

# FDIC Advisory Committee of State Regulators

October 18, 2023

State-Federal Coordination



# FDIC Advisory Committee of State Regulators

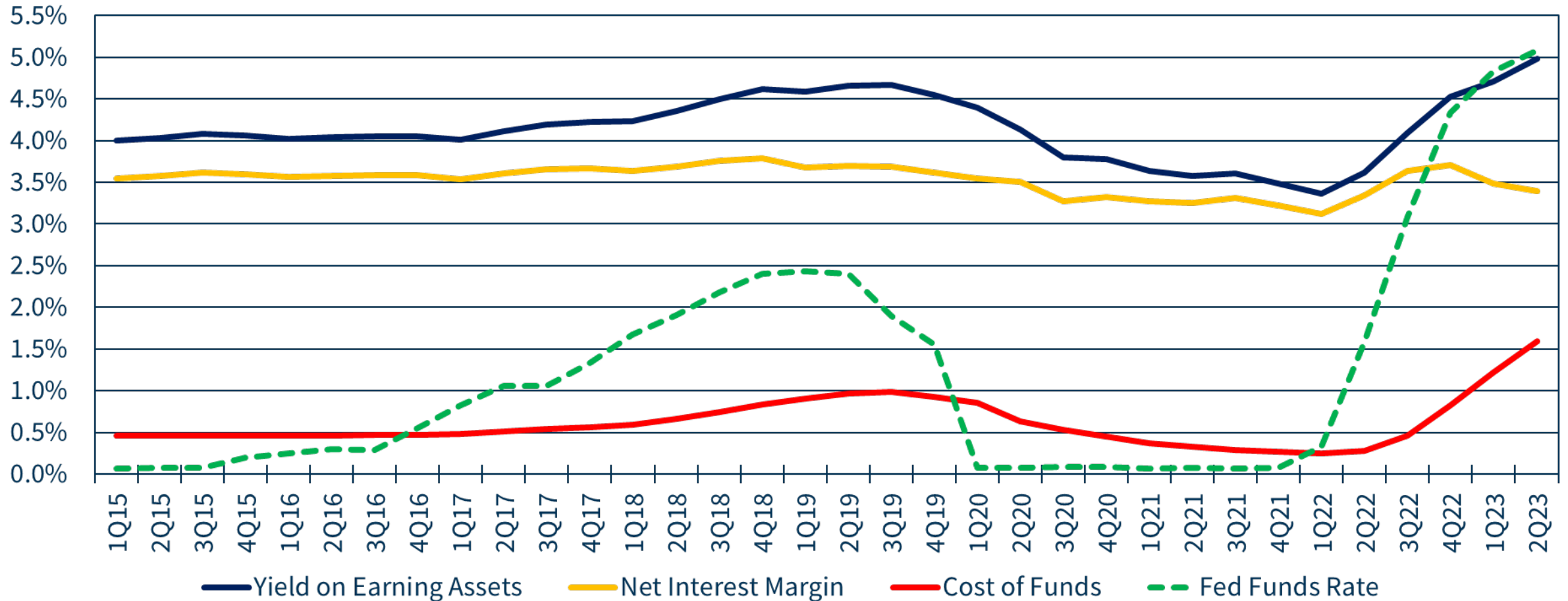
October 18, 2023

Asset-Liability Management



# The Effects of Rising Interest Rates on Earnings

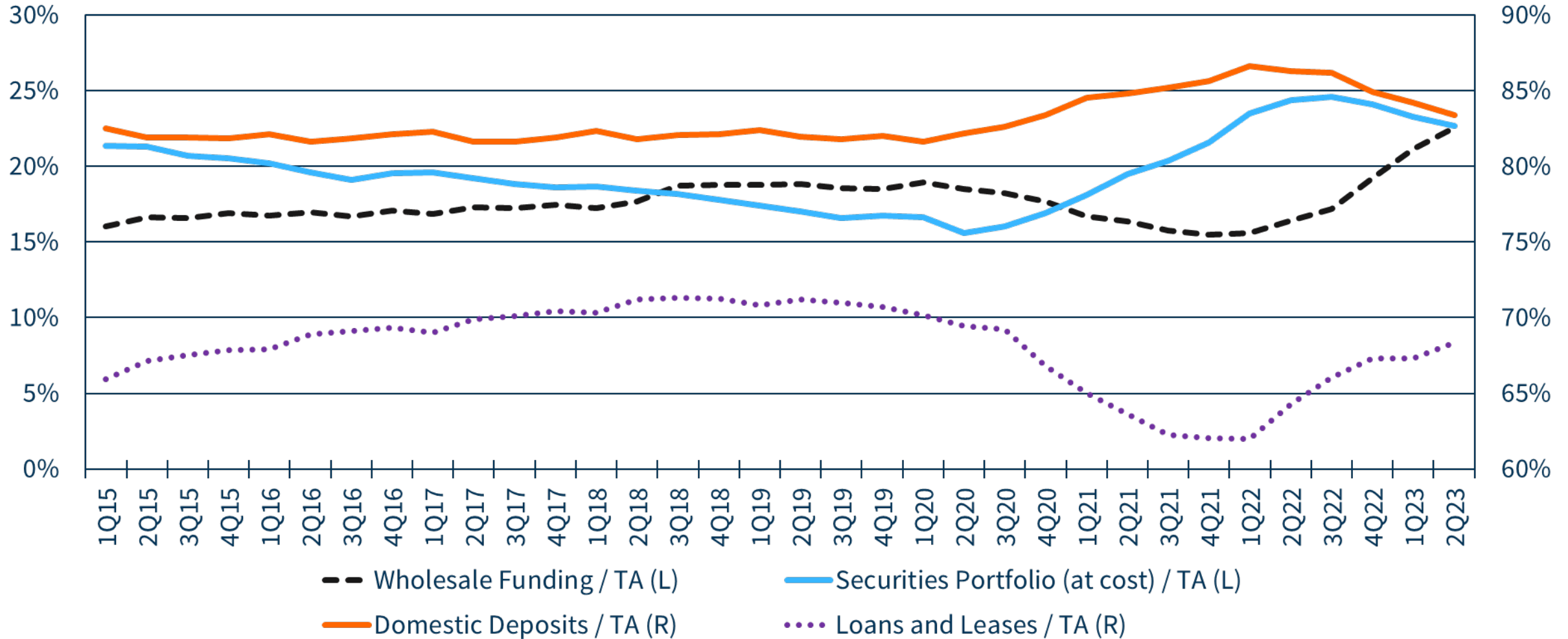
## Net Interest Margin Compression as Cost of Funds Increases Outpace Earning Asset Yields



Source: Call Report data for community banks as defined in the FDIC's 2020 Community Banking Study

# The Effects of Rising Interest Rates on Liquidity

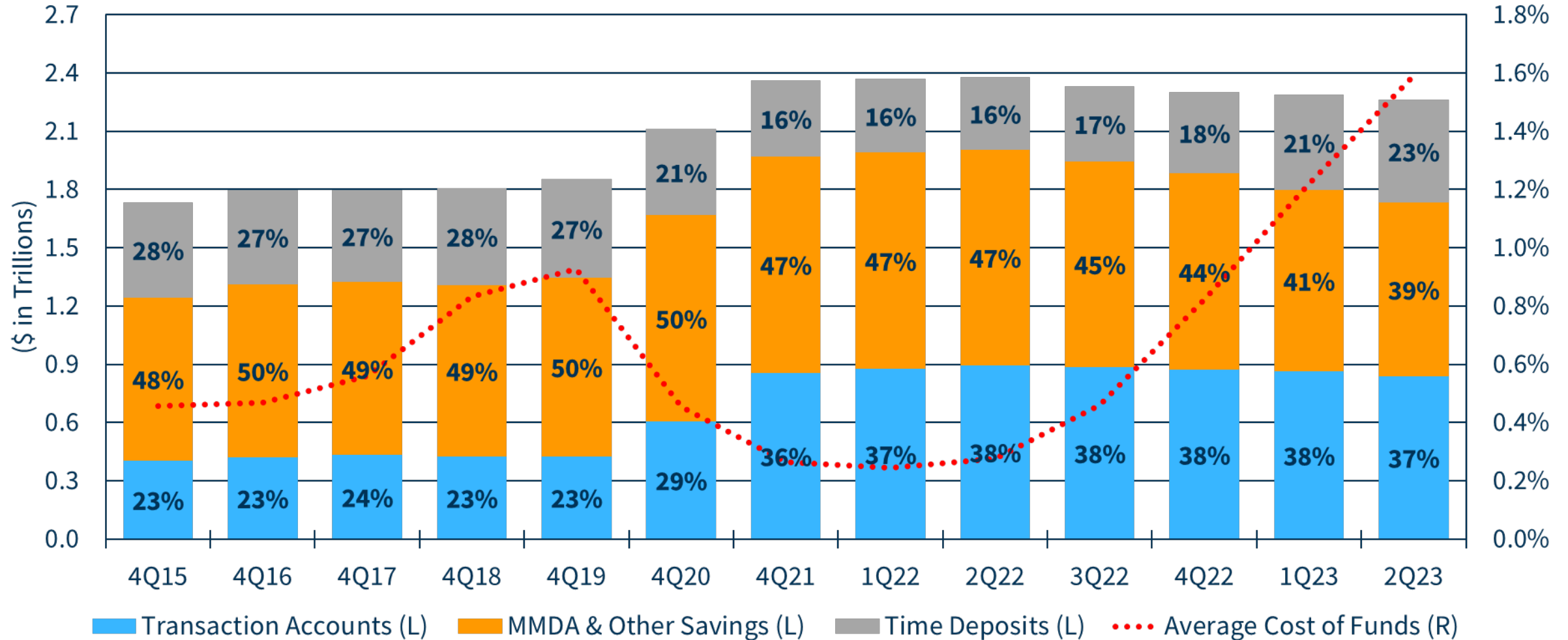
## Deposit Declines offset with Wholesale Funding



Source: Call Report data for community banks as defined in the FDIC's 2020 Community Banking Study

# The Effects of Rising Interest Rates on Liquidity

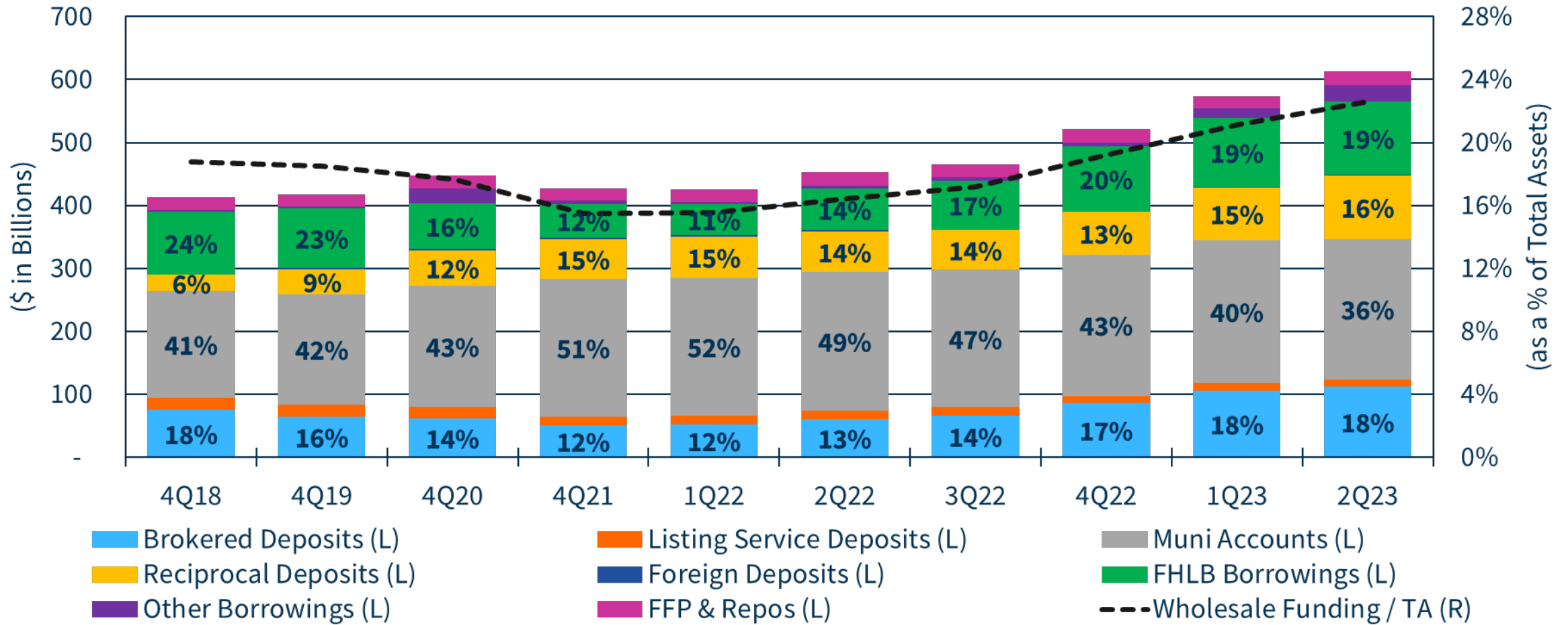
## Rising Deposit Costs due to Increased Market Interest Rates and Deposit Migration



Source: Call Report data for community banks as defined in the FDIC's 2020 Community Banking Study

# The Effects of Rising Interest Rates on Liquidity

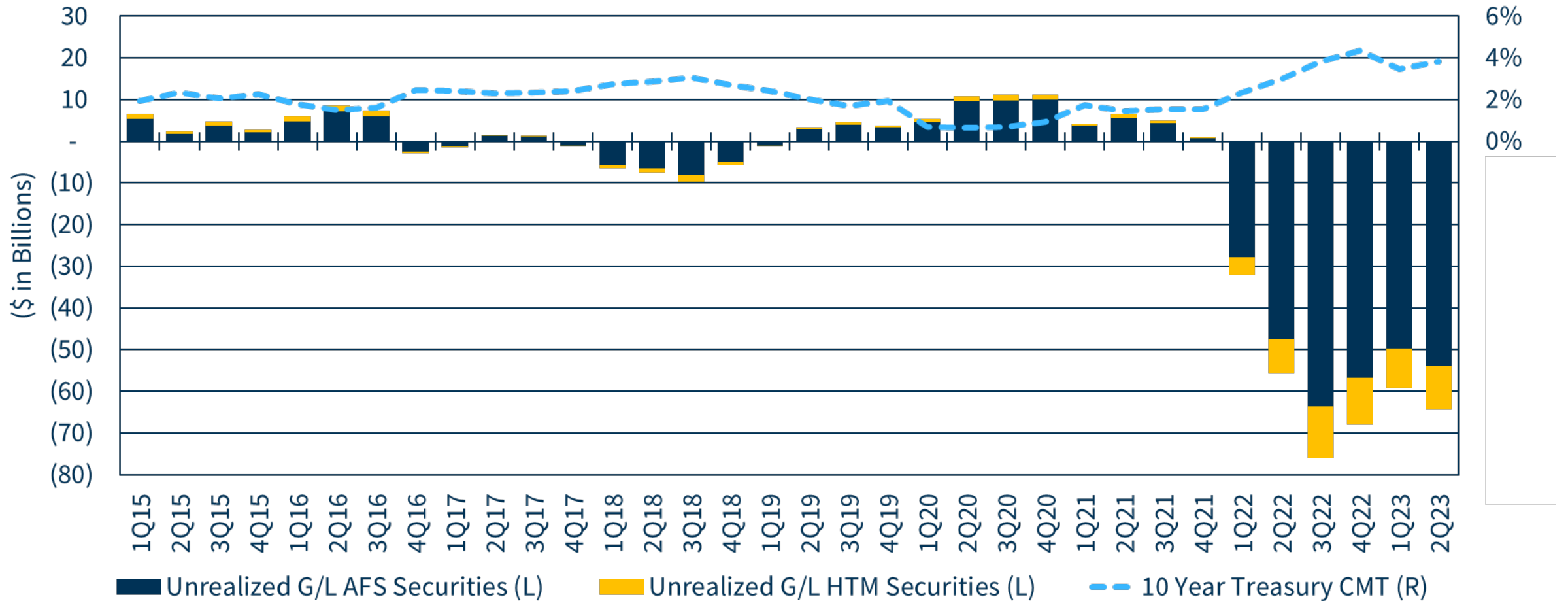
## Recent Uptick in Wholesale Funding Primarily due to Borrowings, Reciprocals, and Brokered Deposits



Source: Call Report data for community banks as defined in the FDIC's 2020 Community Banking Study

# The Effects of Rising Interest Rates on Liquidity

Higher Rates Caused Long-Term Bond Values to Decline, Potentially Impacting Capital and Liquidity



Source: Call Report data for community banks as defined in the FDIC's 2020 Community Banking Study and <https://fred.stlouisfed.org/series/DGS10#0>

# Interagency Policy Statement

## Interagency Policy Statement on Funding and Liquidity Risk Management on the Importance of Contingency Funding Planning issued July 2023

- Maintain actionable and operationally ready contingency funding plans (CFPs) that are updated to address evolving liquidity risks
- Assess the stability of funding
- Maintain diversified funding sources
- Consider the Discount Window as a contingent funding source
- Understand operational requirements of contingent funding sources and test regularly
- Ensure an appropriate amount of collateral is readily available
- Plan for operational challenges moving and posting collateral
- Review and revise CFPs periodically to address evolving liquidity risks



# FDIC Advisory Committee of State Regulators

October 18, 2023

Prudent CRE Loan Accommodations and Workouts



# Prudent CRE Loan Accommodations and Workouts

- Interagency Policy Statement issued June 29, 2023 (FIL-34-2023)
- Updates and replaces Interagency Policy Statement issued October 30, 2009
- Timely:
  - More than 98% of banks engage in CRE lending
  - Pandemic led to stress in several CRE property types

# Prudent CRE Loan Accommodations and Workouts

- Objectives of the Interagency Policy Statement:
  - Encourages banks to work prudently and constructively with creditworthy borrowers during times of financial stress
  - Adds a new section on short-term loan accommodations
  - Addresses accounting changes on estimating loan losses
  - Provides new and updated examples of how to classify and account for loans modified or affected by loan accommodations or workout activity
- Incorporates feedback from industry

# Prudent CRE Loan Accommodations and Workouts

- Ask the Regulator session held September 14, 2023
- 3,400+ participants
- Questions received:
  - Mostly case-specific questions on workout situations
    - Accrual/Nonaccrual
    - Pass vs. adverse classification
    - A/B Note structures

# FDIC Advisory Committee of State Regulators

October 18, 2023

Interagency Guidance on Third-Party Relationships:  
Risk Management



# Background

- Prior to 2023, the FDIC, OCC, and Federal Reserve each had separate guidance for managing third party risk (for the FDIC, this was issued via FIL-44-2008).
- In general, the principles conveyed were the same, with some differences in scope, terminology, and level of detail
- Perceived inconsistencies between the agencies' guidance confused some financial institutions and third parties working with, or wanting to work with, financial institutions

# Background

- Agencies collaborated to develop interagency guidance for third-party risk management:
  - Provide clarity and consistency
  - Articulate risk-based principles for third-party risk management
  - Applicable to all types of third-party relationships
  - Furnish examples of considerations useful in identifying and managing risks and complying with applicable laws and regulations during all stages of a third-party relationship

# Interagency Guidance

- Interagency Guidance on Third-Party Relationships: Risk Management
  - Issued June 6, 2023 via FIL-29-2023
- Overview and Risk Management:
  - Highlights importance of effective risk management
  - Reinforces safety and soundness principles, including requirement to comply with applicable laws and regulations
  - Reminds institutions that use of third parties does not diminish Board and management oversight responsibility
  - Promotes tailoring of risk management practices commensurate with risk profile, risk appetite, and the level of risk and complexity of third-party relationships



# Interagency Guidance

- Principles Based:
  - Not mandatory
  - Not intended as a checklist
  - Not a safe harbor provision
- Provides examples of considerations in each stage of the risk management life cycle:
  - Planning
  - Due diligence and third-party selection
  - Contract negotiations
  - Ongoing monitoring
  - Termination

# Interagency Guidance

- Tailoring:
  - Risk management practices tailored to institution and relationship
- Governance:
  - Responsibility of board to ensure risk management processes are commensurate with the institution's risk profile, risk appetite, and the level of risk and complexity of its third-party relationships
- Supervision:
  - Examiners to assess whether activities are conducted in a safe and sound manner in compliance with applicable laws and regulations

# Resources

- Banker Resource Center: [Third-Party Relationships Page](#)
- Interagency Guidelines Establishing Standards for Safety and Soundness (Part 364 Appendix A)
- Interagency Guidelines Establishing Information Security Standards (Part 364 Appendix B)
- Sections 23A and 23B of the Federal Reserve Act apply to affiliate relationships
- [Interagency Guidance on Third-Party Relationships: Risk Management: FIL 29-2023](#)
- [Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks: FIL-59-2021](#)