8 Costly Risks in Asset Liability Management

How to Avoid the Unintended Consequences
About Darling Consulting Group

Darling Consulting Group (DCG) is an ALM consulting firm that has provided industry-leading, independent solutions to financial institutions throughout the country for more than 30 years in the areas of:

- Interest Rate Risk
- Liquidity
- Capital Planning/Stress Testing
- Assumption Development and Support
- Financial Performance
- Regulatory Compliance

The breadth of professional expertise, proprietary technology and unmatched client support distinguish DCG as the premier provider of ALM solutions to the banking industry.

All of DCG’s risk management services are founded on the education of the client. Some of our more popular services include:

**ALM Consulting**
- Balance Sheet Consulting
- Risk Analyzer Plus

**Model Validation**
- Large Institution
- Community Bank
- Credit Union

**Deposits360° (Non-Maturity Deposit Analysis & Online Tool)**

**Prepayments360° (Loan Prepayment Studies & Analytics)**

**Liquidity360° (Liquidity Management and Contingency Planning)**

**Liquidity Reviews**

**Capital Planning**

**Credit Stress-Testing Solution**
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**Introduction**

Developing a complete ALM process (modeling, reporting and strategy development and decision making) has always been a daunting task, and with all of the regulatory emphasis, focus and guidance, including the issuance of the 2010 Interagency Advisory on Interest Rate Risk Management and the Interagency Policy Statement on Funding and Liquidity Risk Management, the task has only become more difficult.

At DCG, we view the ALM model as the foundation upon which strategy development is built. If the foundation is weak, the entire ALM structure is in jeopardy.

Once a model accurately reflects the current risk profile (a process that is difficult and time consuming initially and one that needs to continuously be managed), the process of using that information should come to the forefront. However, even the best information becomes useless if not expressed in a manner that makes it fully understood by the key stakeholders or if used incorrectly.

How does your institution view ALCO? Is it a regulatory appeasement exercise performed only to “check off the box” or is true value assigned to the modeling process? Are decisions made and strategies implemented?

In our more than 30 years leading the industry, we have provided effective ALM solutions to more than 1,500 financial institutions across the U.S. and abroad whose assets range from $20 million to $200 billion and who represent all charters and regulatory agencies. It is this experience that serves as the basis for this report – to provide guidance on what it takes to develop an effective ALM process. Following are actual examples of situations through which our 80 employees have helped manage our clients as we are immersed every day in providing modeling, reporting and strategic guidance to our outsourcing clients, helping clients get the most out of their internal processes as well as training the examiners.

Whether you have a model that is managed internally, an outsourced process or find yourself searching for a solution that best fits your needs, the examples that follow will provide perspective into what it takes to manage a “Wholistic” ALCO process that gives your institution the best chance to succeed. Maybe you find yourself looking in the mirror and asking how your process measures up – does it meet the new significantly expanded regulatory expectations and, more critical to your institution’s success: does it meet your own?

**DCG’s “Wholistic” Approach to Balance Sheet Management**
Comprehensive Modeling

How limited modeling capabilities left one institution unaware of their true exposure.

Background:

A mid-sized community bank was facing an upcoming examination, and they assumed all the bases were covered – they ran a one year NII simulation for +/- 100, 200 and 300bps, an EVE calculation and were in compliance with their policy limits. When bank management sat down with the lead examiners for the exit interview, they were surprised by the findings that were presented to them.

Management was asked about running stress tests on their model assumptions, more extreme rate movements and alternative yield curve “twists” and how they simulated potential strategies prior to implementation. Management embarrassingly admitted that they did not get that information from their model provider. Needless to say, the examiners were not satisfied with that answer, noting not only were these analyses required in the guidance, but they went on to question how strategic decisions were made without first knowing the implications to their risk profile.

Potential Risk:

By limiting analysis to only the base NII scenarios, the bank never recognized it had exposure to yield curve risk and optionality that emerged as a result of running more stressful rate environments of which they were not aware. Additionally, by only looking out one year, management missed the longer-term embedded exposure in the balance sheet, which actually was the opposite of the near-term exposure. ALCO meetings were focusing on managing to the near-term risk profile, without knowledge that they were exacerbating the true exposure of the balance sheet beyond the first year.

Relative to the impact on balance sheet strategies, the exercise of stress testing assumptions is vital to ensure that those assumptions incorporated in the model are accurate and providing reliable results upon which to make the strategic decisions. Management had no appreciation for the impact the model assumptions had on results and by not testing and validating them there was no confidence in the output of the model upon which to develop strategies. Once those strategies have been determined, an effective ALM process will simulate the results of any potential balance sheet strategies to gauge the impact on the risk profile prior to executing the transactions – and management was making these decisions without a true understanding of their impact on their risk profile. Without the ability to simulate strategies, the decision-making process is flawed.

The DCG Solution:

A thorough ALM process includes far more than the preparation of a base model and reporting the results to management. As part of our quarterly review process, we provide, in addition to our “core scenarios,” a selection of more extreme rate movements and alternative yield curve shifts (flattenings or steepenings of the curve) as well as stress tests on the key model assumptions to assure the model results are complete and accurate. And in order to view the full impact of the balance sheet cashflows and assumptions working through the model, we provide the results in a five-year simulation, allowing our clients to manage to the short-term while continuing to plan for the longer-term. By performing these analyses, it enables management to quantify the impact of the causes of interest rate risk: mismatch risk, option risk, basis risk and yield curve risk.
Rigorous Assumptions

How a disregard of model assumption development resulted in years of making the wrong strategic decisions.

Background:

The assumptions that are input into your interest rate risk model are the single most important determinant of producing correct model results – and many institutions take too casual of an approach in their development. One such example is of an institution that input model assumptions when the model was initially built, but has not updated them in the time since. Cashflow reinvestment, optionality and deposit pricing remained unchanged since the implementation of the model, despite changes in the balance sheet, market factors and customer behaviors.

The initial assumptions development process was simply a “rollover” of all existing cashflows into the same products at rates equivalent to portfolio levels, and the deposit pricing assumptions were “best guesses” based upon the CFO’s experience at his former institution. There was no support for these assumptions relative to studies or input from key personnel (i.e. lending, retail and treasury). The assumptions were considered just another step in the modeling process and not much attention was paid to their impact.

Potential Risk:

By not incorporating any historical analyses or studies, the prepayment and deposit pricing assumptions varied so significantly from actual experience that the model results were showing exposures that were opposite to actual risks. The model output was never back tested, which led to management being unaware that the model was not representing actual business practice, something that would have been identifiable when comparing model results to actual income levels.

The consequence of developing assumptions with no basis for stress-testing or documented support or input from the personnel who truly understand the portfolios on the balance sheet is an inaccurate risk assessment. An inaccurate view of the risks inherent in the balance sheet led to poor strategic decisions being made by the management team – causing this institution to lose money not only from implementing strategies that were contrary to what they should have been considering but also from missed opportunities that they never even considered as options.

The DCG Solution:

At DCG, we consider the assumption development process and ongoing testing to be paramount to an effective ALM process. Our quarterly assumptions discussions involve the key decision makers in the institution representing all aspects of the balance sheet – lending, retail and treasury. We get input from each group as to what they are seeing in the marketplace, what products are being marketed and what they see for ongoing demand. This ensures that replacement assumptions are reflective of actual business activities.

In order to support the assumptions that are input into the model, we utilize a state-of-the-art data warehousing system to analyze historical trends relative to new lending activity and deposit products as well as to track prepayment activity and core deposit behavior to help develop and support the model assumptions. We have the ability to prepare analyses on prepayment activity in the loan portfolio and deposit metrics (i.e. pricing betas and core balances) to assist in the modeling of these key factors in the various rate environments as well as provide support for these assumptions.

And more importantly, our analysts and consultants educate our clients on the importance of these critical assumptions and explain how they impact results. Additionally, these assumptions are continually stress-tested to ensure the model is accurately reflecting the risk profile of the balance sheet and that the client understands and appreciates the impact each of the assumptions have on the results and the level of error those assumptions can contribute.
Risk Assessment

How a lack of analysis left one institution more exposed than it ever thought.

Background:

Institutions with very rudimentary analyses of risks inherent in their balance sheet find themselves exposed to potential loss and increased levels of regulatory scrutiny. One instance that illustrates this point involves an institution that prepared one year simulation of shocks of +/- 100 through 400bps and EVE. The securities portfolio was “tainted” due to the sale of HTM securities, and they had no liquidity contingency plan or stress testing of any kind. Their first exam with the new regulator was eye-opening as they indicated that the institution required a more robust risk measurement process that examined all risk on the balance sheet, not just interest rate risk. Risk measurements vary by the complexity of the organization, and the processes this bank had in place were not sufficient to adequately capture the risk relative to IRR or liquidity.

Potential Risk:

This institution was not aware of what their overall risk profile looked like beyond one year and, therefore, could not make informed decisions about the types of strategies that best fit with their position. By employing shocks vs. ramps, they were overstating potential benefit/exposure during the first year, and the EVE analysis did not provide a reliable representation of the long-term risk profile of the balance sheet.

Additionally, the institution did not have a suitable measurement of the current liquidity position, nor did it understand how the sale of the HTM securities impacted current and future liquidity levels. The institution relied on the securities in the portfolio as collateral for wholesale funding, and there was no measurement process in place to gauge the impact a reduction in collateral value would have on future funding requirements – no early warning system to alert management when policy limits were being approached and no liquidity stress-testing process in place to help make decisions when situations like this arose.

This institution did not have additional funding sources in place as it had always relied on funding sources that utilized the security collateral; however, they were now faced with the dilemma of having to determine the best way to fund future balance sheet growth with alternative means of funding. And without a real understanding of the risk profile of the balance sheet from an IRR perspective, management could not determine whether the best funding alternatives were short-term or longer-term – and how the changes in wholesale funding would impact both liquidity and IRR exposures.

The DCG Solution:

Understanding the inherent risks in your balance sheet is the first step in developing and implementing strategies aimed at increasing income while managing those risks. However, without the appropriate tools to measure the risks, it makes the process of assessing the correct strategic direction of the institution a much more challenging undertaking.

At DCG, we understand the importance of measuring and managing to all of the risks within the balance sheet. While most ALM companies will focus solely on IRR, we implement our philosophy of “Wholistic” ALCO and examine how interest rate risk, liquidity risk and capital risk impact each other. The ability to access various funding sources can be limited due to capital constraints, and those choices will impact ongoing interest rate risk levels as well. It is impossible to implement the most appropriate strategic decisions for the institution without first having a complete understanding of all risks inherent within the balance sheet.
Strategy Development

How a lack of understanding of how to utilize information cost an institution.

Background:

The primary purpose of an ALM model is to provide accurate information to management and the board upon which to determine the best strategic course for the institution. Most institutions have a model that provides them with some level of detail regarding NII sensitivity to identify their exposure to changes in interest rates. Even with the highest quality model output, if management does not know how best to utilize the information, the ALCO process will stall.

One institution had a rather pronounced exposure to rising rates. The management and board had a history of viewing borrowing as a “weakness,” so it had not established any borrowing lines with the FHLB or FRB. Funding was based entirely on deposits, with specials driving borrowers where the bank wanted them to be. Additionally, nobody was familiar with derivatives as a hedging instrument, so that topic was never discussed at ALCO meetings. And those meetings really did not have a strategic focus as the institution had limited funding options and management lacked the market knowledge to creatively manage the balance sheet.

Potential Risk:

This institution had backed itself into a corner relative to its ability to most effectively manage earnings and exposure. By taking a short-sighted approach to borrowings as a “weakness”, management and the board limited the options to most cost effectively leverage the balance sheet. Essentially, the bank was forced to pay higher rates on deposit accounts to attract funds when they wanted to execute any sort of leverage strategy. Deposits also take time to attract with promoting products and positioning a product in the marketplace, and there is no guarantee the bank will attract the required level of funds at the desired cost – something easily attainable with wholesale funding.

And in this institution’s case, the best option to hedge against rising rates was to execute an interest rate swap. Had they had the expertise to add the swap at the optimal time, the benefits to income would have been significant. The board was against entering into any sort of derivative as they “didn’t understand those sorts of things.” That ended up costing this bank with both a continued exposure to a rising rate environment and a missed opportunity to benefit with the utilization of off-balance sheet instruments.

This institution ended up missing opportunities and unnecessarily increasing expenses due to a lack of understanding of how to best manage risk and a short-sighted approach to borrowings.

The DCG Solution:

DCG recognizes the importance of looking at the overall balance sheet position in developing and implementing strategies aimed at increasing income while managing levels of risk. We are aware that in order to maximize income, institutions must take on some degree of risk – but the keys are to measure and monitor that risk in all aspects of the balance sheet and to make sure that the institution understands both the risks and rewards of potential strategies.

DCG focuses on educating our clients on the best approach to balance sheet management, ensuring that they have proper contingency planning in place and fully understand the importance of having as many options available as possible to be able to make the best business decisions for the institution. In order to make the best strategic decisions, you not only need to have the best information available, you also have to understand how best to utilize it.
ALCO Action

How looking at historical “data” and not forward looking “information” resulted in years of missed opportunities.

Background:

There is a plethora of data available that institutions use to “measure” the risks inherent in their balance sheets: ratios, historical trends, peer analyses, gap, income simulations and economic valuations to name a few. An institution was having monthly ALCO meetings that consisted of three members of senior management with the primary focus being ratio analysis and historical trends of those ratios, an economic value calculation as well as a comparison of their results to a group of their peers and actual to budget variance analysis.

Management was neglecting to analyze many of the true indicators of their risk profile: income simulations, current liquidity levels (beyond loan to deposit and deposit to asset ratios) and ongoing liquidity needs, current positions relative to internal policy limits and potential balance sheet strategies and how they would impact earnings, liquidity and capital.

Potential Risk:

By not utilizing earnings simulations, the institution was not confident in what their true risk profile was, where they had exposure and if that profile changed over time. This institution had an exposure to a sustained rising rate environment of which management was not aware based upon their ratio analysis, and their economic value calculation actually exhibited a benefit to rising rates (it is not uncommon for economic value results to differ from income simulation results).

The data that was being reviewed at the ALCO meetings did not provide the proper level of detail and forward-looking analysis that management needed to make the best decisions when it came time to implement balance sheet strategies to manage the exposures that existed. What resulted was years of management “spinning their wheels” in meetings sifting through data that gave them no indication of what they needed to do to manage the bank, rather than focusing on positioning the bank to benefit when rates rose.

The DCG Solution:

At DCG, we understand the importance of looking at the entire balance sheet when determining the risk profiles of our clients. Focusing on only one aspect exposes the model to critical errors that lead to erroneous results and improper decisions. We provide our clients with the critical pieces of information, presented in a manner that is easy to understand and focused on decision making. ALCO meetings are the lifeline of the institution, a time when the key decision makers gather to discuss ways to manage the risk of the balance sheet while working to maximize levels of income.

ALCO should always be focused on strategy development and utilizing the right information to make those decisions. We help client management understand their position, feel comfortable with the risks/rewards of potential transactions and be able to not only know why they are (or are not) executing them, but also be able to explain these factors to the examiners. An educated management team makes for a more effective ALCO.
Contingency Planning

How not planning ahead resulted in higher expenses and increased scrutiny from examiners.

Background:

One issue that is becoming a primary concern is concentration risk. There recently was an instance with an institution that had a significant portion of the balance sheet in a type of investment that was valued well “under water.” The CFO was becoming more and more concerned as the prices of these securities continued to deteriorate and an exam was on the horizon. They did not have a very robust liquidity contingency plan in place and, as these securities were a substantial portion of the institution’s available collateral, the CFO did not have a firm grasp as to what would be the ongoing impact to liquidity levels.

Potential Risk:

The lack of a liquidity contingency plan meant that the management team was ill-informed as to how to prevent an impending crisis from a significant portion of their investment portfolio deteriorating in value. These securities had been pledged against wholesale borrowings, and with no formalized liquidity contingency plan in effect, the bank had not been testing available borrowing lines.

As funding came due and needed to be replaced, the bank faced issues as available collateral levels had been declining and borrowing lines they assumed were available were, in fact, no longer accessible. The bank had not been actively managing liquidity levels and never set up a line with the Federal Reserve, a very drawn-out process that would not provide relief to the bank in a timely manner in this instance.

The only source of available funding that the CFO could readily find was brokered deposits – so he replaced the large balances of maturing borrowings with brokered CDs. The regulators found this action to be reactionary, rather than a planned liquidity strategy and criticized the bank during their next exam. It turned out that the bank had very few liquidity sources available in the short-term, resulting in issues with the examiners and higher-than-necessary funding costs as a result of having to “reach” for funding sources.

The DCG Solution:

A thorough liquidity measurement and management system is an integral part of the overall ALM process. By developing a detailed contingency liquidity plan, certain relief procedures can be implemented to help offset impending asset quality issues. As part of the plan, early warning systems should be developed to ensure that issues similar to the one above are identified in a more timely fashion.

Liquidity stress testing should be instituted to provide guidance for how future liquidity levels will be impacted, and how the institution can expect to react to situations before they become crises.

It is important to have the proper tools to measure current liquidity levels as well as future needs and resources available. Even those institutions that find themselves awash in liquidity need to continually monitor levels, run stresses and ensure that they are prepared for the unexpected. And the liquidity contingency plan should be well documented, reviewed with management and liquidity “crisis team” members and routinely tested to help prevent a crisis from severely impacting the institution.
### Board Involvement

**How a disconnected board limited ALCO’s ability to execute.**

**Background:**

The responsibilities of the board of directors have increased with respect to oversight of the institution’s risk management and strategic development process. The Interagency Guidance of 2010 states that the board has “the ultimate responsibility for the risks undertaken by an institution – including interest rate risk.” This requires that not only is the board involved, but also educated on the ALM process and its impact on earnings, liquidity and capital.

In one example, board members distanced themselves from the ALCO process, seeing it as more of a management responsibility. The board received perfunctory reporting that focused more on current levels relative to policies and historical trend analyses. In this case, the board was content with short ALCO meetings that focused on historical review and little to no discussion of strategies and forward-looking analysis. Board members had no interest in understanding how ALCO ran the bank and why management was implementing the strategies they were.

**Potential Risk:**

If the board is not well versed in ALM matters, it cannot help guide the institution toward its goals. When the examiners came in to perform their review, they challenged the board – wanting to gauge their involvement in strategy development, determine their level of understanding about recent transactions and why they were executed, determine their involvement in the development of the assumptions and see how involved they all were in setting the course of the bank.

The examiners criticized the bank for lack of board-level involvement in the ALCO process and stressed both the need to educate board members on balance sheet management as well as include them more in the strategic development process going forward. Regulators went so far as to discourage the bank from engaging in hedging strategies that management was considering to help manage IRR exposure until the board had a stronger understanding of the types of instruments the bank was considering and the risks and rewards associated with hedging a risk position.

The bank missed an opportunity to put some off-balance sheet hedging instruments into action that would have provided both meaningful protection to the rate scenarios to which they were most exposed and also provide substantial levels of additional income if rates went the other way – which they did, resulting in substantial opportunity costs to the bank.

**The DCG Solution:**

DCG considers an educated board of directors a key asset in the ALM process of any institution. The more the board understands the major aspects of balance sheet management and how these aspects impact income, liquidity and capital, the more they can contribute to the ALCO meetings and help set the overall vision for the institution. We have always been proponents of board-level education and making sure board members attend and contribute to ALCO meetings.

Each of our quarterly meetings with our clients provides additional opportunities to educate board members on the benefits of an effective ALCO. We have found that many board members now clamor to attend the meetings as they view ALCO as the single most important meeting they attend each quarter. We conduct board level education for many of our clients and have seen an increase in request for educational seminars in recent years. Those institutions that have board involvement tend to have longer, more productive meetings, implement more effective strategies and have a more proactive view of risk management than those whose boards are removed from the ALCO process.
Customized Policies

How a lack of continuity between policies resulted in issues “below the line.”

Background:

The issue of setting policy limits on NII sensitivity is on the minds of management and examiners. Care must be taken by management in the development of these policies to ensure that each policy is working in lock-step with the other ALCO related policies.

One example of how policies on net interest income (NII) can negatively impact bottom line earnings occurred at an institution that had a policy limit of 25% volatility in a +200bp rate environment. The simulated exposure that was often approximately a 20% variance from the base scenario was noted as within the stated policy limit, reported to the board and accepted by management.

What was not being tracked was the correlation between policy limits on NII and the impact on levels of net income (NI).

Potential Risk:

Depending upon the degree of sensitivity allowed in an institution’s policy limits for NII, bottom line income could be too adversely impacted. As was the case with this institution, while in compliance with its NII policy limit for a +200bp scenario, once non-interest income/expense and taxes were included, overall NI levels would have been negative. Management was left to explain how it can be in compliance from an NII level, but still be losing money. The 200bp scenario was not a “stress scenario” or extreme rate movement, but rather it was run as one of the bank’s “core” and “standard” rate scenarios, one that they considered to be likely to occur. Regulators were discouraged that an institution would set policy limits that could ultimately result in negative earnings. Changes to policy levels needed to be made.

The DCG Solution:

While institutions may or may not set policy limits for NI sensitivity, we do recognize the importance of making sure your policy limits are in sync. It is important that not only do institutions ensure that income sensitivity limits make sense from both NII and NI perspective, but also that all aspects of the ALM measurement process are working in tandem.

Income sensitivity, liquidity and capital policy limits all can have implications on one another, and management must continually review these limits and historical trends and ensure that their ALM related policies do not have contradictory points of view from one another.
Conclusion

Around every corner financial institutions find themselves facing challenges impacting their earnings, liquidity levels, capital and the overall ability to manage in today’s regulatory world. The consequences of an ineffective ALM process have become more profound in recent years as the margin for error has all but disappeared. In addition, regulations continuously change making it difficult to maintain compliance, let alone maintain income.

So, how do financial institutions manage with all of these issues impacting each and every decision?

Many variables of the following options are available:

- In-house model
- Outsourced model
- Outsourced model with Strategic Consulting

More institutions are outsourcing their ALM modeling and reporting, finding that the increased regulations have made it more difficult for internal staffing to keep up with the requirements. In addition, the “all-in” costs associated with in-house modeling (software, training, staffing salaries/benefits) will far exceed the annual expense relative to having a full staff of industry experts provide the service for the institution.

Which option is right for your institution, and how do you avoid many of the risks outlined in this document?

The answer as to which option best suits your institution comes down to the levels of understanding of ALM as well as time and resourcing available. Model preparation and reporting requires a tremendous amount of time and resources to ensure completeness and accuracy as well as regulatory compliance. Reporting must be both useful and understandable to management and, ultimately, the board. Even internal processes require outside validation and recommendations to ensure that the process is sound and that the results of the model are reliable – ALM is not a journey that an institution can take without an expert guide by their side.

Avoiding potential risks requires a commitment by all levels of management and the board. It requires a commitment that ALM is worthy of the investment of time and resources (whether internal or outsourced) that will provide correct information and guidance to ensure the ongoing success of the institution. It requires a commitment to continually challenge and improve the process, and not maintain a “status quo,” and to always be forward looking, not content with repeating history.

ALM is the lifeline of your institution, and it requires the full attention of senior management and the board of directors. Our “Wholistic” approach to balance sheet management has been successful with our clients, and it can be for yours as well.
DCG’s ALM Advisory Service

DCG becomes a part of your management team, providing total balance sheet management expertise in the areas of interest rate risk, liquidity measurement and management, stress-testing, capital planning and regulatory compliance.

ALM Advisory is DCG’s flagship service that puts the complete ALM process into action. A model and reporting package that is an all-encompassing review of your interest rate risk, liquidity and capital positions that meets and exceeds all regulatory requirements provides the foundation for focused strategy development tailored specifically to your institution’s profile and risk tolerances. The potential strategies are simulated and risks/rewards are discussed prior to implementation to ensure all stakeholders understand the transaction.

DCG specializes in empowering ALCOs with the means to make effective business decisions. As the nation’s leading provider of ALM-related consulting and educational services, we know the importance of developing and maintaining accurate and effective ALM models, processes, and controls. The ongoing success of our clients and our more than 30 years in the industry is testament to our knowledge, experience, and expertise in developing and using the right tools and resources.

DCG continues to set new standards for maintaining a “best practices” approach to ALM modeling and balance sheet management. Our commitment to assisting financial institutions to continuously improve their decision-making capabilities is at the foundation of the ALM Advisory, as well as all of DCG’s services.

We are ALM specialists. Unlike other firms whose roots are just based in auditing, government regulation or academic theory, we are active balance sheet management practitioners — developing detailed financial models, providing education, guidance and strategic advice to hundreds of institutions annually.

Since 1981, we have supported more than 1,500 institutions.

To learn more about our services or to request a proposal, contact us at info@darlingconsulting.com or 978.463.0400.
How DCG Can Help

Darling Consulting Group (DCG) is the banking industry’s leading asset/liability management (ALM) consulting firm. We have been providing independent balance sheet management advice, analyses and support to banks and credit unions throughout the country for more than 30 years.

DCG becomes a part of your management team, providing expertise in the areas of interest rate risk management, liquidity management and contingency planning, stress testing (including credit), capital planning and regulatory compliance.

DCG also provides in-depth risk model validations and independent reviews of risk management processes. Our large bank group provides Dodd-Frank Act Stress Testing (DFAST) model validations. We have a suite of online state-of-the-art decision support tools including deposit base analytics, loan portfolio analytics and liquidity management/planning. The breadth and depth of our professional expertise, proprietary technology and unsurpassed client support are what distinguish DCG as the premier provider of ALM solutions.

All of our services are founded on the strong belief that continued client education culminates in effective decision making. DCG has the experience and resources to tailor the ideal solution for your institution.

ALM Consulting
The industry’s most complete ALM solution gives you the information, tools and expert resources needed for your institution to succeed.

ALM Model Validations
More than a regulatory “check box,” our ALM model validations ensure your ALCO is getting the information it needs to make the key strategic decisions at the right time.

Credit/Credit Stress-Test Model Validation Services
DCG provides comprehensive credit and credit stress-test model validations to financial institutions. Validation services include credit scoring, credit default, ALLL and DFAST/CCAR.

Deposits360° (Non-Maturity Deposit Analysis & Online Tool)
Deposits360° supports institution-specific assumptions that satisfy regulatory requirements in a next generation tool for deposit analysis that provides strategic insight for senior management to manage your non-maturity deposit base in any business environment.

Prepayments360° (Loan Prepayment Studies & Analytics)
Prepayments360° is an interactive web-based tool that supports institution-specific prepayment assumptions while providing a strategic advantage for senior lenders.

Liquidity360° (Liquidity Management and Contingency Planning)
Liquidity360° is a complete and interactive set of online tools for liquidity risk management monitoring, forecasting, contingency planning and reporting.

Liquidity Reviews
DCG’s Liquidity Risk Review service provides your institution with the most thorough evaluation of your liquidity measurement and management process.
Capital Planning
DCG’s development of a dynamic capital plan lays the foundation for your institution to meet its growth plans for the future while incorporating stress scenarios to reflect the impact of unanticipated events.

Credit Stress-Testing Solution
DCG has developed a best-in-class community bank credit stress-testing solution that provides a forward-looking approach to credit risk management and capital planning.

To learn more about DCG’s “Wholistic” approach to ALCO, contact us at info@darlingconsulting.com or 978.463.0400.

DCG’s “Wholistic” Approach to Balance Sheet Management