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# Sensitivity to Market Risk

## Program

### Limited Examination Procedures for Trust-Only Institutions

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#### Examination Objectives

- To determine if the association's exposure to market and interest rate risks is excessive.
- To identify weaknesses in the IRR management process, internal management reporting, or internal controls.
- To determine if management reports provide accurate and necessary information to assist management and the directors in fulfilling their responsibilities with regard to the management of interest rate risk.
- To determine the adequacy of monitoring of compliance with policies, procedures, and strategic plans by management and the board of directors.

#### Examination Procedures

Wkp. Ref.

The following examination procedures are provided as a guide for examiner review of this area. In some cases, it may not be necessary to complete all components of the following procedures. You should conduct examination procedures sufficient to: (1) address the concerns in the scope and any other problems found during the examination, (2) assess the safety and soundness of the institution, and (3) update and support the CAMELS composite and component ratings.

1. Review the UTPR, off-site monitoring reports, report of examination spreadsheets, and prior examination ROE and work papers. Identify and explain trends, material variances, and any other significant issues. Perform any necessary follow-up procedures.

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2. Review the institution's policies and procedures for the measurement and control of interest rate sensitivity. Determine whether policies and procedures are reasonable.

- Is management and board oversight prudent given the institution's:
  - Capital level?
  - Exposure and Sensitivity measures?
  - Adequacy of risk management systems?

**Exam Date:** \_\_\_\_\_

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**Wkp. Ref.**

— Fiduciary activity?

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3. Determine whether the board's policies provide clear guidance to management regarding the board's tolerance for risk. Does management appear to understand the various sources of interest rate risk embedded within the investment portfolio? Are the association's IRR limits prudent for the its approach to measuring interest rate risk?

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4. Does management report to the board of directors at the frequency specified in their IRR policy (at least quarterly) regarding the association's sensitivity to changes in interest rates? Do these reports contain all information required by the IRR policy?

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5. Has IRR increased since the last examination? If so, what were the primary sources of the increase? Was the increase consistent with board policy and management's stated strategy on IRR?

- Based on a review of pro-forma financial statements, are there any major activities planned that will adversely effect the institution's interest rate risk exposure?
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6. Prior to purchasing securities, does management exercise due diligence in assessing the risks and returns associated with that security type, and appropriately document its analysis?

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7. Consult with examiners reviewing fiduciary activity and determine if there are any excessive market risks that could be detrimental to the association's income and capital levels. Consider:

- Changes in the equity markets that could adversely affect earnings

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- Interest rate changes that could affect the economic value of capital
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8. Has the association established interest-rate-risk management procedures according to part 563.176? Is management familiar with TB-13a and has it developed minimum guidelines according to TB-13a Part II for setting interest-rate-risk limits and establishing an interest-rate-risk measuring system? If the association is not exempt and has assets greater than \$300 million, is it complying with TFR filing requirements on Schedule CMR?
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### Examiner's Summary, Recommendations, and Comments

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