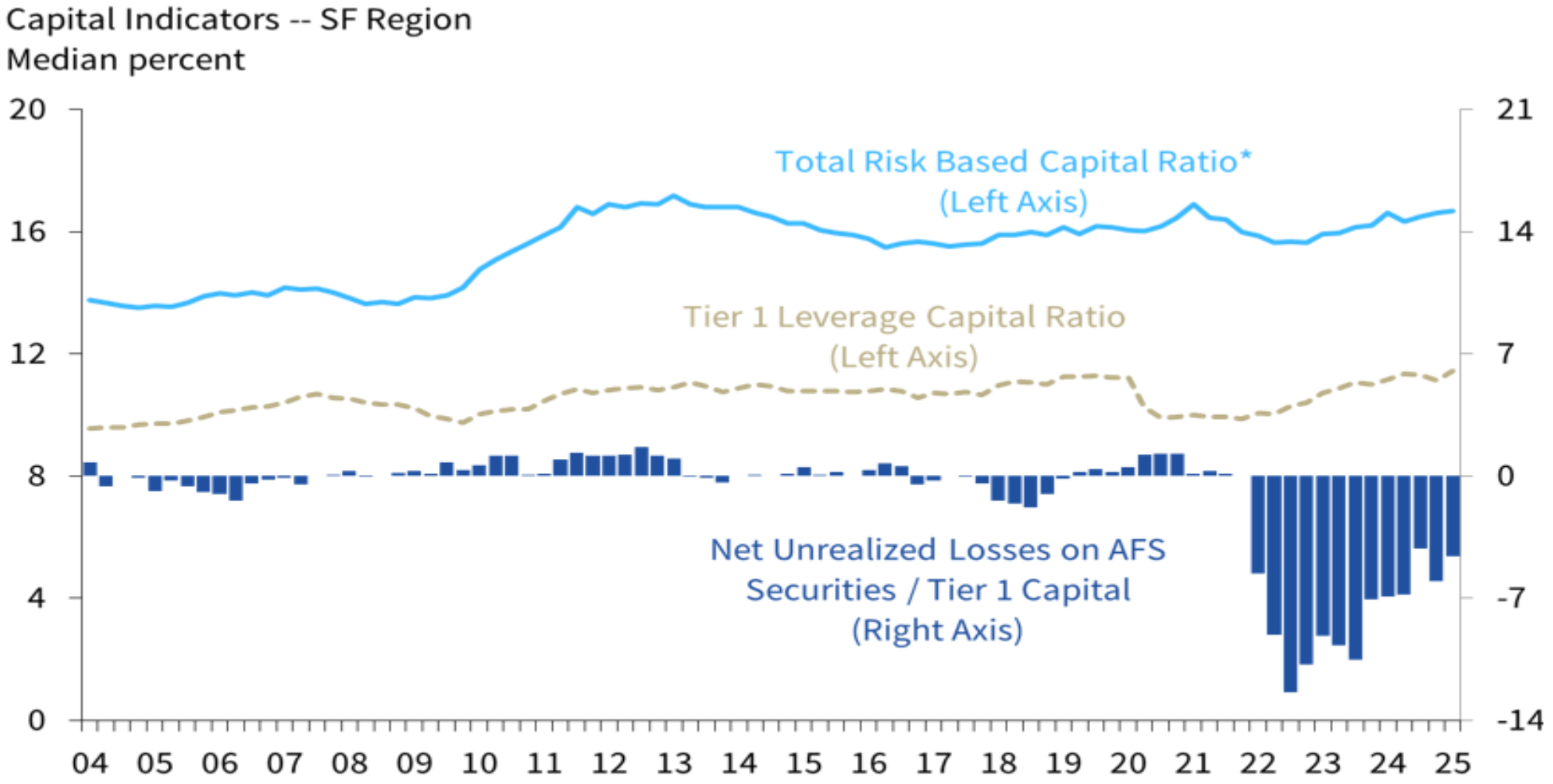
Note: The opinions expressed are those of the presenters, are intended only for informational purposes, and are not formal opinions of, nor binding on, the Federal Deposit Insurance Corporation.

Interest Rate Trends – Through 1st Quarter 2025



Source: FDIC, Federal Reserve via Haver Analytics (average effective federal funds rate).
Note: Only includes banks in the San Francisco Supervisory Region.

Interest Rate Trends – Through 1st Quarter 2025



Source: FDIC.

Note: Only includes banks in the San Francisco Supervisory Region. AFS = available for sale (carried at fair value).

*Beginning in 2020, community bank leverage ratio adopters stopped reporting risk-based capital ratios.

Interest Rate Risk Management – Policies, Procedures & Governance

- Board & Management Oversight
- Strategies, Risk Limits, & Controls
- Monitoring & Reporting
- Independent Review & Internal Controls
- Maintain an Updated Policy
- Include IRR in Overall Risk Management Framework
- Controls Over Mitigation Activities

Interest Rate Risk Management

Measurement and Monitoring

- Measurement Methodology
- Model Assumptions
- Risk Mitigation

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Table Exercise Questions

Gap Model #1

- Is the bank liability or asset sensitive?
- What risk does the bank face in a downward rate environment or in an upward rate environment?
- What are some downfalls with this model?

Bank of Anytown			
GAP Schedule			
31-Mar-25			
	0-3 Months	3-12 Months	12 Months to 3 Years
Interest Bearing Bank Balances	$ 7,100		
Securities	$ 2,058	$ 2,056	$ 1,837
Loans	$ 2,267	$ 4,100	$ 7,130
Total RSA	$ 11,425	$ 6,156	$ 8,967
Total Cumulative RSA	$ 11,425	$ 17,581	$ 26,548
Borrowings		$ 1,000	$ 10,000
Interest Checking	$ 5,669		
Savings	$ 250		
MMDA	$ 11,027		
CD<$250M	$ 636	$ 3,819	$ 2,399
CD>$250M	$ 746	$ 1,004	
Total RSA	$ 18,328	$ 5,823	$ 12,399
Total Cumulative RSA	$ 18,328	$ 24,151	$ 36,550
RSA/RSL	62%	73%	73%

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Table Exercise Questions

Gap Model #2

Betas: NMD-0.20; Loans-0.82; CD-0.75

- Is the bank liability or asset sensitive?
- What risk does the bank face in a rising rate environment or in a declining rate environment?
- What are some risk mitigation strategies?
- Would these betas make sense in today's economy?

Bank of Anytown			
GAP Schedule			
31-Mar-25			
	0-3 Months	3-12 Months	12 Months to 3 Years
Interest Bearing Bank Balances	$ 7,100		
Securities	$ 2,058	$ 2,056	$ 1,837
Loans	$ 1,859	$ 3,362	$ 5,847
Total RSA	$ 11,017	$ 5,418	$ 7,684
Total Cumulative RSA	$ 11,017	$ 16,435	$ 24,119
Borrowings		$ 1,000	$ 10,000
Interest Checking	$ 1,134		
Savings	$ 50		
MMDA	$ 2,205		
CD<$250M	$ 477	$ 2,864	$ 1,799
CD>$250M	$ 560	$ 753	
Total RSA	$ 4,426	$ 4,617	$ 11,799
Total Cumulative RSA	$ 4,426	$ 9,043	$ 20,842
RSA/RSL	249%	182%	116%

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Asset Liability Management Resources

- Joint Agency Policy Statement on Interest Rate Risk (1996)
- FIL-46-2013 Managing Sensitivity to Market Risk in a Challenging Interest Rate Environment
- Supervisory Guidance Interest Rate Risk Management: FAQs (2012)
- Interagency Policy Statement on Funding and Liquidity Risk Management (2010)
- FFIEC Advisory on Interest Rate Risk Management (2010)
- Supervisory Insights Journal Winter 2013 -Industry Trends Highlight Importance of Effective Interest-Rate Risk Management
- Supervisory Insights Journal Winter 2014 –Interest Rate Risk
- Supervisory Insights Journal Summer 2017 –Community Bank Liquidity Risk

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