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1 Pricing

There are several econometric series available on the St. Louis Federal Reserve System FRED2 web site that are useful in setting prices for loans and deposits. This section contains plots of recent downloads of common series from FRED2.

1.1 Swap Rates

Swap rates are a useful proxy for top-of-market CD rates and for transfer prices, since an institution can both borrow and deposit funds at approximately the swap rate. Rational institutions with access to markets rarely go significantly higher than the swap rate. Typically, wholesale funders like the Federal Home Loan Bank (FHLB) offer rates that are generally about 50 basis points higher than the swap rate; it is very unusual for an institution to gather deposits at rates above these rates.

1

1 Board of Governors of the Federal Reserve System (US), 1-Year Swap Rate [MSWP1], 2-Year Swap Rate [MSWP2], 3-Year Swap Rate [MSWP3], and 5-Year Swap Rate [MSWP5] retrieved from FRED, Federal Reserve Bank of St. Louis. https://research.stlouisfed.org/fred2/series/series_name October 11, 2019.
2 Severity of Loss

This section contains plots of econometrics that are useful in forecasting the severity of loss when a loss occurs on loan products.

2.1 CPI for Used Cars and Trucks

The CPI for Used Cars and Trucks is useful in forecasting the severity of loss for auto loans. As the index increases, the severity of loss will decrease, while a decreasing index will potentially cause an increase in the severity of loss. Understanding the seasonality in the index can help in decision making on whether to hold a vehicle in inventory for one or two months to get a better price at auction or to sell the vehicle as quickly as possible during periods when the market is expected to decline.

\[2\]

\[\text{US. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Used cars and trucks [CUUR0000SETA02], retrieved from FRED, Federal Reserve Bank of St. Louis, https://research.stlouisfed.org/fred2/series/CUUR0000SETA02, October 11, 2019.}\]
Figure 1: The CPI for Used Cars and Trucks is useful in forecasting the severity of loss for auto loans.
Figure 2: The Unemployment Rate is useful in forecasting loan volume and frequency of loss.

3 Frequency of Loss

This section contains econometrics that are useful in forecasting the frequency of loss for loan products.

3.1 Selected Texas Unemployment Rates

The Unemployment Rate is useful in forecasting loan volume and frequency of loss. It is a leading indicator for financial distress for both retail and commercial loan products.

\[\text{US. Bureau of Labor Statistics, Various Texas Unemployment Rates [DALL148UR],}\]
Figure 3: Mortgage Delinquency is useful in forecasting frequency of loss.

4 Mortgage Delinquency

Mortgage Delinquency is useful in forecasting frequency of loss, and can also be useful in forecasting the severity of loss, as large numbers of foreclosures can depress the housing market and thus increase the severity of loss.