

Supervisory Use of Market Data

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Disclaimer: I speak only for myself and not necessarily represent the views of the Comptroller of the Currency

OCC Supervision Process

- Continuous Supervision
- Resident examiners
- Sometimes examiners with a portfolio of banks.

- Risk Analysis Division
- Quantitative experts who assist examiners on modeling issues.

Types of Market Data

- Bond prices
- Stock prices
- Credit spreads
- Bond ratings from the agencies
- Market based default risk models such as KMV
- Market volatility data from caps/swaptions

Major use of Market Data

- As a “canary” or a screening mechanism
- Movement in the market prices
- Need to investigate further.
- Particularly in cases of smaller institutions.

Issues with Market Data

- Market overreaction
- Market inefficiency
- Examiners possess better information
- They have market data as well as nonpublic information.

Issues with Market Data

- Market underreaction
- Regulated industries
- Corporate finance studies generally find underreaction in the capital markets for the regulated industries.

Uses of Market Data

- Screening process
- The joint Fed/FDIC/OCC shared national credit process.
- Which loans to pay more attention to.
- External rating agency data
- Market based default probabilities from Merton type models.

Issues with Market Data

- What markets have better data?
- Stock prices
 - More liquid
- Bond prices?
 - Probably reflects better information
 - Stale

Market Data used in examinations by RAD

- Mortgage models
- Valuation of mortgage backed securities and mortgage servicing rights
- Market vols are important inputs
- The EVE model