

PowerSeller® Risk Manager

Frequently Asked Questions



Q. Why does ASC promote a slightly conservative modeling bias with the PowerSeller Risk Manager (PSRM)?

A. Practitioners know that secondary marketing and risk management are not exact sciences. Thus, this is not an arena for exact predictions, rather it requires positioning one against adverse potential outcomes. By tilting the model expectations slightly to the conservative side, a tendency to produce favorable variances versus the budgeted (forecasted) outcomes will occur. This seems a much better condition than to consistently error on the side of over-estimating your performance and under-estimating your exposure.

Q. Can you describe ASC's general system philosophy?

A. We feel that you are the artist. You need access to relevant information and flexible modeling and reporting tools. You might like some coaching, but you don't need a black box that mandates your actions. You need to be able to tweak the assumptions that drive the models that drive your actions. You need to understand the impact that changing markets and changing pipelines could present. We provide a variety of modeling approaches allowing you to decide which ones serve you best.

Q. What PSRM features can I employ in helping me comply with hedge accounting pronouncements such as SFAS 133 and SFAS 138?

A. Risk Manager allows you to target loan risk stratum with specific trades. You can identify the business segment, loan instrument, expected delivery window and note rate range being targeted by a specific trade. You can test interest-rate correlation between your hedged item benchmark and your hedge instrument class. You can export or link to results and archive tables to assist you in measuring hedge effectiveness.

Q. In building a rate cone, I enter three values: the average annual rate volatility, the deviation rate and the confidence level. Could you explain what these values represent and how they are applied?

A. In building a rate cone, it is best to think about a normal distribution curve or "bell curve." The average annual rate volatility is equal to the mean (average) fluctuation result observed. If you will, 50% of the time the average is exceeded. The deviation rate is equal to the standard deviation observed. The area of the bell curve that is covered by the average +/- one standard deviation is roughly 67%. The confidence level expresses the area of the bell curve you wish to cover. Thus, a 90% confidence level covers 90% of the area of the bell curve. Since we are concerned with not underestimating our risk, we are dealing with one-wing or one-tail of the bell curve. Thus a 90% confidence level means there is actually only a 5% chance or 1-in-20 events chance that you will under-estimate the rate move based upon the other two variables you introduce.

Risk Manager provides you with a historic rate volatility analysis service. You can get readings on what the average and deviation have been for different instruments for different time periods.

Q. Can Risk Manager track partial fallout? If so, what constitutes a partial fallout condition?

A. Yes, we can track those scenarios where a loan closes but not under the original conditions. You define what will be considered as partial fallout. The visual design tool makes it easy to describe multiple compound conditions, if desired.

Q. Can I apply different fallout rates for both rising and falling rate conditions?

A. Yes, the closing ratio grid window allows you to enter as many falling and/or rising rate closing ratio values as desired.

Q. Why do you value options through a targeted loan delivery date and not as of the current date?

A. Options are a wasting asset. A portion of an option's value is derived based upon the number of days remaining until the option contract expires. The option you purchase as a hedge is matched against the option(s) you have granted to originate a loan(s) by a specific date at a specific interest rate. Thus, you must hedge the option (interest rate lock commitment) you granted until either that lock expires or you deliver the loans to the investor.

It is wrong to conclude that you can pair-off your hedge and not replace it. Thus, the conservative and most true assessment of the hedge comes by valuing it through the point in time it will no longer be required.

Q. How can I leverage my use of PowerSeller?

A. PowerSeller provides you with a multitude of avenues and tools to leverage the information. PowerSeller allows you to use a variety of report-writing tools to produce custom reports. You can export PowerSeller data to other databases, spreadsheets, word documents, etc. You can link to PowerSeller tables as well and use PowerSeller archived data with other analytic tools.

Q. If I only sell "Best Efforts" can PowerSeller benefit me?

A. Yes. If you are distributing rate sheets, PowerSeller can help you determine what price to offer. The pricing engine will improve your competitive status by considering multiple investors and a broad array of factors that will impact pricing such as targeted profit margins, feature adjustments, the value of servicing, delivery window price structures and investor fees.

Q. Does your Best Execution service consider the impact that security-level excess servicing limits can have upon my delivery selection?

A. Yes. PowerSeller will first evaluate each loan separately. Next, security-level servicing constraints can be evaluated. Reports identify how the selection process was impacted by these constraints.

Q. Can PowerSeller model Yield Spread shifts?

A. Yes. The first step would involve creating base-line rate shift profiles. Next, you are able to model yield spread shifts for both lower and higher base-line rate changes, for each instrument if desired. We call the factor that is applied to the base-line change a Beta Value. PowerSeller provides a "coach" on what beta values have been for different time periods. In addition, PowerSeller provides a "coach" that indicates what base-line interest rate fluctuations have been for different time periods.

Q. What are “notional” and “inquiry” rate sheets?

A. PowerSeller Secondary Manager provides two paths for forming a rate quote. The notional loan approach allows you to construct rate / price grids. It is called notional since you can provide the engine with a descriptive profile of a target (notional) loan for each instrument / window / rate point combination. The inquiry path provides a means to respond to off-rate-sheet inquiries for a specific loan.

Q. Can we duplicate my current reports within PowerSeller?

A. Yes. Powerful report-writing tools accompany PowerSeller, which among other features allows you to automate the generation of reports on a routine basis. You may also group and use other report-writing tools such as Crystal Reports.

Q. Do you have a web site? What support services are available on your web site?

A. Yes, the address is **www.powerseller.com**. Through the site you can access WebFirst, our customer incident tracking tool. Here you can review both open and closed incidents. PowerSeller on-line books, also located on the web site, provide training materials and white papers that outline the philosophies behind many of the PowerSeller features and illustrate how you can make them work most effectively for you. The site also contains our PowerGram and PowerTip libraries. PowerGrams are periodic newsletters that keep users apprised of the latest news, improvements, releases, and general undertakings relating to the system. PowerTips are short but powerful hints, from us and from our users, on how to better utilize PowerSeller. The site also contains current patches and reports that can be downloaded directly.

Q. What are some of the ways that ASC makes setting up and maintaining PowerSeller manageable?

A. ASC's PowerSeller team goes to great lengths to learn and anticipate your business needs and technical specifications prior to system installation. We provide a setup checklist that is used in our training classes that includes timelines and requirements of the installation procedure. We can offer a variety of suggestions based on our previous experiences as well. We offer import, export and cloning functionality that can be used to populate the appropriate tables to save time in data entry. Our screens are user friendly and easy to navigate making system setup a simple task. A cornerstone of the system is its report-generation capabilities. Through consultative efforts, we determine which PowerSeller reports you require in your business model. (We have this completely automated online) Combined this with PowerSeller's use of relational databases, and reporting is a snap. Reports can be created to notify you of expired Settlement Dates, Master Commitments etc. PowerSeller was designed using state-of-the-art tools to insure consistent operation, and the Help Center stand ready to assist you in all your maintenance needs on a 24 / 7 basis.

Q. Do I need to have programming knowledge to use PowerSeller?

A. No, PowerSeller was created with the end-user in mind and comes complete with a visual design tool to help you search your database. However, being familiar with SQL (sequential query language) will allow you get even more out of the system. ASC provides basic instruction in SQL as part of the normal training. Additional SQL training is available.

ASC has been helping lenders grow with loan automation products and services for more than 25 years. For more information about PowerSeller's Risk Manager, call 800-628-4687 and visit www.powerseller.com.