BEST PRACTICE: ANALYSIS

WEB-BASED ALM MODEL PROVIDES "BIG BANK" ANALYTICS:
*How an institution was able to run risk and instill confidence
in making strategic decisions*

USAmeriBank, based in Clearwater, Fla., serves customers in Florida and Alabama. With more than $4 billion in assets, this local, independent bank focuses on customized banking solutions – adding real value to their services through experienced bankers who have a passion for their profession and insist on quality.

CHALLENGE
About three years ago, USAmeriBank was outsourcing its ALM modeling to a third-party vendor. For David Ide, Executive Vice President, Chief Investment Officer and Economist for USAmeriBank, who had experience conducting ALM modeling for banks in the $125B+ range, he didn't want to give up the level of insight of the balance sheet he was used to having at the larger banks.

"We know our balance sheet, and we can fine-tune a model to pick up the nuances," Ide comments. "When you outsource modeling, your vendor isn't thinking about deposit betas at a granular level and different parts of the balance sheet like you are internally."

The challenge for Ide, however, was running such a model in-house at a smaller institution. Many times, smaller institution equals smaller resources.

> *"We try to torture the model until it confesses...I want to make it confess the risk."*
> —David Ide,
> Executive Vice President,
> Chief Investment Officer
> and Economist,
> USAmeriBank

"When I worked for the larger banks, we had time and resources to spend not only for models, but for the IT staff and equipment to support them."

SOLUTION
Ide was attracted to ZM Financial Systems' OnlineALM.com™ (OALM) solution: a robust, web-based ALM for strategic risk and sensitivity modeling. With OALM, no software/hardware is needed to purchase or maintain.

"OnlineALM.com's prepayment model with mortgage securities, the choices in terms of stochastic interest rate generation models, linkage to CMO databases, decay and beta modeling on non-maturity deposits – those are all the analytics I was used to using when I worked for the larger banks," Ide says. "I can get the 'big bank' analytics and do a lot of scenarios with OALM – all from the vantage point of being at a community bank."

financial systems
Practical Solutions to Complex Financial Problems

RUN THE RISK

Ide mentions he's not spending a lot of time worrying about whether jobs will run or not, saying the online model is more than powerful enough to complete jobs. One ALCO report example he provided showed 29 scenarios.

"We are interested in understanding what our exposure is to rate movements," Ide says. "Batch computing is real important to us, and OnlineALM.com does it well. We are looking beyond standard assumptions, adding more scenarios on top of those 29 we ran for the ALCO report, beyond earnings risk. We are including market value as well, and you need a good model with rigor in the construction of the model, to give you that basic picture of market value sensitivity. That's where we pull in key rate durations, and which part of the yield curve we are exposed to."

Ide continues, "For bank directors and those on the lending side, they understand earnings risk, but market value is less intuitive. It's that market value analysis that can reveal the presence of ticking time bombs. It's possible things look really good for two- to- three years, but something in there could expose the bank to risk five years down the road. That's why market value risk is important to look at, to ensure that doesn't happen. The confidence I have in the strategies we are pursuing ultimately makes sense because of our willingness to embrace this analysis. And I couldn't look at this type of analysis without using this model."

"The power of the model itself does not go unnoticed. Once you've done all the work of capturing the behavior of the assets and liabilities, adding scenarios is not really work."

Ide explains, "Once you have OnlineALM.com set up to model your risk position, what we try to do is torture the model until it confesses. I want to know where that risk is. I will push and run all sorts of scenarios until I see that risk. I want to make it confess the risk."

Ide reflects that he and his colleagues have embraced the consultative culture in the non-customer facing side of the bank. Together with the bank's Capital Markets Strategist, Brian Chunn, they have created a strong set of interest rate analytics and are able to model risk scenarios more rapidly and make decisions quickly. With such a high level of confidence in the risk measurements in OnlineALM.com, Ide and Chunn can "respond swiftly when brokers call us with investment or funding opportunities or when we need to make decisions about customer deposit rates." So this is a benefit for the bank and its customers.

NEXT STEPS

USAmeriBank recently invested in ZM Financial Systems' Online Budgeting solution. Both systems work cohesively, with one data load. The Bank is excited to use these solutions to continue to manage its risk, profitability and annual budget planning.

About USAmeriBank

USAmeriBank is an independent bank based in Clearwater, Fla. that has established itself as an outstanding middle-market financial institution. The bank serves the needs of individuals and businesses in the Tampa Bay area in Florida, and in the Birmingham, Montgomery and Tallapoosa areas in Alabama, by providing a high-level of personalized service and attention to a targeted customer base. USAmeriBank's parent company is USAmeriBancorp, Inc. More information is available at www.USAmeriBank.com.

LEARN MORE ABOUT OUR WEB-BASED SOLUTIONS

ZM Financial Systems brings practical solutions to complex financial problems, offering complete solutions in securities and fixed-income analytics, credit-adjusted ALM, liquidity, risk management, budgeting and funds transfer pricing. With 1,5000 institutions depending on ZMFS products/analytics to identify, measure and monitor risk and value in their balance sheets, we also offer large bank solutions to meet the evolving regulatory risk reporting requirements. Contact us today to learn more about our solutions to complex financial problems:

Email: sales@zmfs.com
Phone: 919.493.0029
Web: www.zmfs.com