

Teachers Federal Credit Union Builds a Robust Credit and Treasury Function Enabled by Moody's Analytics

Background

In early 2020, financial institutions were facing uncertainty about how the world would manage through the economic complexities resulting from the pandemic and its impacts on balance sheet management. In particular, financial institutions needed to rapidly adjust their reserves in light of the deteriorating economic outlook, the pandemic's effects, and government initiatives like the paycheck protection program (PPP). Additionally, firms were re-evaluating the pandemic's effects on net interest margins, liquidity, and prepayments.



While Moody's Analytics was helping Teachers Federal Credit Union (TFCU) prepare for the Current Expected Credit Loss (CECL) accounting standard and to bring asset/liability management in-house, TFCU considered the unprecedented economic situation and took the opportunity to also calibrate a "q-factor" to apply to the institution's allowances.

Challenge

"TFCU's allowance model was overpredicting how much money the firm should reserve for potential loan losses, and provided no mechanism to adjust for changes in the pandemic's impact, or the government's response to the pandemic. This was inappropriately creating headwinds to both their lending, and customer expansion strategies," comments Mack Ochs, Director, Moody's Analytics. "It did not matter what scenario their team was evaluating or where TFCU was in the credit cycle, their allowance model produced the same result. With the different government programs available and the expected credit deterioration, TFCU needed to adjust their allowance outside of what their model was stating. They needed to feel more comfortable in the uncertain economic environment and lay the groundwork for more granular credit models and economic forecasts."

How Moody's Helped

Moody's worked with TFCU to identify solutions from the Risk & Finance Suite to help create a fully integrated treasury and credit risk management platform. The full solution of ImpairmentStudio for CECL, ALM US for asset & liability management, Portfolio Analyzer, consumer credit models, the economic forecast suite, and an advisory services project led to the expansion of a full, in-house balance sheet management initiative that is enabling Teachers to grow in a risk-controlled fashion while enhancing profitability.

The project implementation was well timed with Teacher's strategic data management initiative. The monthly CECL process within Impairment Studio is streamlined with automated data files eliminating the need for any manual data loading, or remediation, allowing the team to dedicate their time to analyzing the results using the pre-built standard reports, which are easily accessible from the application. This enables them to gain a better understanding of the credit risk of their portfolios.

With the addition of MA's Portfolio Analyzer models, a series of asset class-specific models that generate loan-level probabilities and defaults, TFCU generates a host of enhanced credit analytics, including risk-based loan pricing, which in turn has contributed to significant improvements in the risk-adjusted returns on capital in the loan portfolio.

Finally, providing support for complex loan and deposit behavior, MA's ALM US solution marries detailed analytics with strategic planning, providing the transparency needed to drill into details to make decisions with confidence. Moody's tools are the foundation of Teachers' robust risk-based pricing discipline that has been essential in managing capital in volatile markets, limiting risk and maximizing profitability.

"Best practices from this engagement with TFCU demonstrate the value of client interaction," says Irina Baron, Senior Director, Customer Success Management, MA. "We had one point of contact between MA and TFCU overseeing the entire project from implementation through adoption, which enabled cohesive collaboration and led to a successful engagement, supporting further opportunities. For example, having the TFCU team implement efficient change management practices from the beginning, such as forming a permanent team dedicated to CECL, yielded successful results in the centralization of information and continuity of engagement across Impairment and ALM teams."

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Helping them implement more granular credit models and economic forecasts, and helping build out the treasury function of the firm.

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Results

“We built Treasury at Teachers, which includes teams to run ALM, CECL, Capital Planning, Stress Testing, and much more,” comments Denise McGlone, CFO of Teachers Federal Credit Union. “We viewed Moody’s as a valued partner since we started the advisory engagement project in 2020. We look forward to continued success together.”

As the credit union prepares to cross the \$10B mark and expands its footprint beyond the NY metro area, TFCU continues to streamline its balance sheet management process with MA through an integrated network of analytics covering credit loss modeling, stress testing, balance sheet forecasting, and liquidity and interest rate risk analysis. TFCU’s use of Moody’s Finance Suite enabled them to build a fully integrated treasury and credit risk management platform. They are able to leverage data, analytics and solutions for a variety of purposes, all with a consistent view of risk management in one place

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For more information on Moody’s Analytics ALM US Solution please visit <https://moodyanalytics.com/alm-us>
For CECL please visit <https://www.moodyanalytics.com/microsites/cecl-solutions>
For Portfolio Analyzer please visit <https://www.moodyanalytics.com/product-list/portfolio-analyzer-pa>

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