Elvis is Dead...

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...and I don’t feel so good myself.

Lewis Grizzard, 1986
Things may look bleak...

...and even though stimulus abounds...
...it’s still my job to worry!

The Plight of a Risk Manager

Concern One: Compression may be good for a bleeding wound...
...but it’s hell on my margin.
Problem: You can’t lower rates on demand deposits.

Frankly, it’s hard to pay less than zero!
Concern Two:

CEO (to Portfolio Mgr.):
“"We need some income from the investment portfolio, NOW!""

Problem: To generate income now, you have to go out the yield curve. But, just wait until rates go back up... You’re under water!
Concern Three:
Impairment: Are they really prepaying that fast? Or what happens when borrowers are efficient.

Problem: We don’t have prepayment penalties in this country (unlike the rest of the world)!
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Do you know anyone who has not refinanced in the last couple of months?
Concern Four:
Keeping the customer happy!

What you don’t want to hear as a Risk Manager:
“But if we lower rates, we’ll lose deposits!”
Problem: How do you model administered rates relative to market rates?

Money Market Rate Index - 2001
Are we good at forecasting the future?

I think not...
Well, some revisions are necessary!

(Of course Rajeev doesn’t have to worry about revisions - Ha! Ha!)

The Big Picture (my perspective)

- Identify and report exposure to interest rate movements, whether expected or not
“Knowledge of the way things work, in society or nature, comes trailing clouds of vagueness.”

Kenneth Arrow, Nobel laureate in economics

Final Comment

Believe it or not, I am an optimist!
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