CA FINAL

RISK MANAGEMENT

IN-HOUSE

CASE STUDY SERIES

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Case Study 8 Question

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Ford Credit

Ford Credit is the branch of Ford Motor Company that provides financing to Ford's customers. For this purpose, it obtains funding from various sources. As a result of its interest rate risk management process, including derivatives, Ford Credit's debt reprices faster than its assets. This situation means that when interest rates are rising, the interest rates paid on Ford Credit's debt will increase more rapidly than the interest rates earned on assets, thereby initially reducing Ford Credit's pretax net interest income. The reverse will be true when interest rates decline.

Ford's annual report provides a quantitative measure of the sensitivity of Ford Credit's pretax net interest income to changes in interest rates. For this purpose, it uses interest rate scenarios that assume a hypothetical, instantaneous increase or decrease in interest rates of 1 percentage point across all maturities. These scenarios are compared with a base case that assumes that interest rates remain constant at existing levels. The differences between the scenarios and the base case over a 12-month period represent an estimate of the sensitivity of Ford Credit's pretax net interest income. This sensitivity as of year-end 2003 and 2002 is as follows:

	Pretax Net Interest Income Impact Given a One Percentage Point Instantaneous *Increase* in Interest Rates (in Millions)	**Pretax Net Interest Income Impact Given a One Percentage Point Instantaneous *Decrease* in Interest Rates (in Millions)**
December 31, 2003	($179)	$179
December 31, 2002	($153)	$156

Source: Annual Report of Ford Motor Company, 2003.

Describe the strengths and weaknesses of the interest rate risk analysis presented in the foregoing table.