

Press Releases

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OTS 06-050 - OTS Introduces Enhanced NPV Model for Monitoring Interest Rate Risk

Office of Thrift Supervision

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For further information

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OTS 06-050

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OTS Introduces Enhanced NPV Model for Monitoring Interest Rate Risk

WASHINGTON, D.C. - The Office of Thrift Supervision (OTS) announced today that it is enhancing its state of the art Net Portfolio Value (NPV) Model. The Enhanced NPV Model will expand the OTS's off-site monitoring capability of the interest rate risk exposure of individual thrift institutions, and improve the efficiency and effectiveness of on-site examinations. It will also further improve the agency's unique ability, available only to OTS regulated institutions, to provide institutions with quarterly estimates of their interest rate risk exposures.

Respected finance expert, Dr. Thomas Ho, and his team at THC, Ltd., a New York-based financial engineering company, developed the Enhanced NPV Model exclusively for OTS based on the agency's unique existing NPV Model documentation. The Enhanced NPV Model represents a major comprehensive analytical and technical upgrade of the agency's existing model, which is currently widely used by the industry.

The Enhanced NPV Model will also enable the OTS to incorporate future modeling capabilities to address new and emerging interest rate exposures and techniques. The new model will provide institution users with greater transparency and accessibility, expanded interest rate risk reports, and greater accuracy in pricing routines for single-family mortgages and financial derivatives. Key upgrades to the existing model include the addition of customized interest rate risk stress scenarios, and new pricing routines for a variety of financial instruments with embedded options.

The OTS indicated that the Enhanced NPV Model will be used for the September 2006 financial reporting cycle. Additional information on the current and Enhanced NPV Models can be found in the *Quarterly Review of Interest Rate Risk*, 4th Quarter 2005 and 1st Quarter 2006 and the *NPV Model Handbook* on the OTS web site (www.ots.treas.gov).

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The Office of Thrift Supervision, an office of the Department of the Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of, and compliance with consumer protection laws by, thrift

institutions, and to support their role as home mortgage lenders and providers of other community credit and financial services. OTS also oversees the activities and operations of thrift holding companies that own or control thrift institutions. Copies of OTS news releases and other documents are available at the OTS web page at www.ots.treas.gov.