

# Primatics Stress Testing Webinar

How to Execute Dodd Frank Act Stress Test for  
Midsize Banks (\$10B - \$50B)

**John Lankenau**

Vice President, Product Management



# Agenda

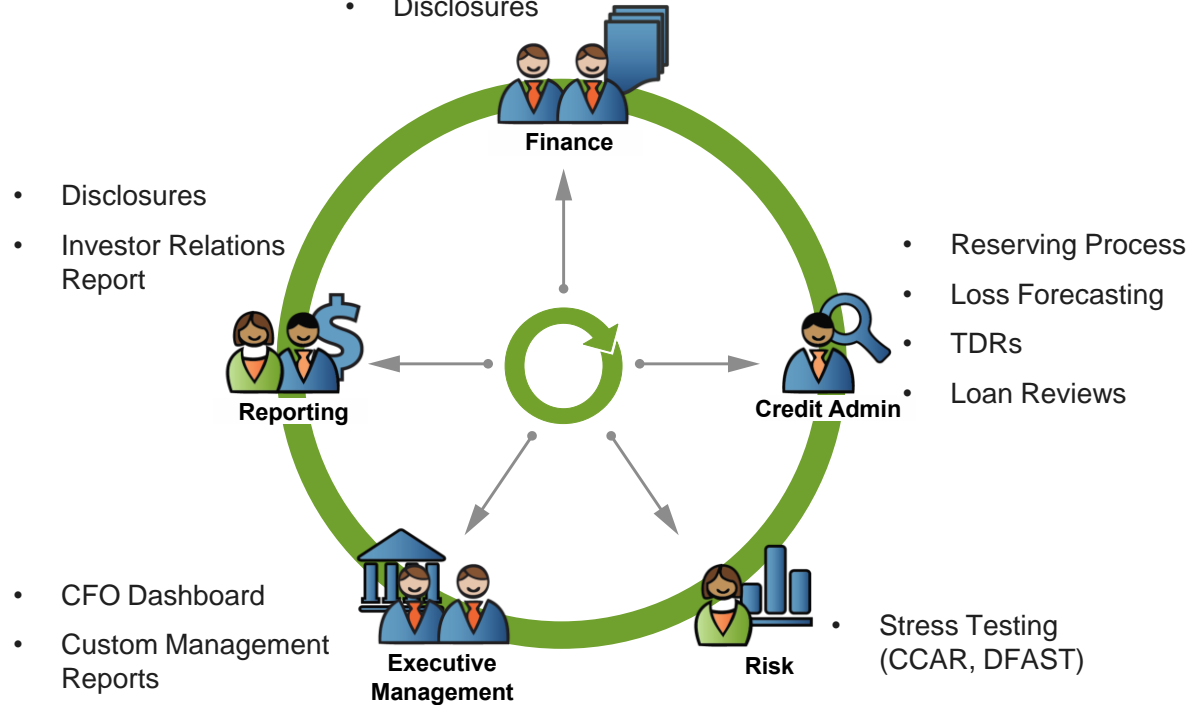
- Primatics Overview
- Planning a DFA Stress Test
- Execution of DFA Stress Test
- Submission and Beyond

# Primatics Overview

**Primatics' mission is to help banks and financial institutions evolve. We provide an enterprise-grade SaaS solution for accounting, valuation and compliance of loan portfolios**

- We focus on loan portfolios – the core business of banks
- Our solution, Evolv, empowers banks' users to comply with regulations, manage complexity and make better decisions
- We provide a SaaS (Software-as-a-Service ) Solution with best-in-class security, flexibility and business scalability
- We currently have 50+ customers across all asset sizes, including over 15 Tier 1 (\$10B+) financial institutions

- Performing and Non-performing GAAP Accounting
- Acquired Books
- Accounting Forecasting (CCAR, DFAST)
- Disclosures



# Stress Testing Webinar Series

June 2013

Challenges & Best Practices  
for DFAST 10 –50

- Respond to the challenges of the Dodd Frank Act Stress Test for Midsize Banks and adapt the best practices

Today

How to Execute DFAST

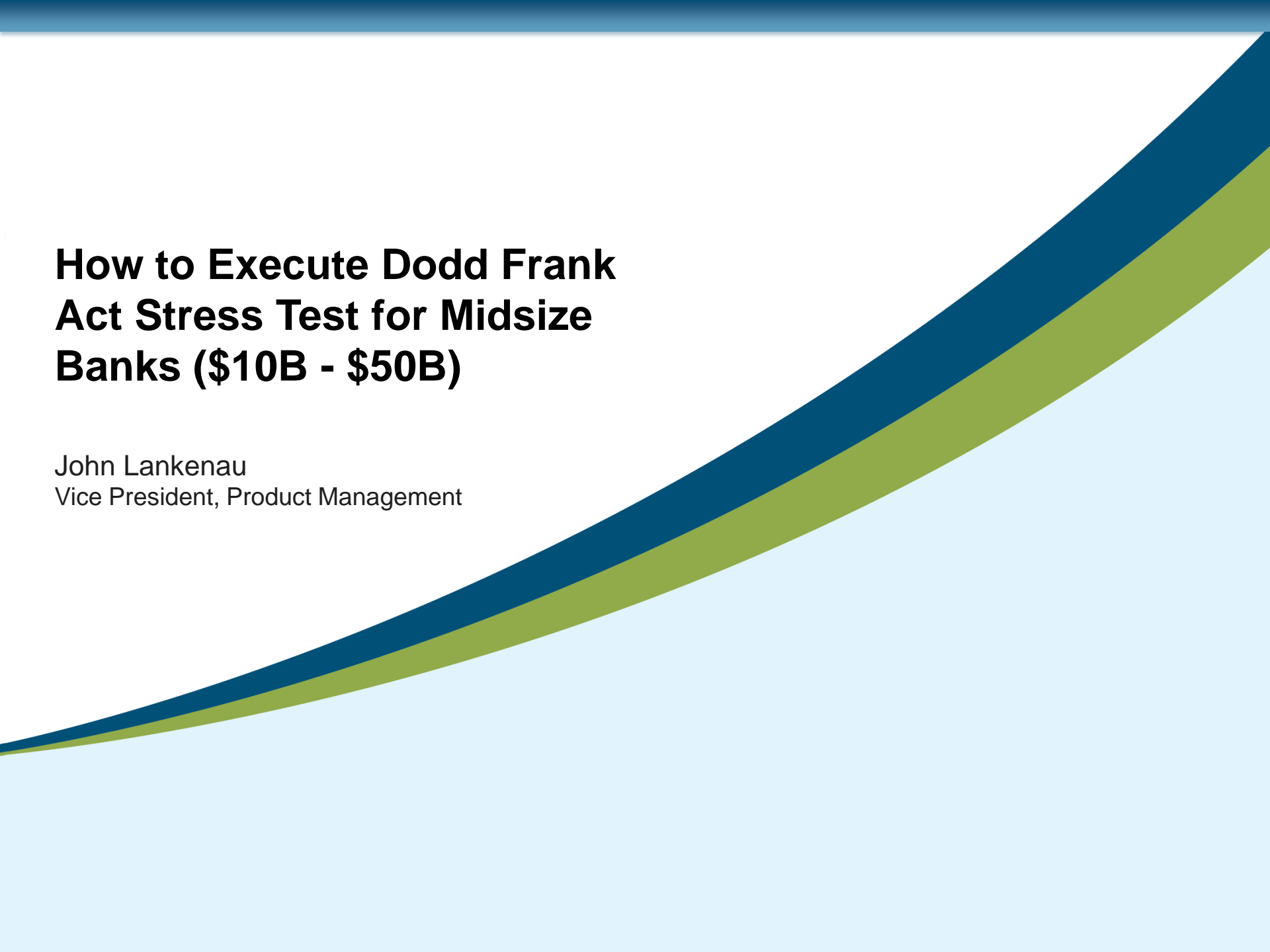
- Consider practical aspects while executing Dodd Frank Act Stress Test for Midsize Banks

Oct 2013

Modeling Approaches for  
DFAST

- Discuss varying modeling approaches for DFAST for Midsize Banks and beyond

The webinar video recording and presentation materials will be available at:  
[www.primaticsfincanial.com/knowledgecenter](http://www.primaticsfincanial.com/knowledgecenter)

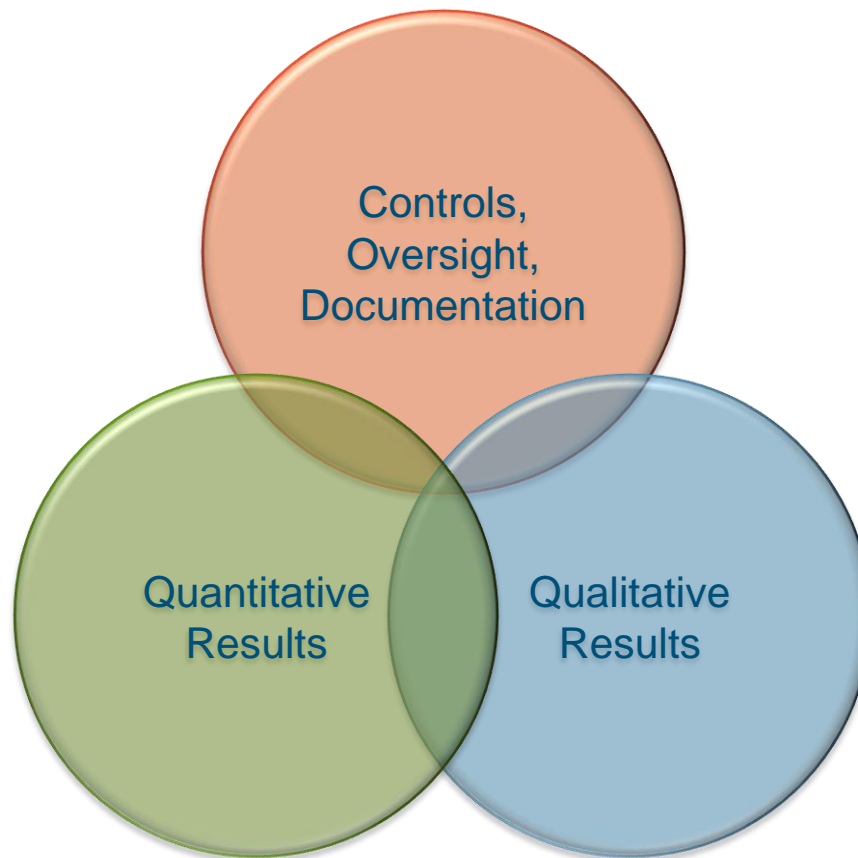


# How to Execute Dodd Frank Act Stress Test for Midsize Banks (\$10B - \$50B)

John Lankenau  
Vice President, Product Management

# Establishing Scope

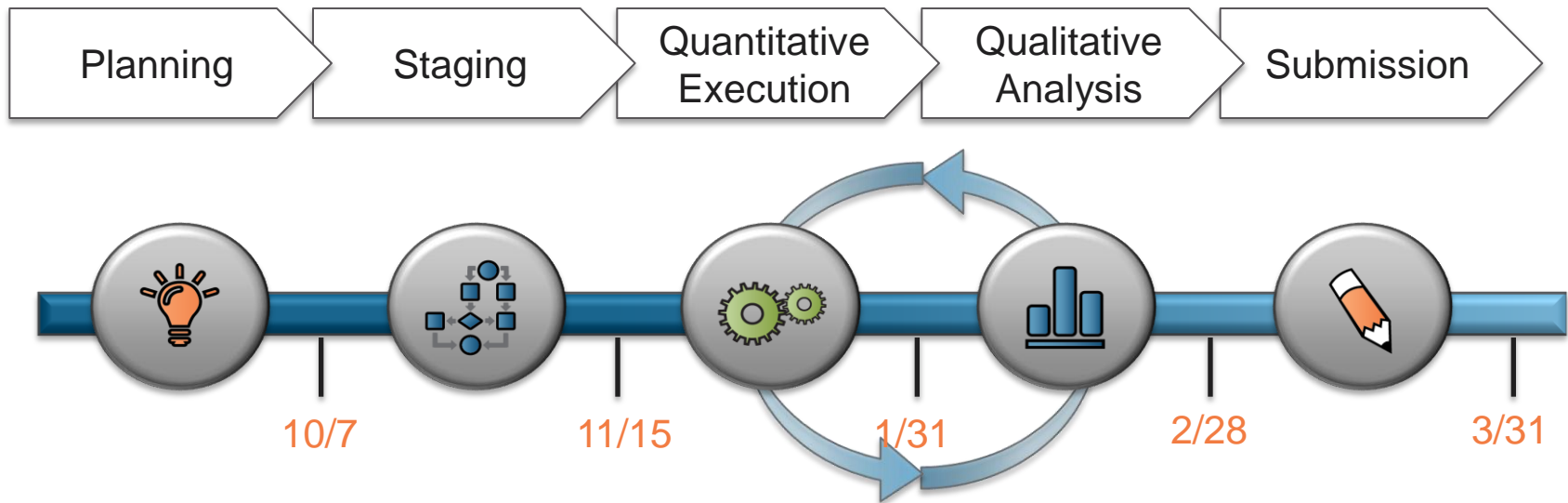
## Components of a DFA Stress Test



# DFA Stress Test Requirements Highlights

- Controls, Oversight, Documentation
  - Establish and maintain a system of controls, oversight, and documentation
  - Establish policies and procedures for DFA stress tests and ensure compliance
  - Have effective model risk management practices to include model validation
- Quantitative Results
  - Directly and separately estimate credit losses for loan portfolios and securities holdings
  - Report projections of losses, PPNR, balance sheet, RWA and Capital
  - Generate GAAP compliant ALLL forecast including losses projected beyond the 9-quarter horizon
- Qualitative Results
  - Provide an explanation of the drivers behind changes in capital
  - Describe the types of risks included in the exercise
  - Document methodologies used, data types and key assumptions

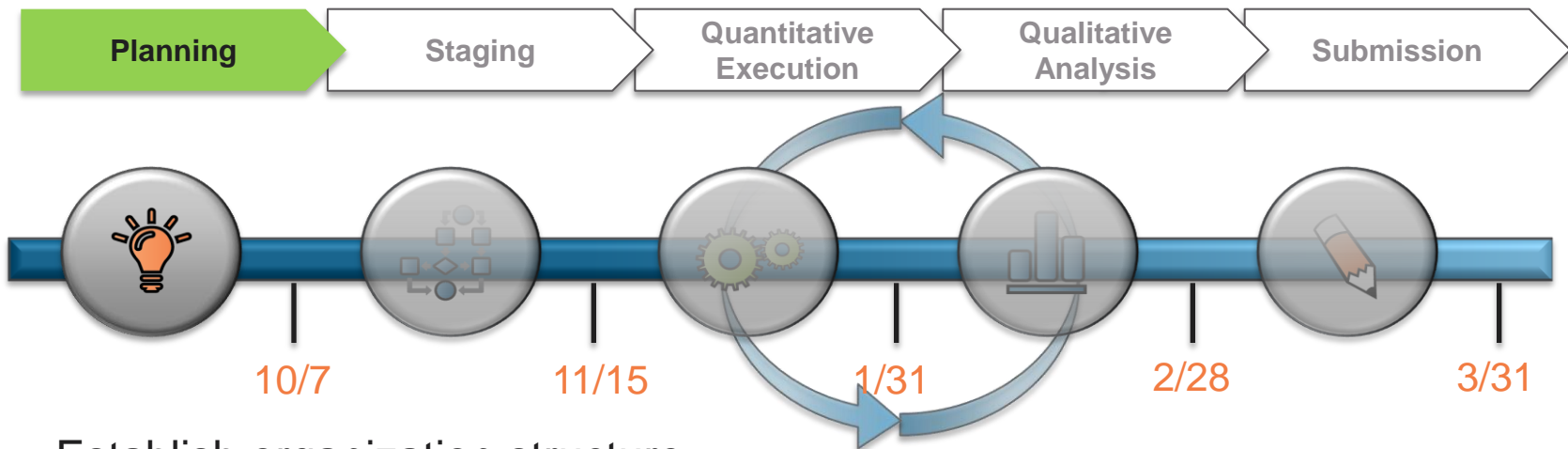
# Planning & Executing a DFA Stress Test



Typical Timeline



## Planning Phase – Project Components



- Establish organization structure
  - Cross Functional
  - Centralized Planning
  - Distributed Execution
- Create a project plan
- Create documentation framework to capture decisions and assumptions as they are made



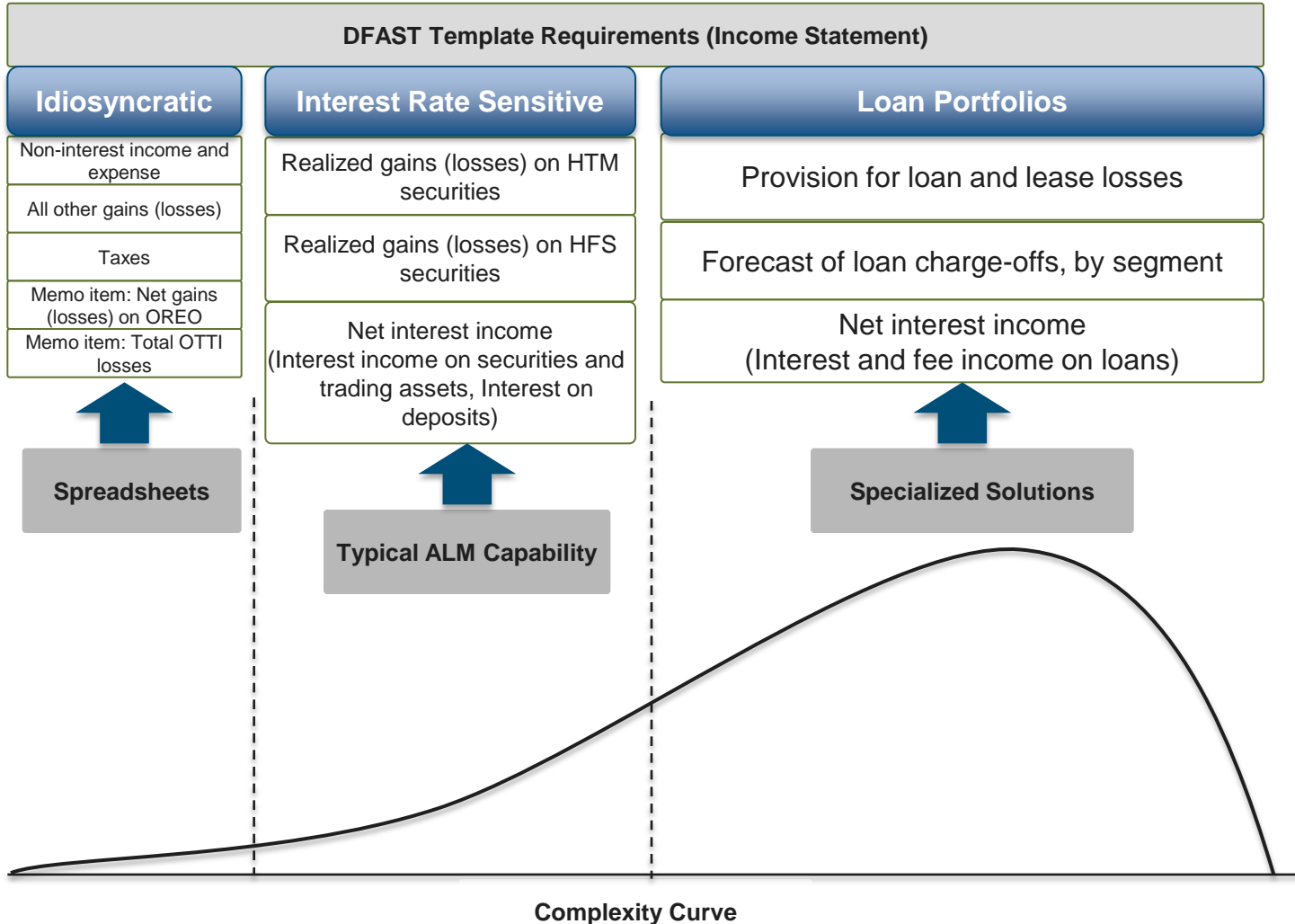
## Planning Phase – Process Components

- Map Out Stress Testing Framework
  - Select modeling approaches for each portfolio
  - Define data requirements
  - Map systems and data flow
  - Key Assumptions

# DFAST Framework

## Income Statement Template

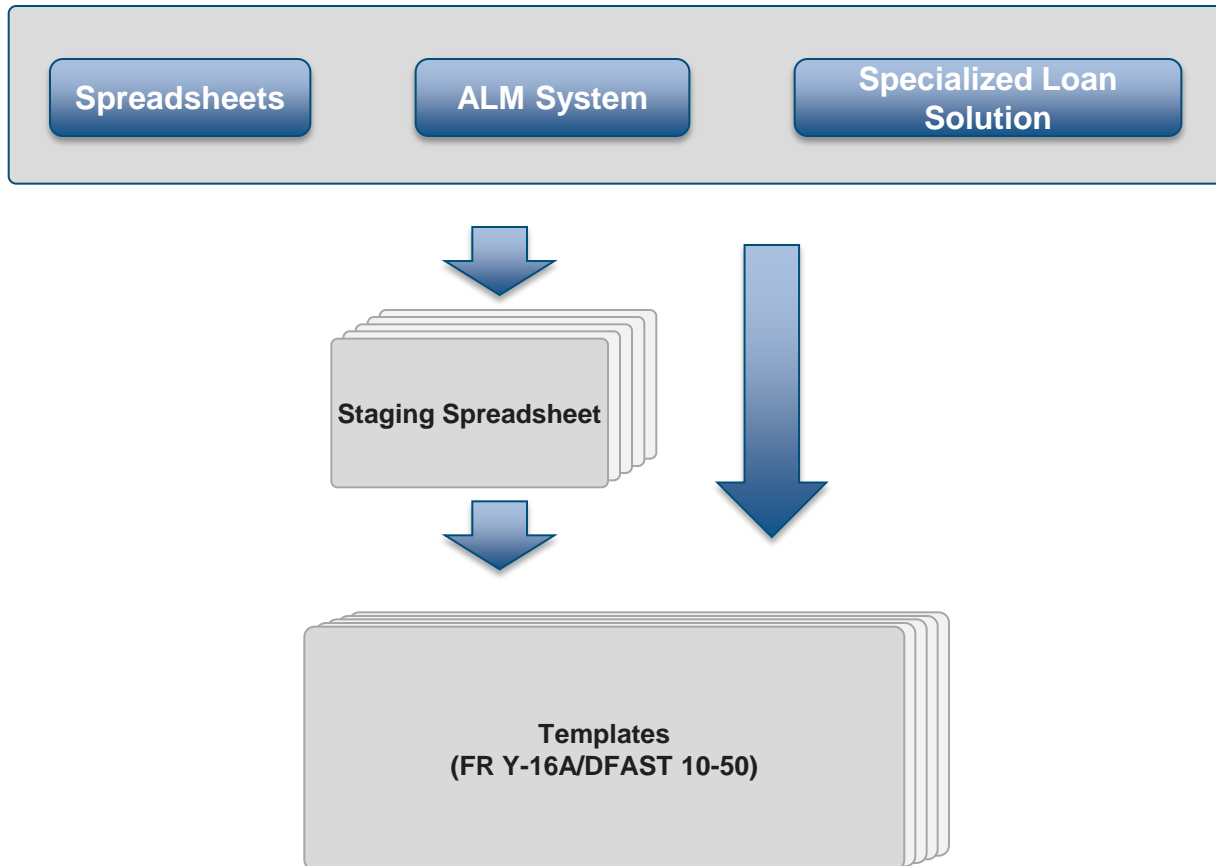
Planning



# DFAST Framework

*Sample Data Flow*

Planning



Planning



# DFA Stress Test Template Income Statement Inputs

Item	Source System for Input	Staging?
Loan Net Charge-Offs by Portfolio (13 Items)	Specialized Loan	No
Net Interest Income	ALM, Specialized Loan	Yes
Non Interest Income	Spreadsheet	No
Non Interest Expense	Spreadsheet	No
Provision for Loan and Lease Losses	Specialized Loan	No
Realized Gains (Losses) HTM Securities	ALM, Spreadsheet	Yes
Realized Gains (Losses) AFS Securities	ALM, Spreadsheet	Yes
All Other Gains (Losses)	Spreadsheet	No
Taxes	Spreadsheet	No

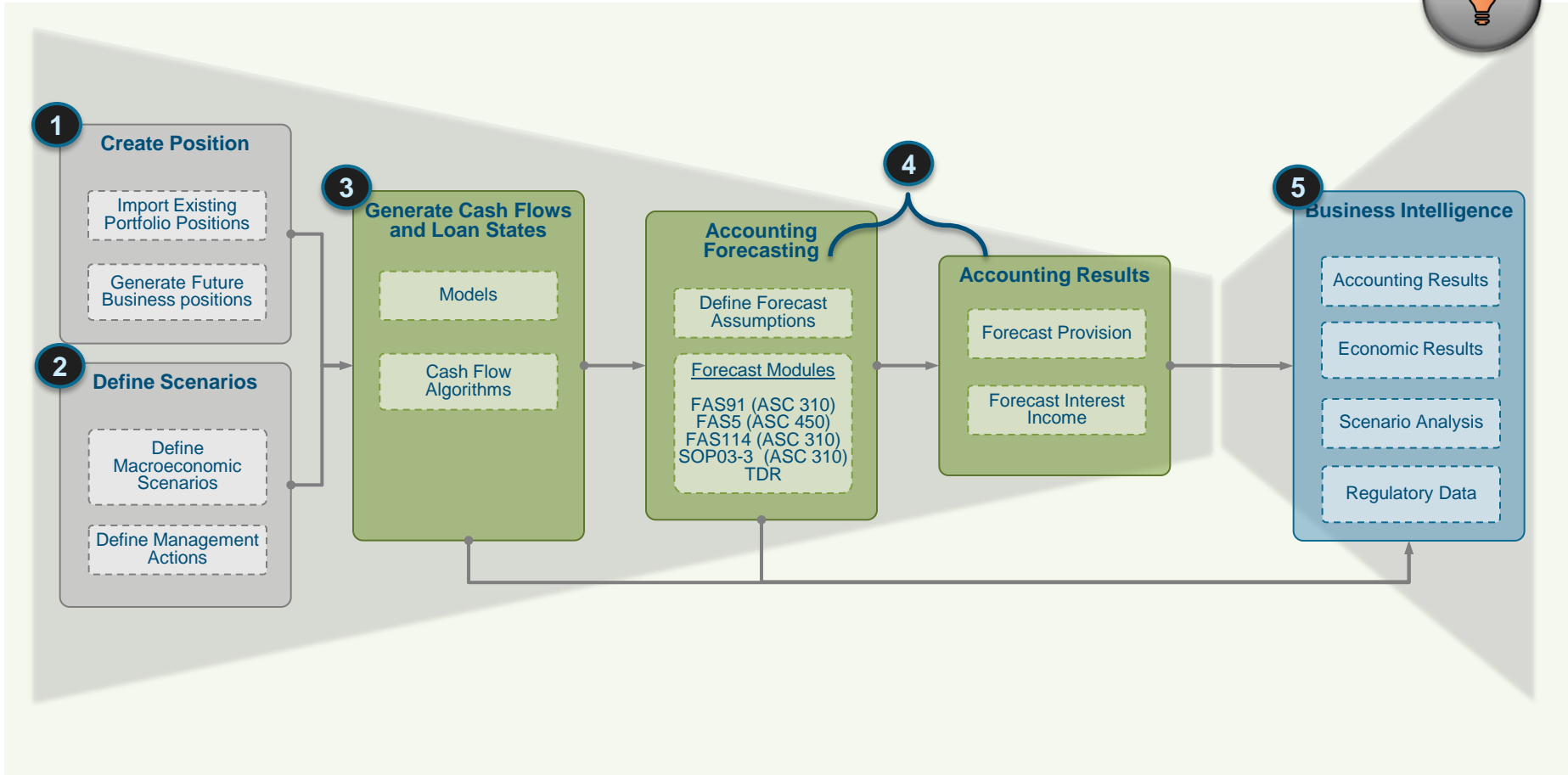


## DFA Stress Test Template Balance Sheet Items

Item	System
Loan Balances by Portfolio	Specialized Loan
Allowance for Loan and Lease Losses	Specialized Loan
Securities (HTM + AFS)	ALM
Trading Assets	ALM
Other Intangible Assets	Spreadsheet
OREO	Spreadsheet
Other Assets	ALM
Funding (Retail + Wholesale)	ALM
Trading Liabilities	ALM, Spreadsheet
All other Liabilities	ALM, Spreadsheet
Capital Items	Template Roll Forward and Dividend Plan

# Stress Testing a Loan Portfolio

Planning



1 Data Capture

2 Scenario Definition

3 Loan Modeling

4 Accounting Forecasting

5 Reporting / Analysis

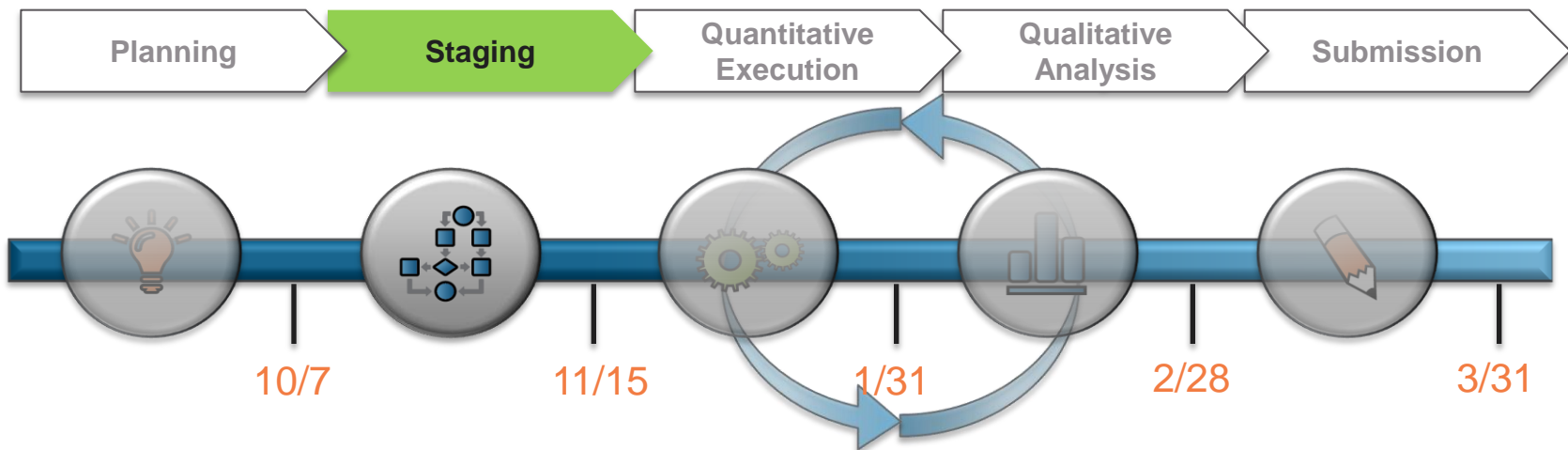


# DFAST Framework

- Model Selection - General Model Choices
  - Structure: Roll Rate, Net Charge-off, Transition Matrices or Expected Loss
    - All structures are viable but must be constructed to be sensitive to macroeconomic inputs
    - Guidance recommends evaluating each approach to determine best fit based on complexity and materiality of each portfolio
  - Class: Loan Level, Loan-Segment Level or Portfolio Level
    - Loan-level models are more complicated but give better risk driver segmentation
    - All classes generally viable; smaller institutions especially may want high-level models
  - Data: Industry or Bank
    - Bank data is valuable when there is sufficient loss history and adequate history reflective of current portfolio
  - Source: Internally Developed or Vendor
    - Internally developed models can provide greater insight into risks faced but require significant resources to build, validate and document
    - Vendor models must still comply with sound model risk management practices

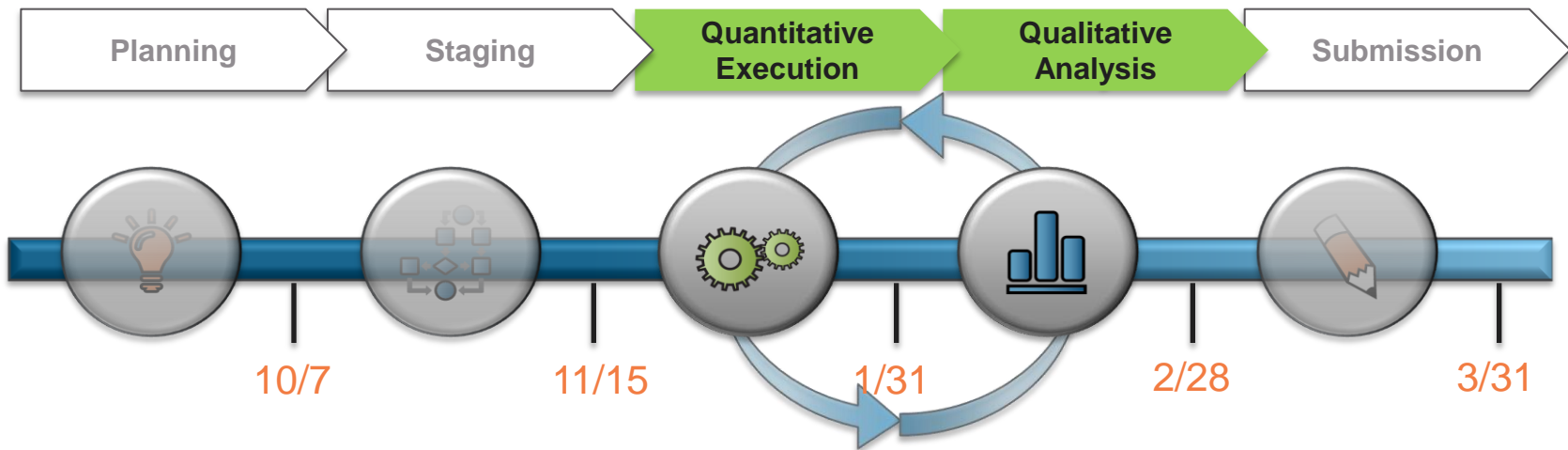


# Staging Phase



- Establish baseline forecast and obtain stakeholder agreement
  - Composition of new business
  - Impact of baseline assumptions on forecast
  - Generate accounting forecast
  - Time permitting, test sensitivity of accounting forecasts to macroeconomic inputs

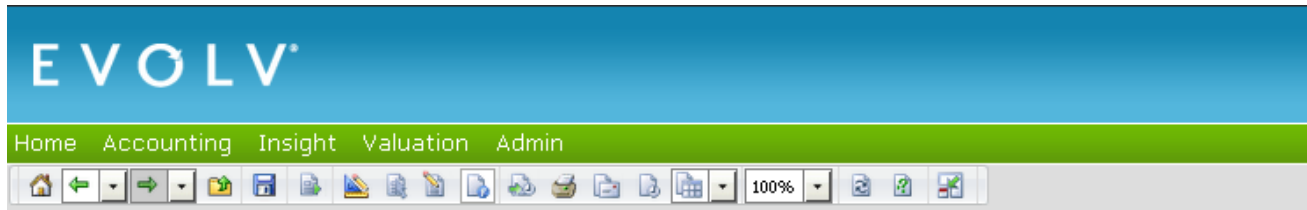
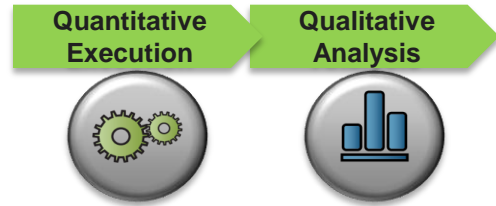
## Quantitative Execution and Qualitative Phases



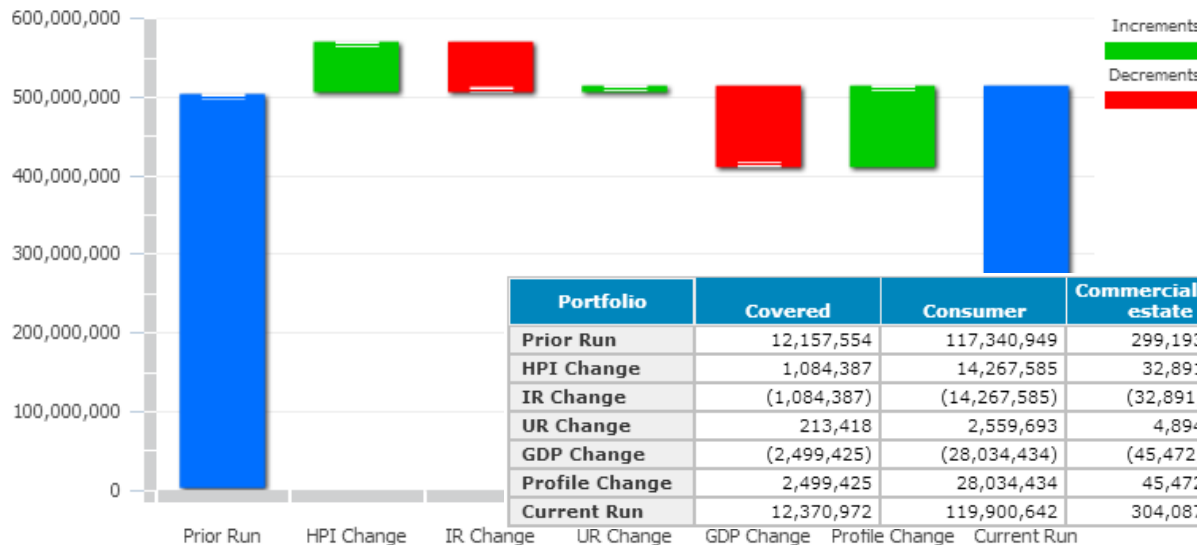
- Finish execution of quantitative portion of stress tests and have understanding of risk drivers
  - Estimates made for all items and templates filled out for all scenarios
  - Documentation of assumptions, process and results well underway
  - Few, if any, open questions about results

# Sample Results

Understand drivers of risk across portfolios



HPI, IR, UR, GDP, Profile Attribution- GCF

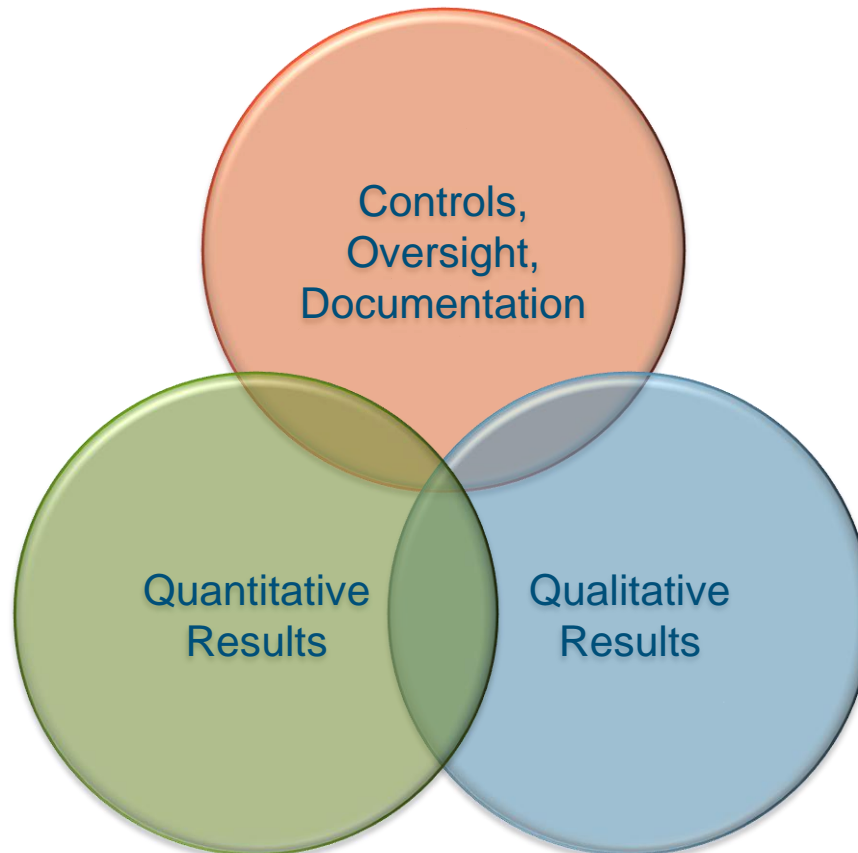


# Finalize Submission

Submission



Compile the components to complete your narrative



## After submission

- Take a couple of days off and pat yourself on the back
- Perform bank-specific stress testing
- Further improve stress testing capabilities in preparation for DFAST 2015

## Q&A

- Share results of the polling questions
- Send questions through chat to David Arnold or through Q&A window

# Contact

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