



Liquidity Risk and Funds Management

New York Region Regulatory Teleconference

June 15, 2017

Scope of Discussion

- **Liquidity Trends**
- **Funding Types and Potential Risks**
- **Measurement Systems**
- **Stress Testing and Contingency Funding Plans**
- **Ripple Effect of Interest Rate Risk**
- **Q&A Open Forum**

Liquidity Evolution: Then & Now

1997

Asset-Based Liquidity Management

Static Balance Sheet Ratios (Liquidity Ratio)

Securities Assumed Liquid & Loans Considered Illiquid

Wholesale Lines & Pledging Limited

2017

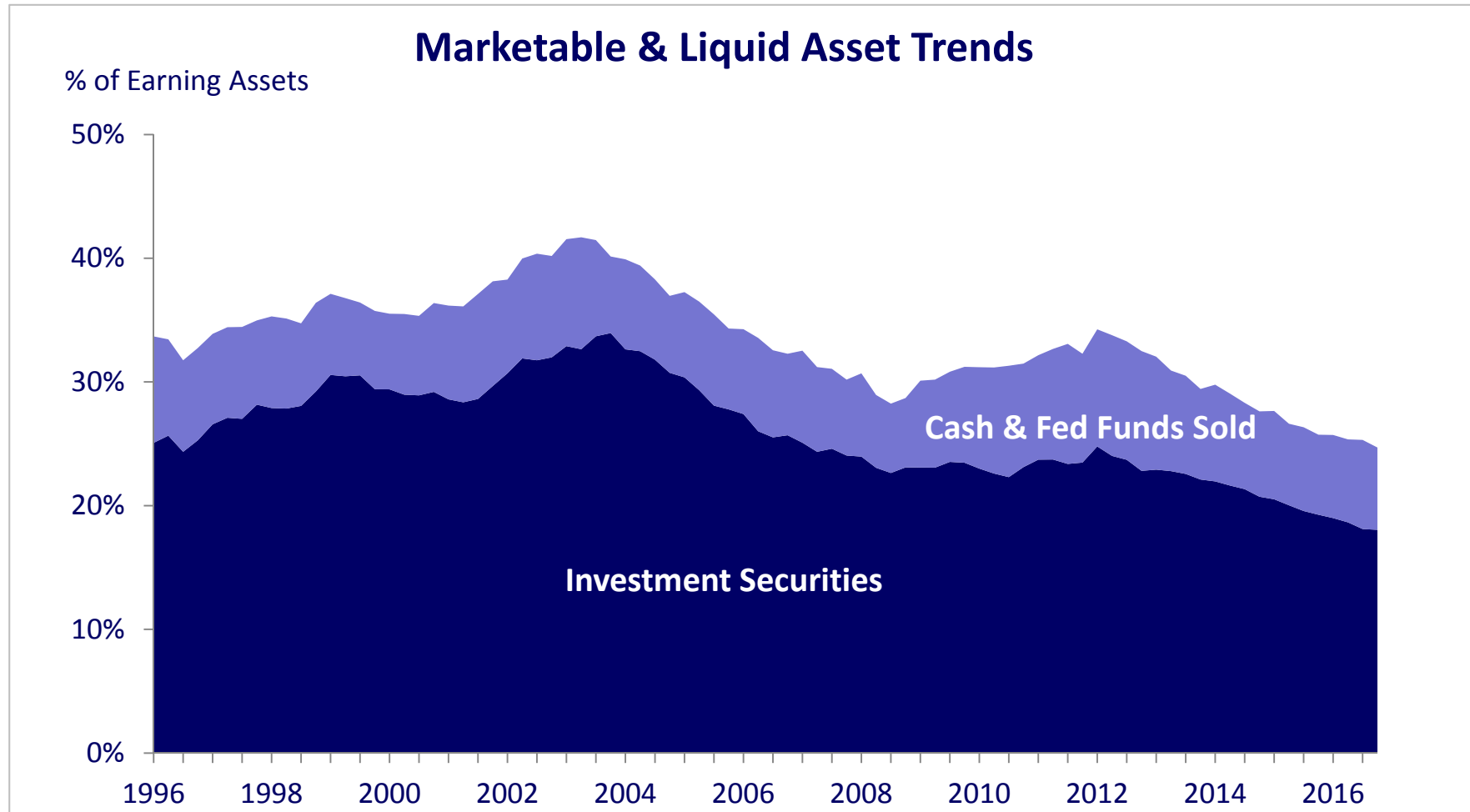
Balanced Funds Management Approach

Forward-Looking Cash Flow Analysis & Stress Testing

Less Liquid Securities & More Liquid Loans

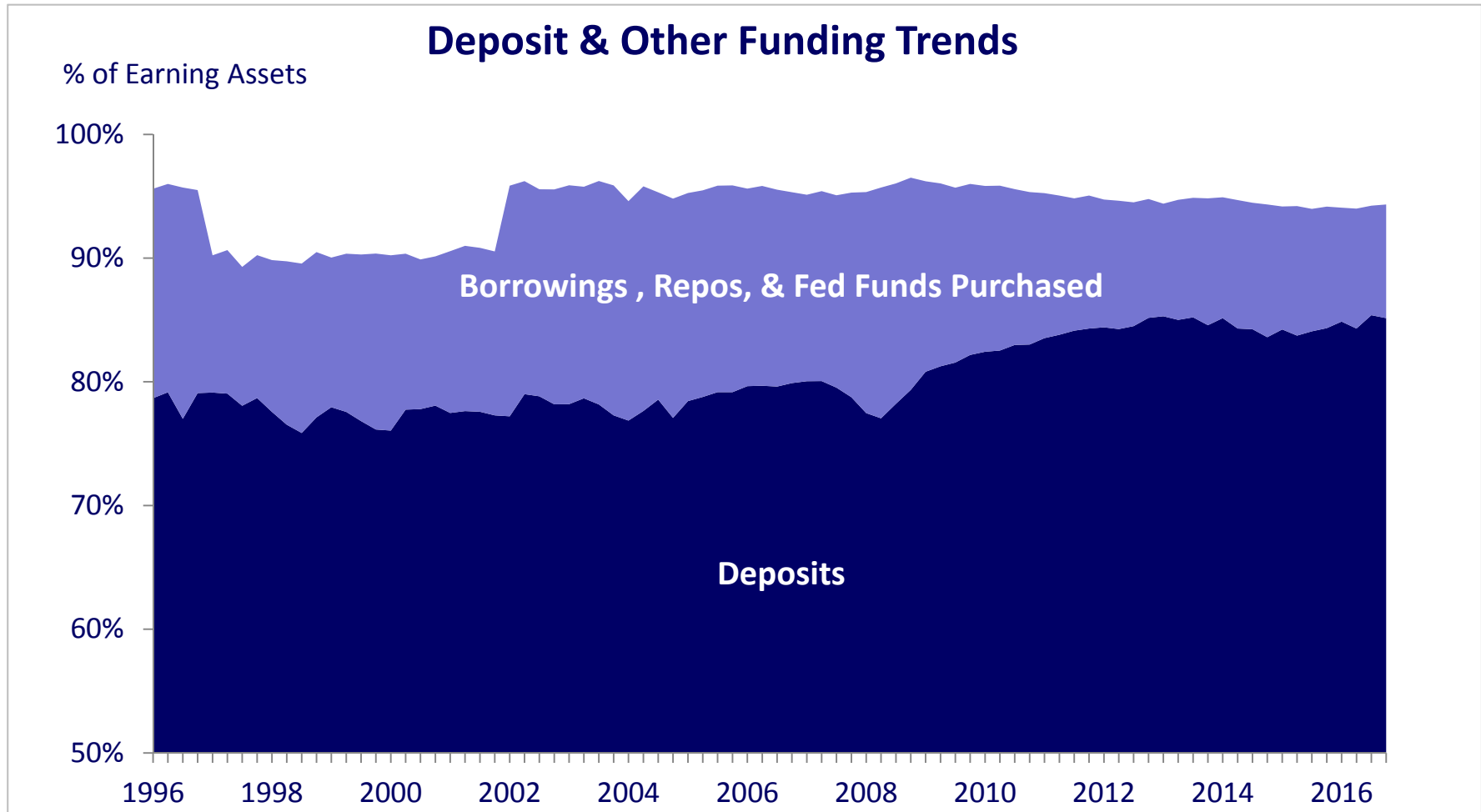
Wholesale Lines & Pledging Expanded

Industry Trends – Asset Based Liquidity



Source: FDIC Call Reports. Based on NY Region banks under \$10B in total assets.

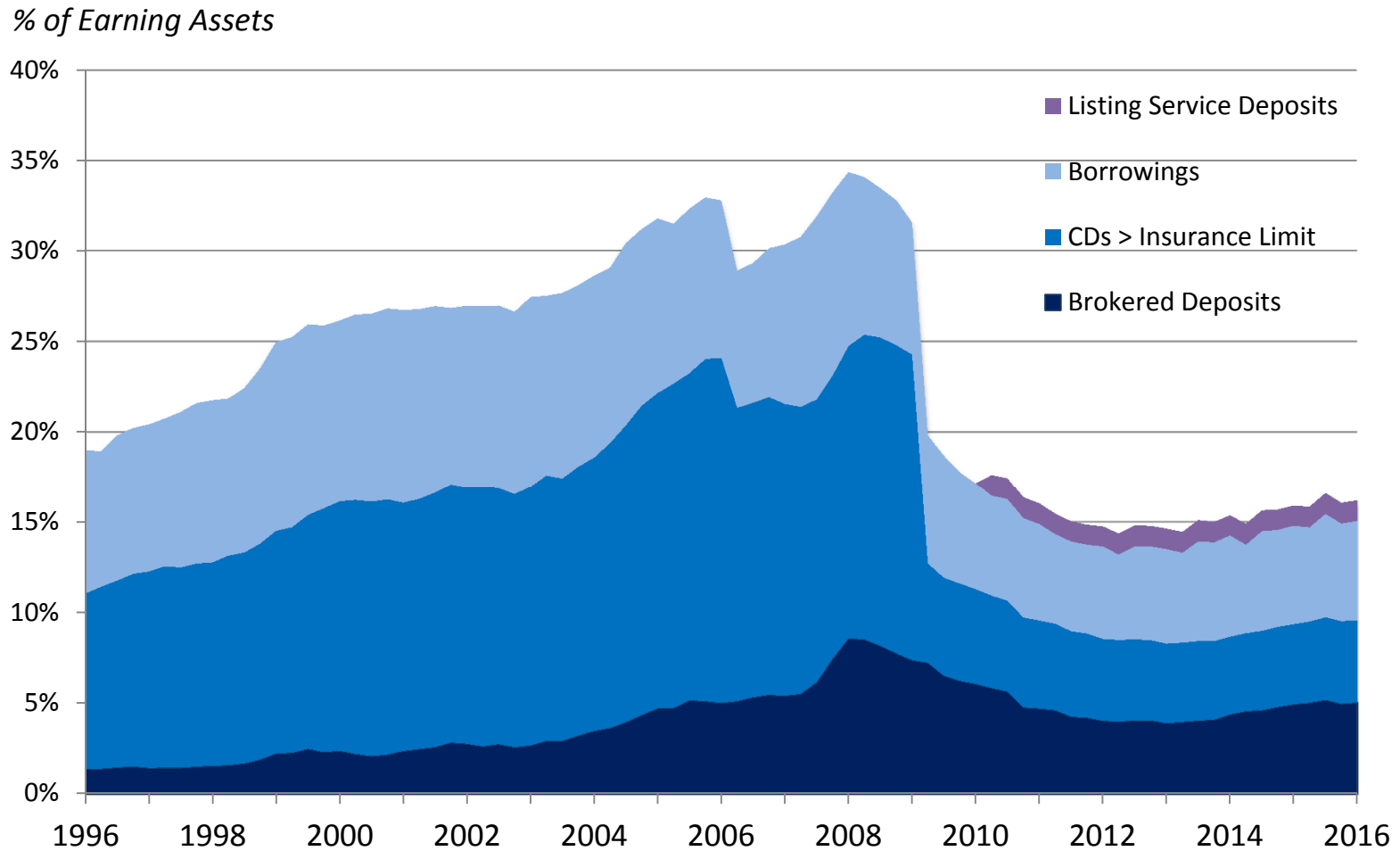
Industry Trends – Liability Based Funding



Source: FDIC Call Reports. Based on NY Region banks under \$10B in total assets.

Industry Trends – Liability-Based Funding

Non-Core Funding Trends



Source: FDIC. Based on insured institutions in the nation under \$10B in total assets.

Funding Types and Potential Risks

- **Brokered Deposits**
- **High Rate Deposits**
- **Listing Service Deposits**
- **Municipal Deposits**
- **Other Potentially Volatile Deposits**
- **Wholesale and Other Funding Sources**

Brokered & High Rate Deposits

■ Part 337 of the FDIC Rules & Regulations

- **“Well Capitalized”**: No restriction on brokered deposit use or rates paid on all deposits.
- **“Adequately Capitalized”**: Waiver required to solicit/renew/rollover brokered deposits. Restriction on rates paid for all deposits.
- **Less than “Adequately Capitalized”**: Prohibited from brokered deposit use. Restriction on rates paid for all deposits.

Other Potentially Volatile Deposits

Uninsured Deposits

- Deposits Over \$250,000
- Assessment of the Relationship
- Consider if the Customer Uses Other Bank Products and Services

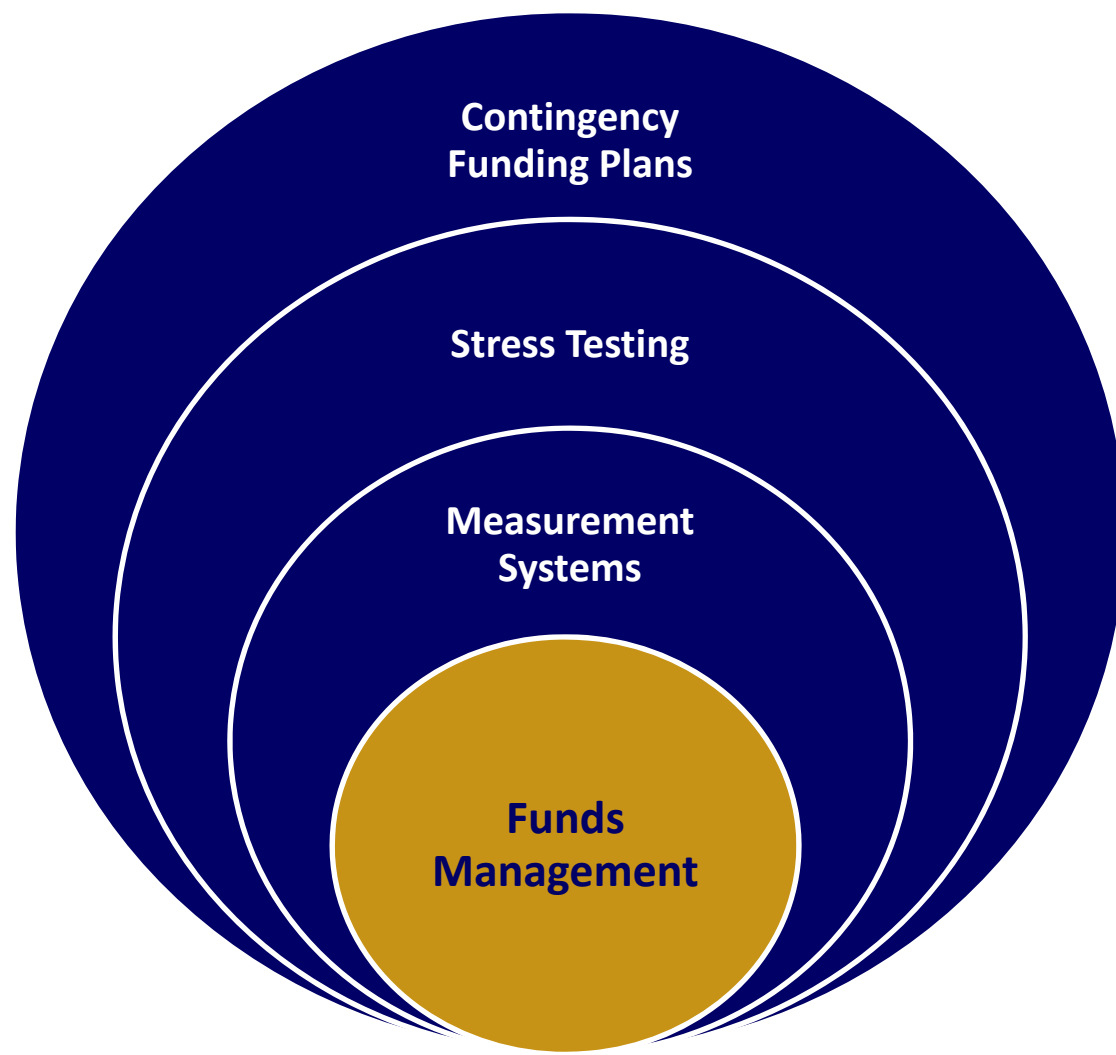
Large Depositors

- Deposits Over \$250,000
- Assessment of the Relationship
- Consider if the Customer Uses Other Bank Products and Services

Funding Concentrations

- **Report of Examination – Concentrations**
 - Single Funding Sources
 - Combined Potentially Volatile Funding Sources

Funds Management



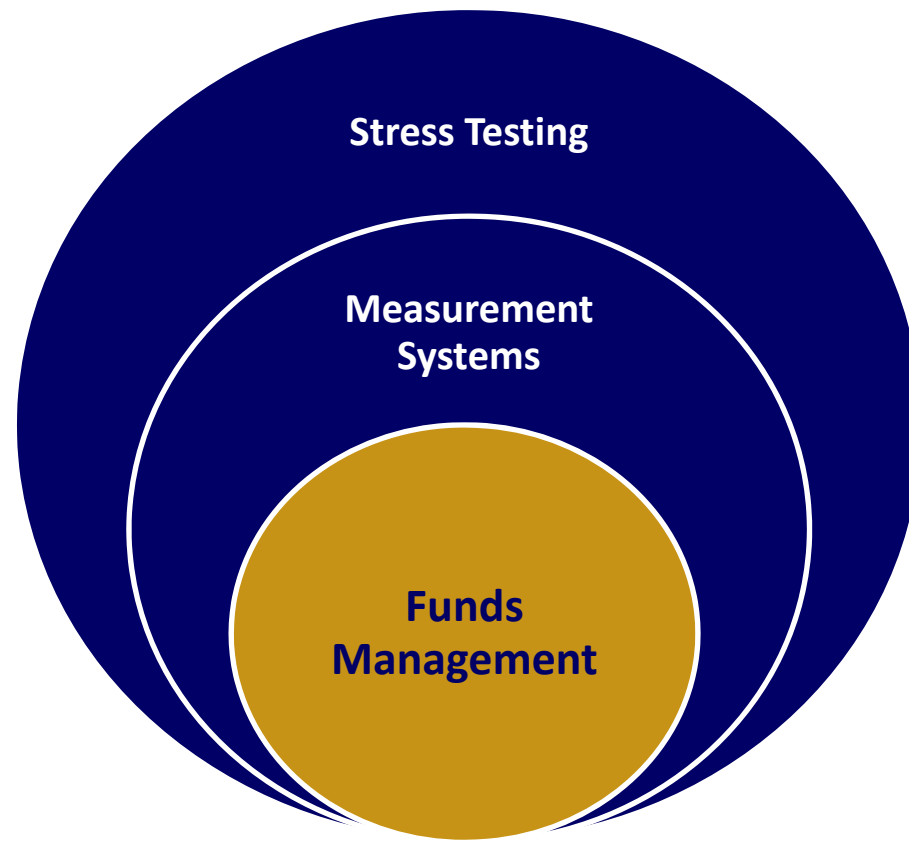
Measurement Systems

- **Pro Forma Cash Flow Projections**
 - Varying Time Horizons
 - Categories of Sources & Uses
 - CASH – Outflows + Inflows

- **Other Liquidity Measures**

- **Documented & Supported Assumptions**

Stress Testing

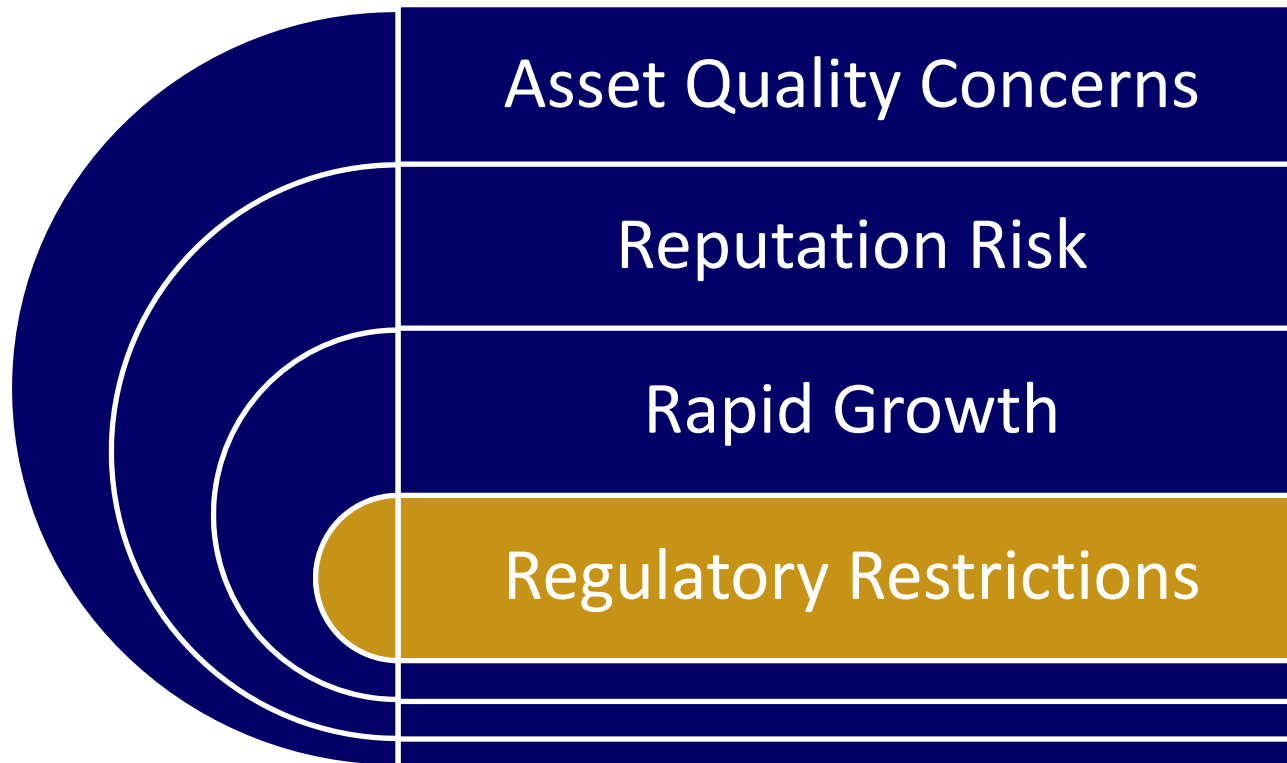


Stress Testing

- **Institution-Specific & Market Based**
- **Cash Flow Projections under Adverse Scenarios**
- **Identifies Sources of Liquidity Strain**
- **Sufficient Frequency & Magnitude**
- **Foundation for Contingency Funding Plans**

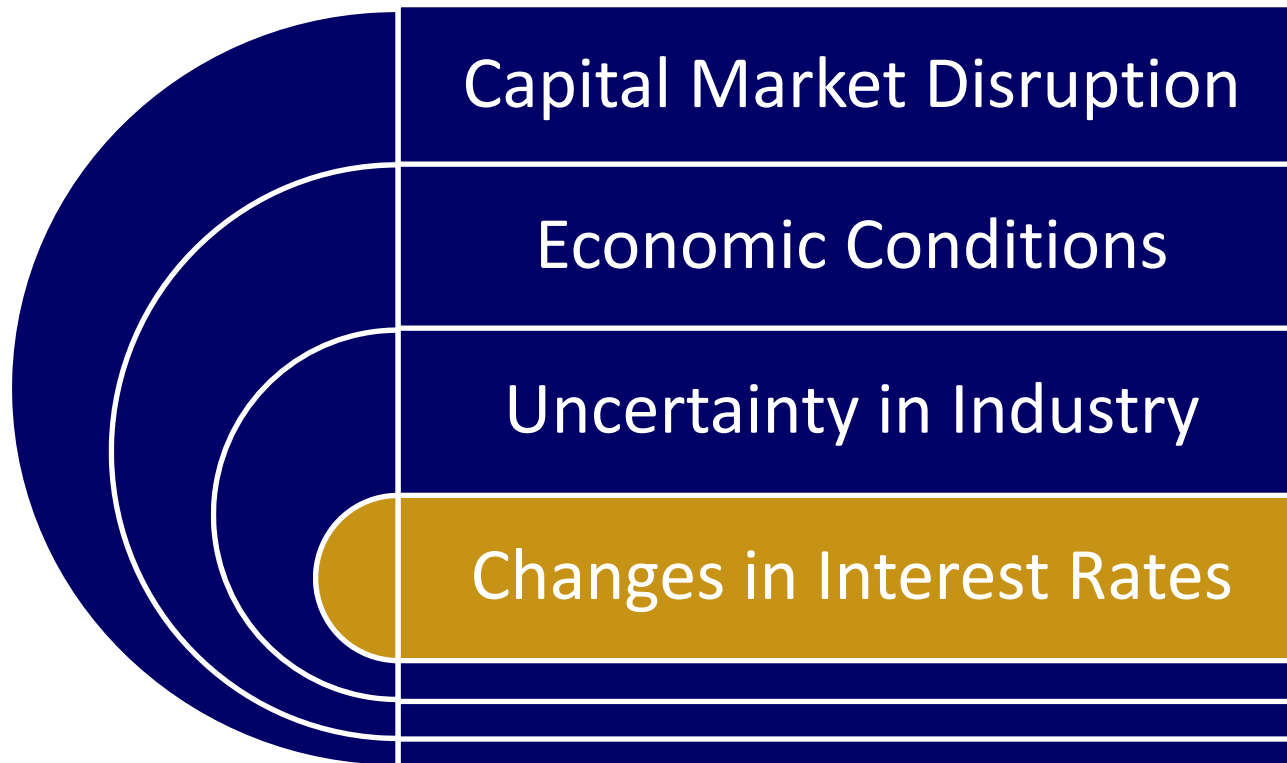
Stress Testing – Adverse Scenarios

Institution-Specific Examples



Stress Testing – Adverse Scenarios

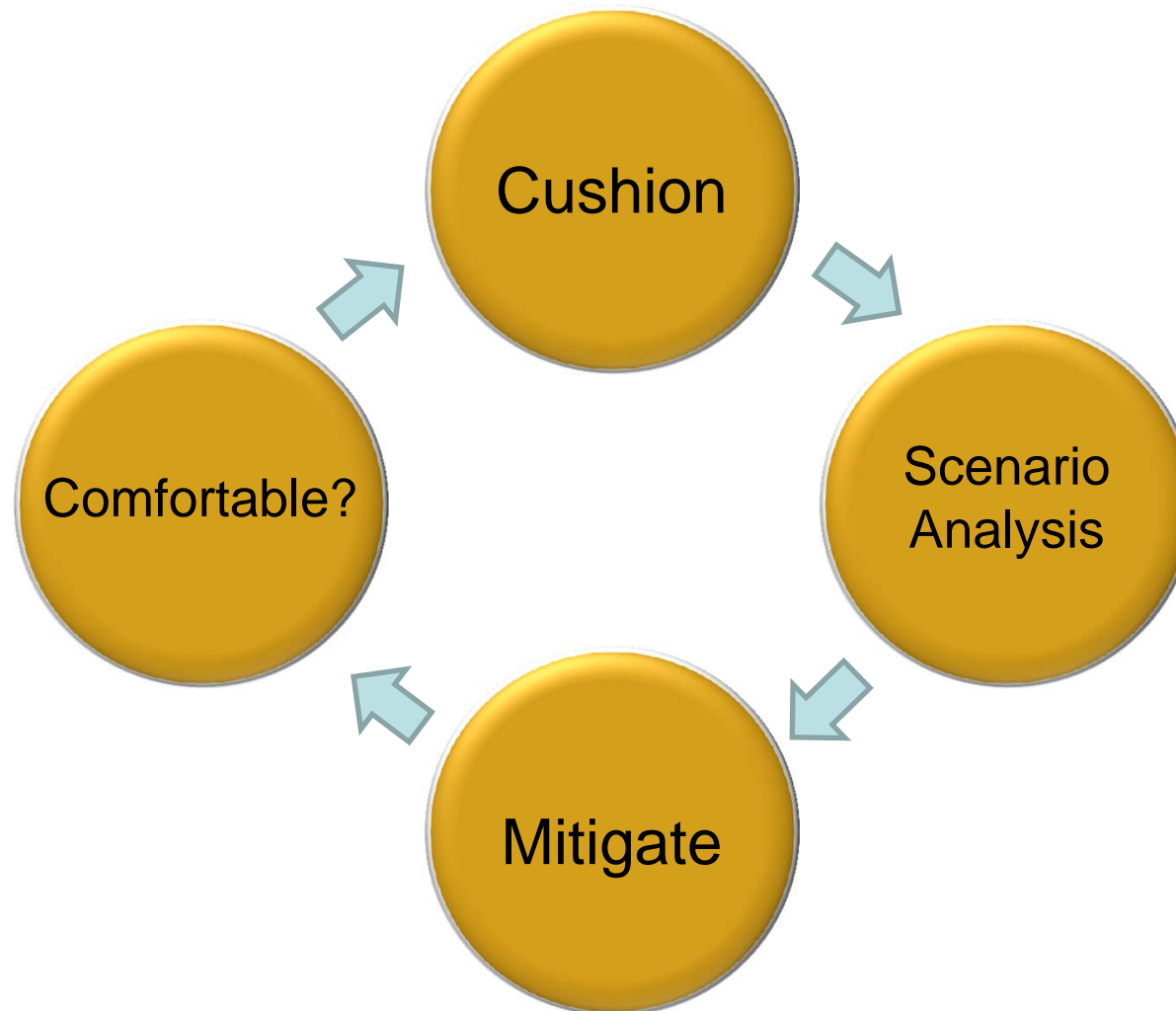
Systemic Examples



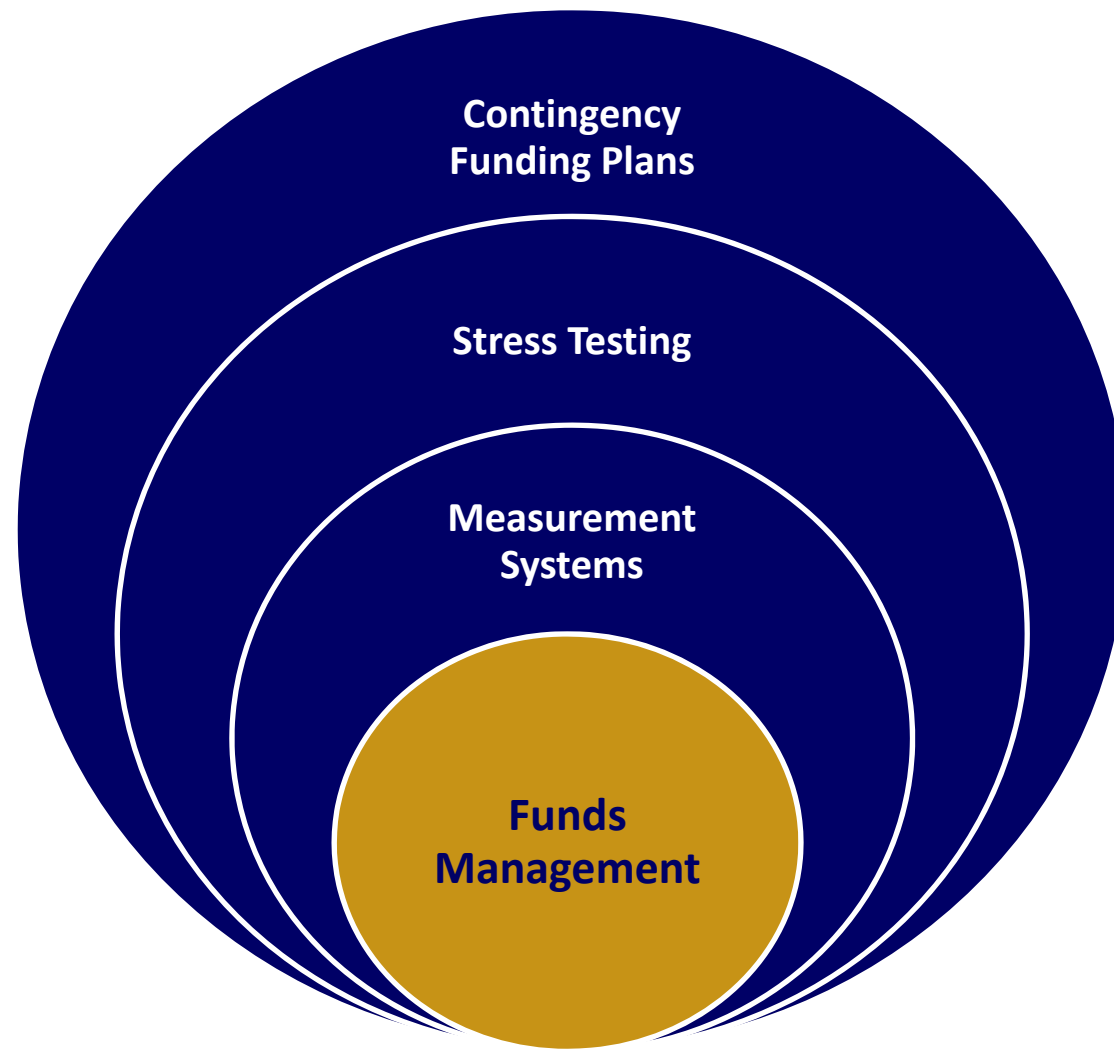
Cushion of Highly Liquid Assets

- **Unencumbered, Readily Saleable**
- **Assess Peak Historic Cash Flow Needs**
- **Add-on for Adverse Liquidity Events**
- **Cushion Should be Established within Policies**

Cushion and Stress Test Relationship



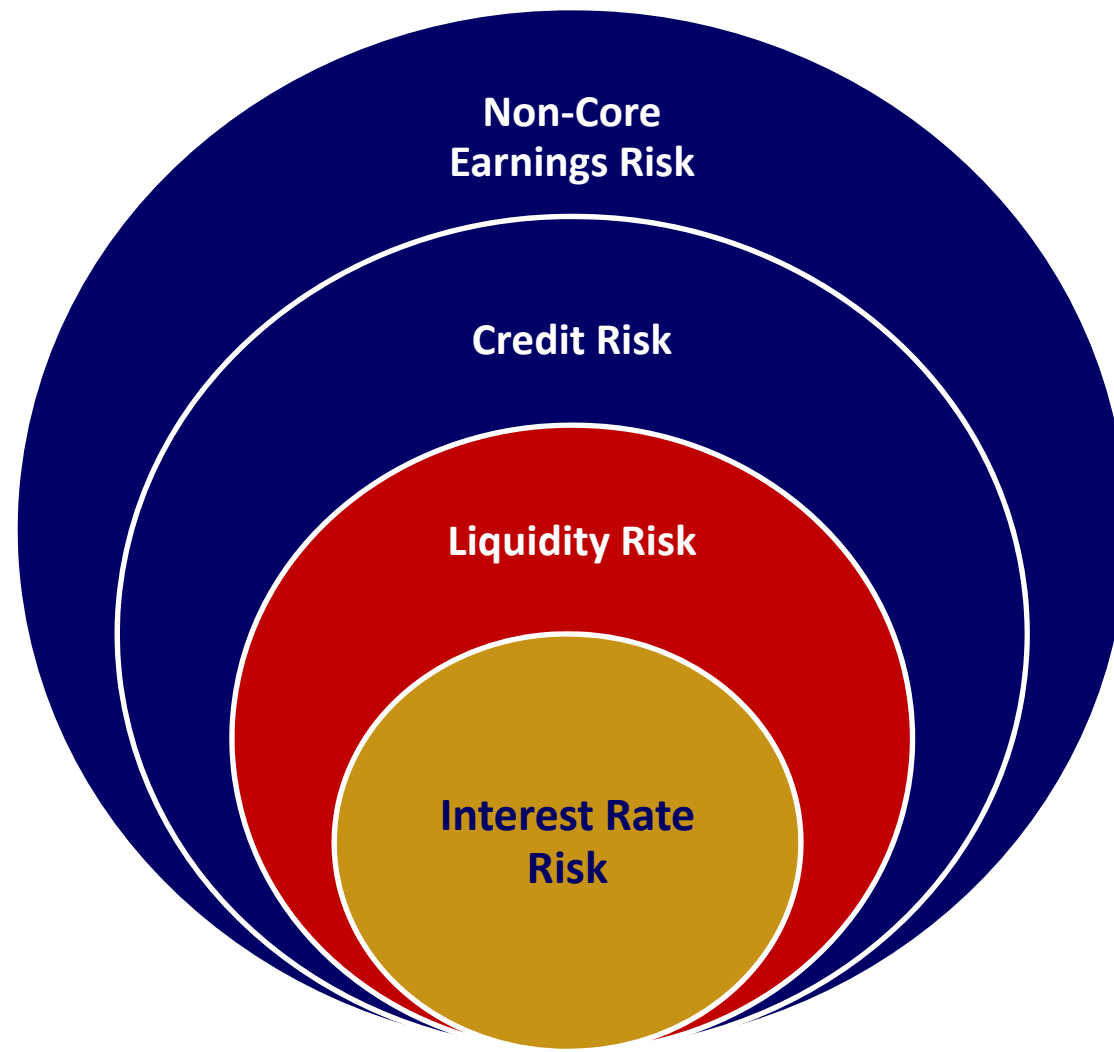
Contingency Funding Plans



Contingency Funding Plans – Expectations

- **Identify Stress Events**
- **Assess Stress Level and Timing**
- **Assess Funding Sources and Needs**
- **Establish Event Management Process**
- **Develop Action Plans**
- **Establish Monitoring Framework**

Market Risk – “The Ripple Effect”



Liquidity Effects of Interest Rate Risk

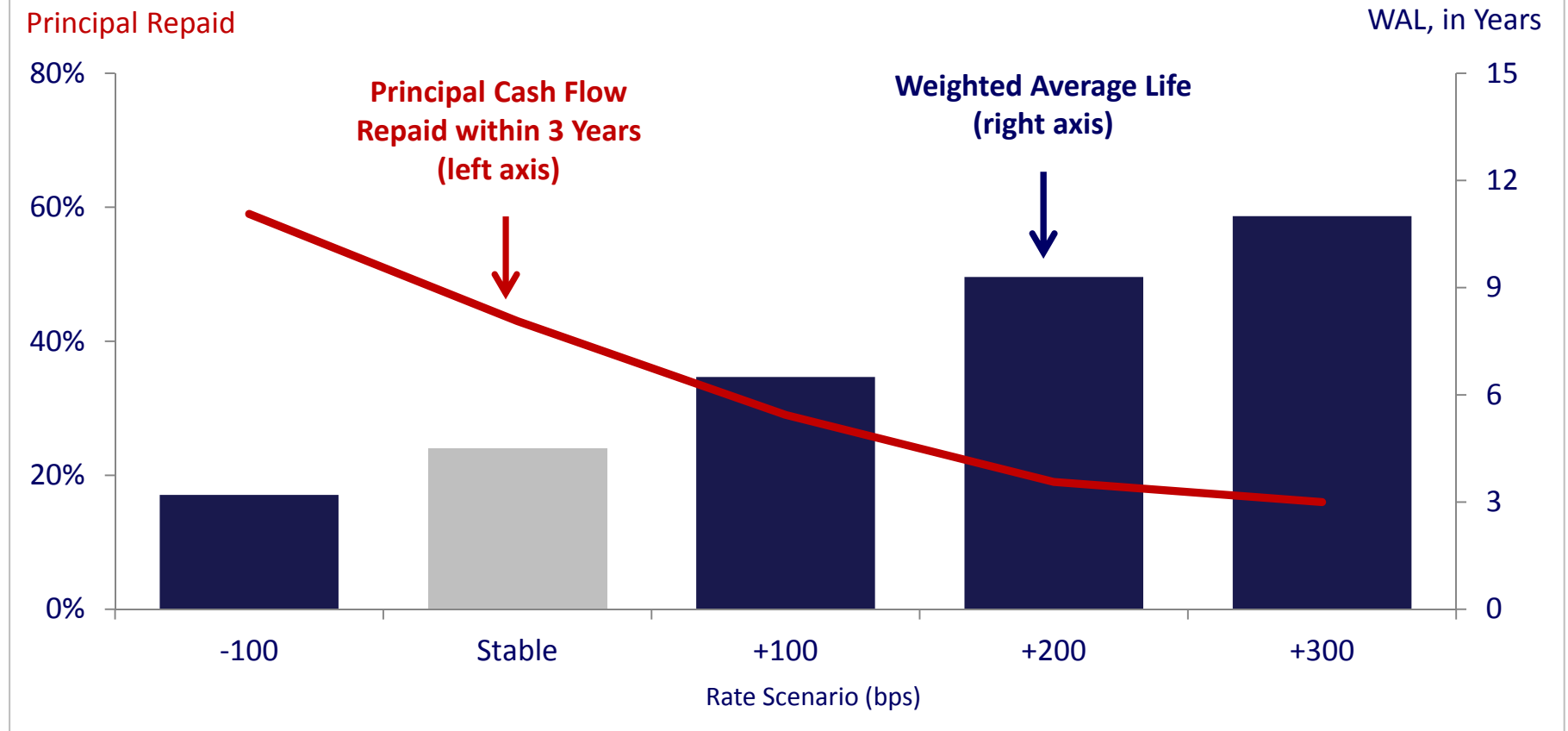
Cash Flows

- Inverse Relationship Between Interest Rates and Mortgage-Related Payments
- Funding Flows & Parked Funds

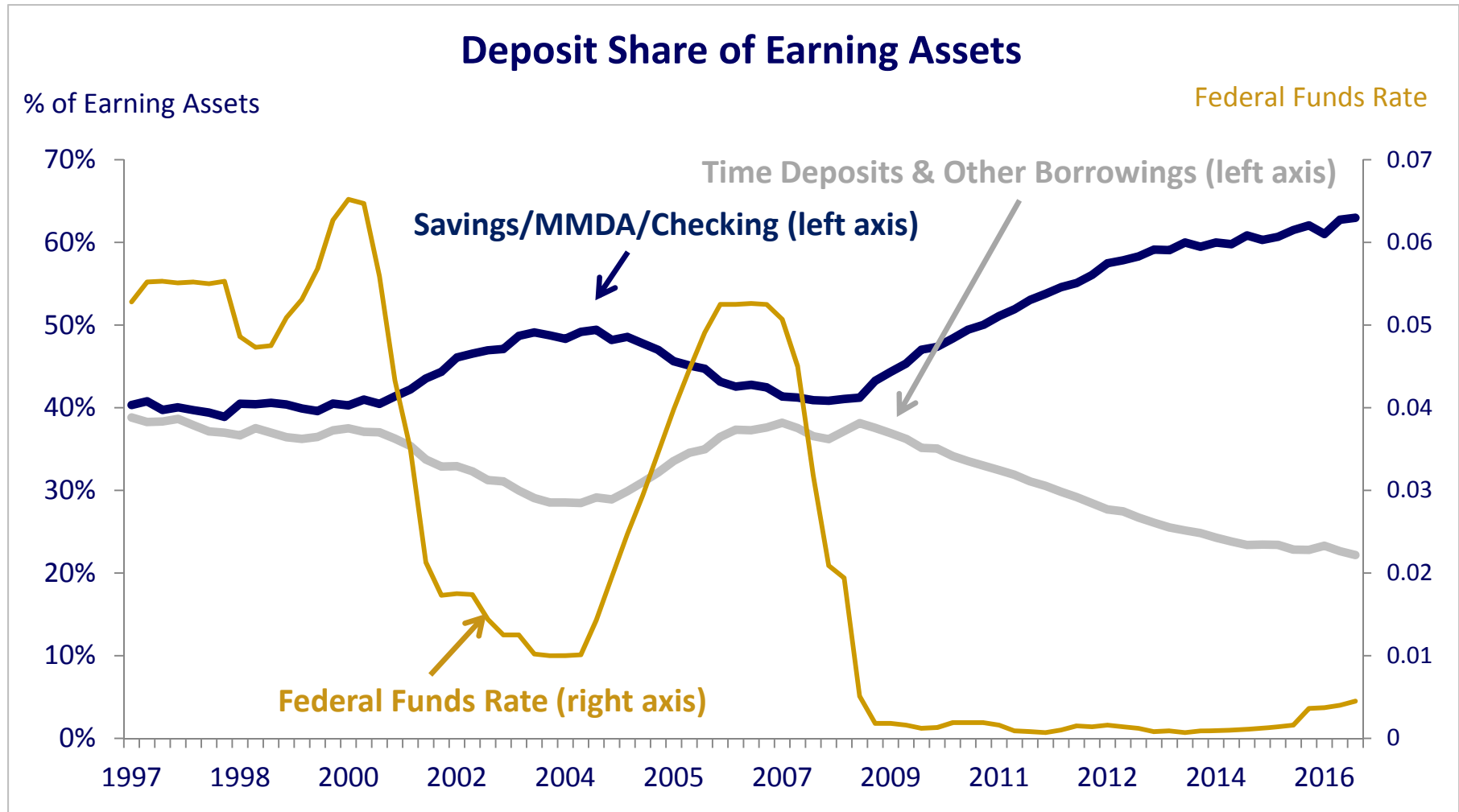
Price Risks

Rate Changes & Mortgage Cash Flows

Rate Changes Can Have Considerable Impact on Prepayment Speeds



Rate Changes & Funding Flows



Source: FDIC Call Reports. Based on median figures of all NY Region banks under \$10B in total assets. Other borrowings includes Fed Funds purchased.

Liquidity Effects of Interest Rate Risk

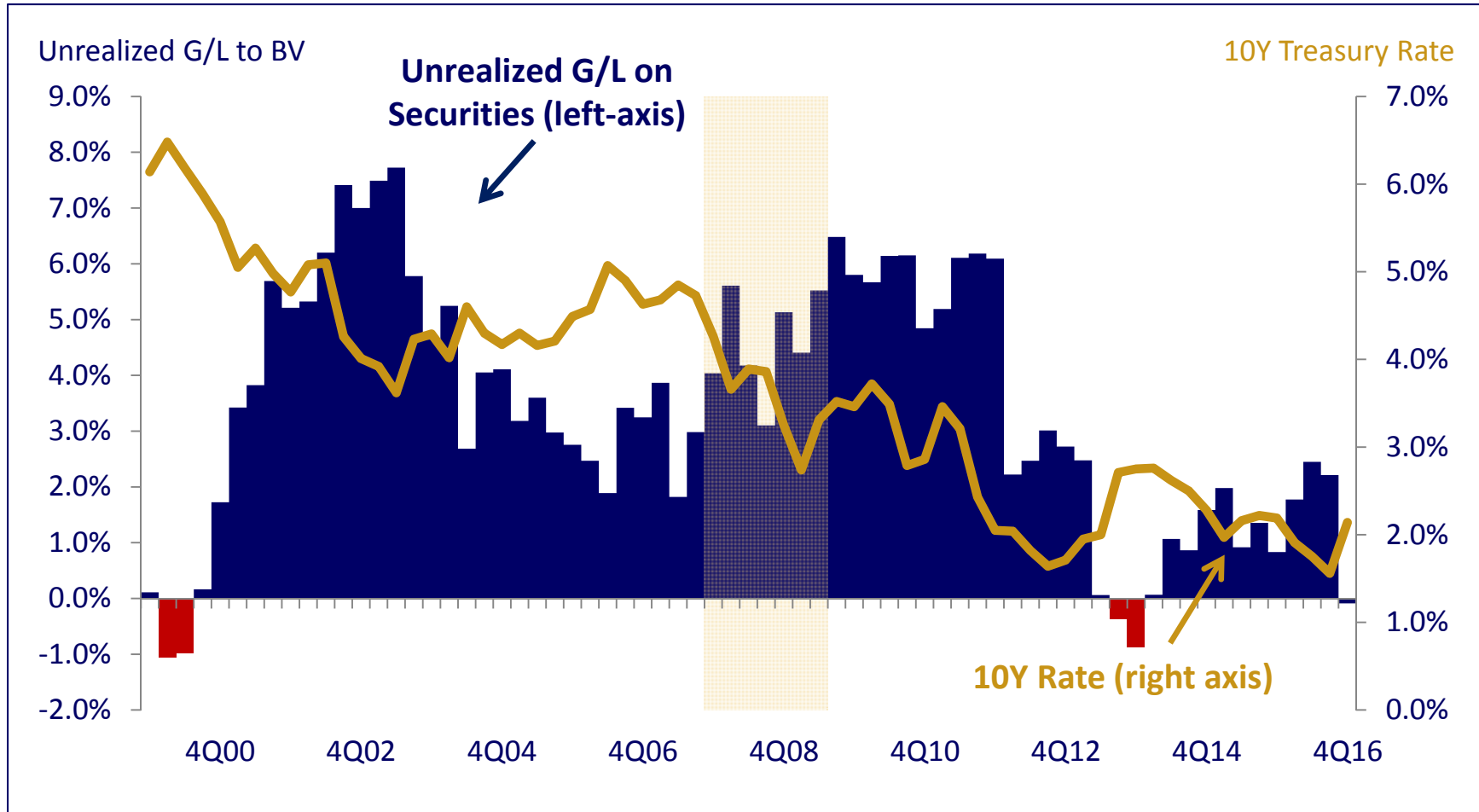
Cash Flows

- Inverse Relationship Between Interest Rates and Mortgage-Related Payments
- Funding Flows & Parked Funds

Price Risks

- Inverse Relationship Between Interest Rates and Asset Prices (Valuations)
- Ability to Sell Considerations
- Collateral Requirements & Margin Calls

Rate Changes & Price Risks (Valuations)



Resources

Outstanding Guidance

- Interagency Policy Statement on Funding & Liquidity Risk Management (FIL-13-10)
- Part 337 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)
- Joint Agency Policy Statement on Interest Rate Risk (FIL-52-96)
- FDIC Risk Management Manual of Examination Policies

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Director's College Program: ***"Liquidity Risk Management"***

Director's Resource Center: www.fdic.gov/resourcecenter

Capital Markets Resource Center: www.fdic.gov/regulations/capital

Liquidity Risk & Funds Management

QUESTION & ANSWER OPEN FORUM

