




Community Bankers Workshop



Liquidity

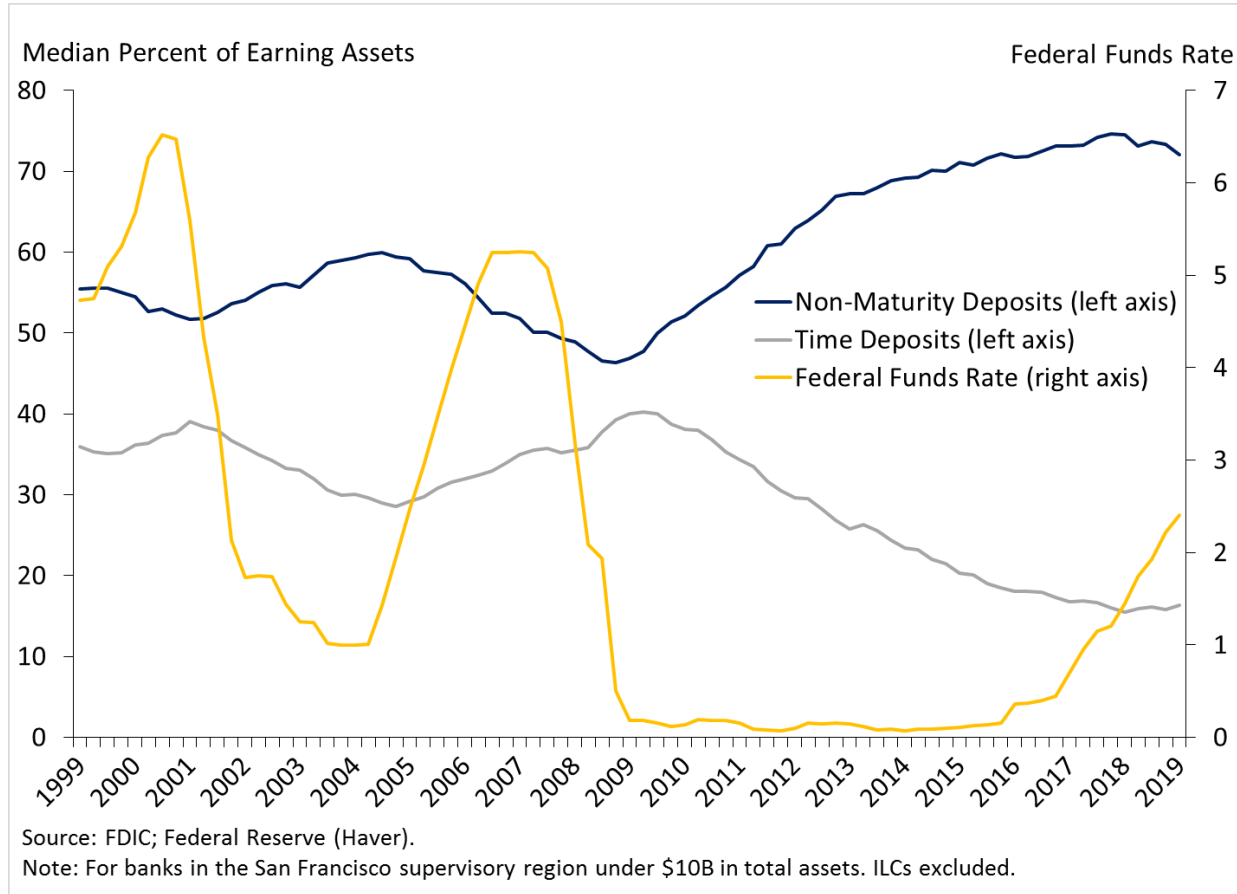


Scope of Discussion

- 
- A vertical graphic on the left side of the slide, consisting of a series of six white circles connected by a thin gold line. The circles are positioned to the left of each text bar, with the top circle being the largest and the bottom circle being the smallest, creating a magnifying glass effect.
- Industry Trends**
 - Liquidity Rating Definitions - 2 versus 3**
 - Cash Flow Analysis**
 - Stress Scenario Analysis**
 - On-Balance Sheet Liquidity**
 - Contingency Funding Plans**

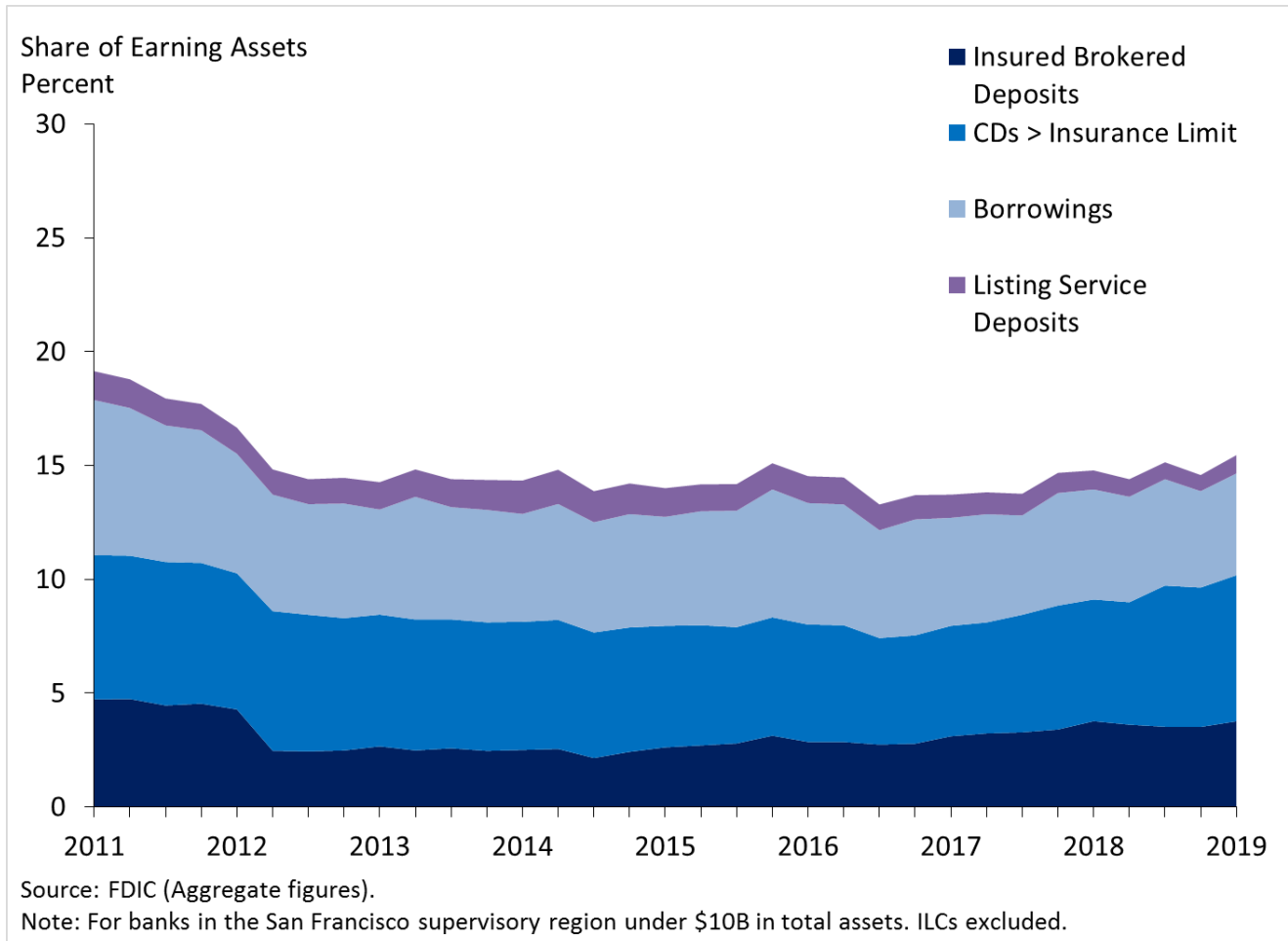


Industry Trends





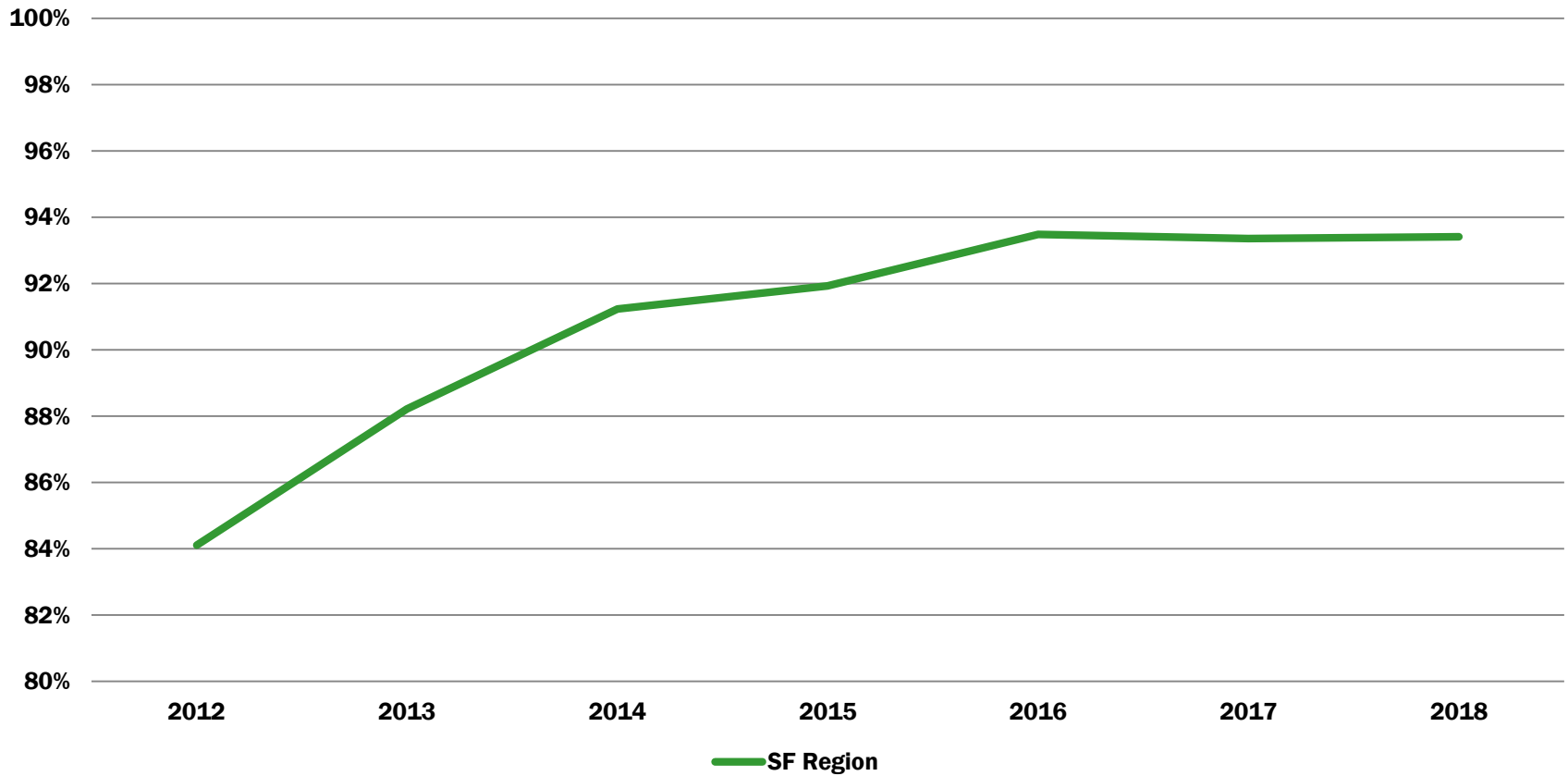
Industry Trends





Industry Trends

Satisfactory Liquidity & Funds Management Practices





Industry Trends

Growth in Assets



Funding Need



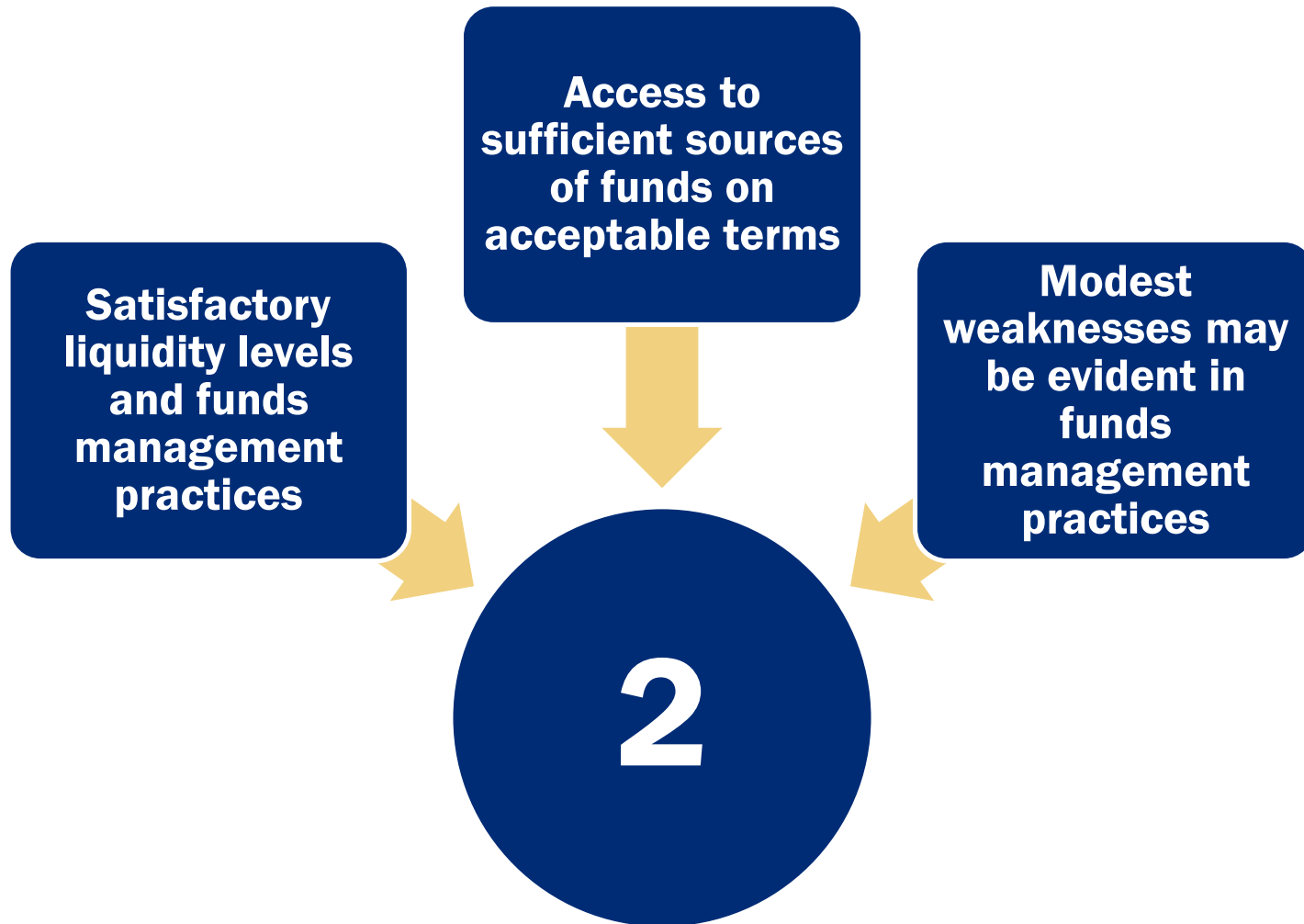
Heightened Competition



Reliance on High-Cost Funds



Liquidity Rating Definitions





Liquidity Rating Definitions





Cash Flow Analysis

Pro Forma Cash Flow Projections

**Perform some type of cash flow projection
(time horizon and categories vary)**

**Identify cash flow gaps (under expected
and adverse scenarios)**

**Ensure assumptions are documented and
reasonable**



Cash Flow Analysis – Key Assumptions

Assets

- **Loan payments**
- **MBS/CMO payments**
- **New loan production**
- **Investment maturities/calls**
- **Investment purchases**

Funding

- **Non-maturity deposit stability**
- **Borrowing maturities/calls**
- **CD maturities and early withdrawals**
- **New CD or other deposit promotions**



Cash Flow Analysis - Base Case

Cash Flow

Base Case Cash Flow Example				
	0-30 Day	31-90 Day	91-180 Day	181-360 Day
Expected Cash Outflows				
New Loans/Drawdowns	(3,000)	(6,000)	(9,000)	(18,000)
Deposit outflows	(4,400)	(3,800)	(5,200)	(9,400)
Maturing FHLB advances	(5,000)		(3,000)	
Total Periodic Outflows	(12,400)	(9,800)	(17,200)	(27,400)
Expected Cash Inflows				
New Deposit Growth	7,800	5,600	8,400	16,800
Asset Maturities/pmts/prepay	4,500	5,250	7,500	14,250
Total Periodic Inflows	12,300	10,850	15,900	31,050
Periodic Net Cash Flow	(100)	1,050	(1,300)	3,650
Cumulative Net Cash Flow	(100)	950	(350)	3,300
On Balance Sheet Liquidity				
Cash	10,000	-	-	-
Free Securities	30,000	-	-	-
Cumulative Liquid Asset Surplus (Deficit)	39,900	40,950	39,650	43,300
Internal Limit >18% of Assets	20.0%	20.5%	19.8%	21.7%
Mitigating Actions (Cumulative)				
FHLB Borrowing	-	-	-	-
Sell Loans	-	-	-	-
Brokered Deposits (<10%)	-	-	-	-
Cumulative Total Surplus/(Deficit)	39,900	40,950	39,650	43,300
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Stress Scenario Analysis

Forward-looking quantitative evaluation of scenarios that could impact a bank's financial condition and capital adequacy.

Risk assessments based on assumptions about potential adverse external events.

Customized to reflect the characteristics particular to the bank and its market area.



Stress Scenario Analysis Considerations

**Bank-
Specific
and Market
Wide**

**Cash Flow
Projections
under
Adverse
Scenarios**

**Identifies
Sources of
Liquidity
Strain**

**Sufficient
Frequency
and
Magnitude**

**Alignment
with
Contingency
Funding
Plans**



Stress Scenario Analysis

Idiosyncratic (Bank Specific)

Regulatory Capital

Deteriorating Credit Quality

Reputational Issue

Concentration in a Weakening Industry

Systemic (Market Wide)

Interest Rates

Economic Conditions

National Disaster

Capital Market Disruption



Stress Scenario Analysis - Base Case

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Stress Scenario Analysis - Stressed Cash Flow

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Expected Cash Inflows					
New Deposit Growth		-	-	-	-
Asset Maturities/pmts/prepay		4,050	4,725	6,750	12,825
Total Periodic Inflows		4,050	4,725	6,750	12,825
Periodic Net Cash Flow		(11,150)	(10,675)	(9,850)	(14,375)
Cumulative Net Cash Flow		(11,150)	(21,825)	(31,675)	(46,050)
On Balance Sheet Liquidity					
Cash		10,000	-	-	-
Free Securities		30,000	-	-	-
Cumulative Liquid Asset Surplus (Deficit)		28,850	18,175	8,325	(6,050)
Internal Limit >18% of Assets		14.4%	9.1%	4.2%	-3.0%
Mitigating Actions (Cumulative)					
FHLB Borrowing		7,150	17,825	27,675	37,050
Sell Loans		-	-	-	5,000
Brokered Deposits (<10%)		-	-	-	-
Cumulative Total Surplus/(Deficit)		36,000	36,000	36,000	36,000
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On Balance Sheet Liquidity

Cushion of Highly Liquid Assets

Critical component of bank's ability to respond to stress

Readily marketable even during stress

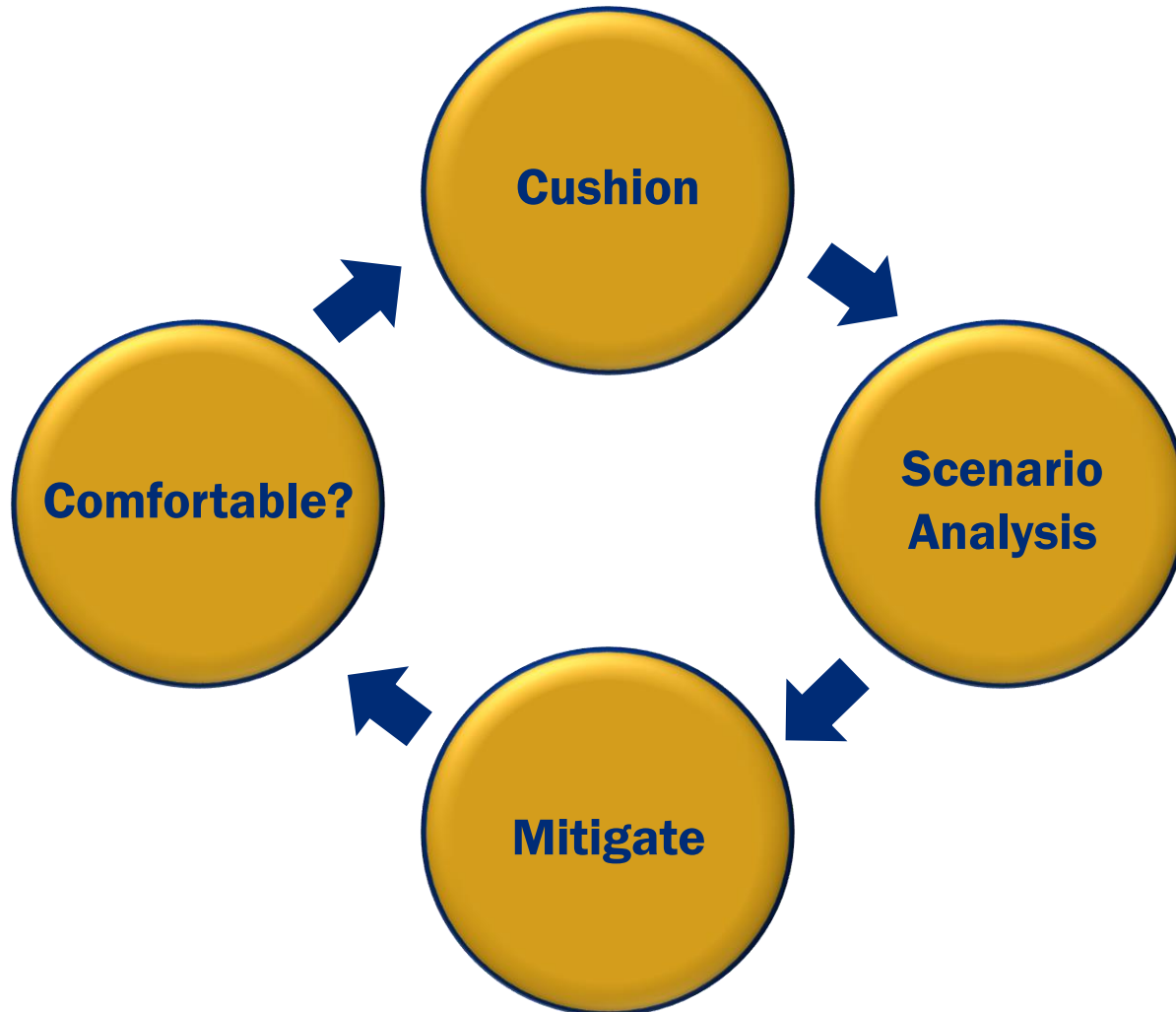
Free from legal, regulatory, operational impediments

Examples

U.S Treasury and Agency Securities

Excess Reserves

Stress Scenario Analysis and On-Balance Sheet Liquidity Relationship





Contingency Funding Plans (CFP)

Identify Stress Events

Assess Stress Level and Timing

Assess Funding Sources and Needs

Establish Event Management Process

Develop Action Plans

Establish Monitoring Framework



CFP - Early Warning Indicators

Purpose of Early Warning Indicators

- **Provide liquidity alerts**
- **Promote proactive mitigation**

Development of Early Warning Indicators

- **Progressive relative to severity**
- **Linked to risk profile and internal/external events**
- **Tied to CFP actions**



CFP - Early Warning Indicator Examples

Systemic

- **Negative trend in economic or industry conditions**
- **Rapid increase in market interest rates**
- **Increase in credit spreads**
- **Decreased liquidity in certain asset classes**

Bank-Specific

- **Bank approaching borrowing limit**
- **Decrease in liquid asset levels**
- **Increase in delinquencies**
- **Increase in deposit fluctuations**



Resources

- **Interagency Policy Statement on Funding & Liquidity Risk Management (FIL-13-10)**
- **FDIC's Supervisory Insights, Summer 2017**
- **Section 29 of the FDI Act and Section 337.6 of the FDIC's Rules and Regulations**
- **FAQ on Identifying, Accepting, and Reporting Brokered Deposits (FIL-42-2016)**
- **Process for Determining if an Institution Subject to Interest Rate Restrictions is Operating in a High-Rate Area (FIL-69-2009)**
- **FDIC Risk Management Manual of Examination Policies**



Questions