



Portfolio Margining for Interest Rate & Mortgage Futures & Options

Portfolio margining is a modern risk management approach that consolidates various positions within a portfolio to offset risks and reduce overall margin requirements. This method is particularly beneficial for derivatives accounts, where long and short positions in different instruments can be netted against each other, resulting in significantly lower margin requirements for hedged positions compared to traditional margin policies. By optimizing portfolio margining, risk managers can achieve substantial capital savings, thereby lowering their cost of capital and improving efficiency for overall financial performance.

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Example 1: TBA vs US Treasury Future

\$100MM Notional TBA Future vs Equivalent DV'01 in Offsetting 5yr US Treasury Future

Contract	Quantity	DV'01	Initial Margin Outright	Portfolio Margin Credit	Reduced Initial Margin Required
April 6% TBA Future	-1,000	\$32,660	\$1,350,000	(\$437,500)	\$498,750
5yr UST Future	749	\$32,940	\$936,250	(\$945,000)	\$405,000
			\$2,286,250	(\$1,382,500)	\$903,750

Portfolio Margin Reduction: \$1,382,500 **60%**

Example 2: TBA vs SOFR Swap Future

\$100MM Notional TBA Future vs Equivalent DV'01 in Offsetting 5yr SOFR Swap Future

Contract	Quantity	DV'01	Initial Margin Outright	Portfolio Margin Credit	Reduced Initial Margin Required
April 6% TBA Future	-1,000	\$32,660	\$1,350,000	(\$637,065)	\$712,935
5yr SOFR Swap Future	726	\$31,937	\$871,200	(\$566,280)	\$304,920
			\$2,221,200	(\$1,203,345)	\$1,017,855

Portfolio Margin Reduction: \$1,203,345 **54%**

Example 3: TBA vs CME Optimal Blue Mortgage Rate Lock Future

\$100MM Notional TBA Future vs Equivalent DV'01 in Offsetting CME Optimal Blue Rate Lock Future

Contract	Quantity	DV'01	Initial Margin Outright	Portfolio Margin Credit	Reduced Initial Margin Required
April 6% TBA Future	-1,000	\$32,660	\$1,350,000	(\$1,012,500)	\$337,500
April OB Mtg Rate Lock	658	\$32,900	\$684,320	(\$487,500)	\$196,820
			\$2,034,320	(\$1,500,000)	\$534,320

Portfolio Margin Reduction: \$1,500,000 **74%**

Risk managers hedging separate sides of the portfolio with both long and short hedge positions can take advantage of the portfolio margining benefits automatically applied to derivative hedge positions within the same account at RJ O'Brien. Contact The Fixed Income Group at RJ O'Brien for more information.

**Margin values listed above are reflective of margin requirements as of 3/7/2025 generated from RJO's Risk Analyzer tool

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