

# Liquidity Contingency Planning

A Best Practices Guide to Liquidity-Risk Management

*New York Bankers Association  
Senior Management Conference  
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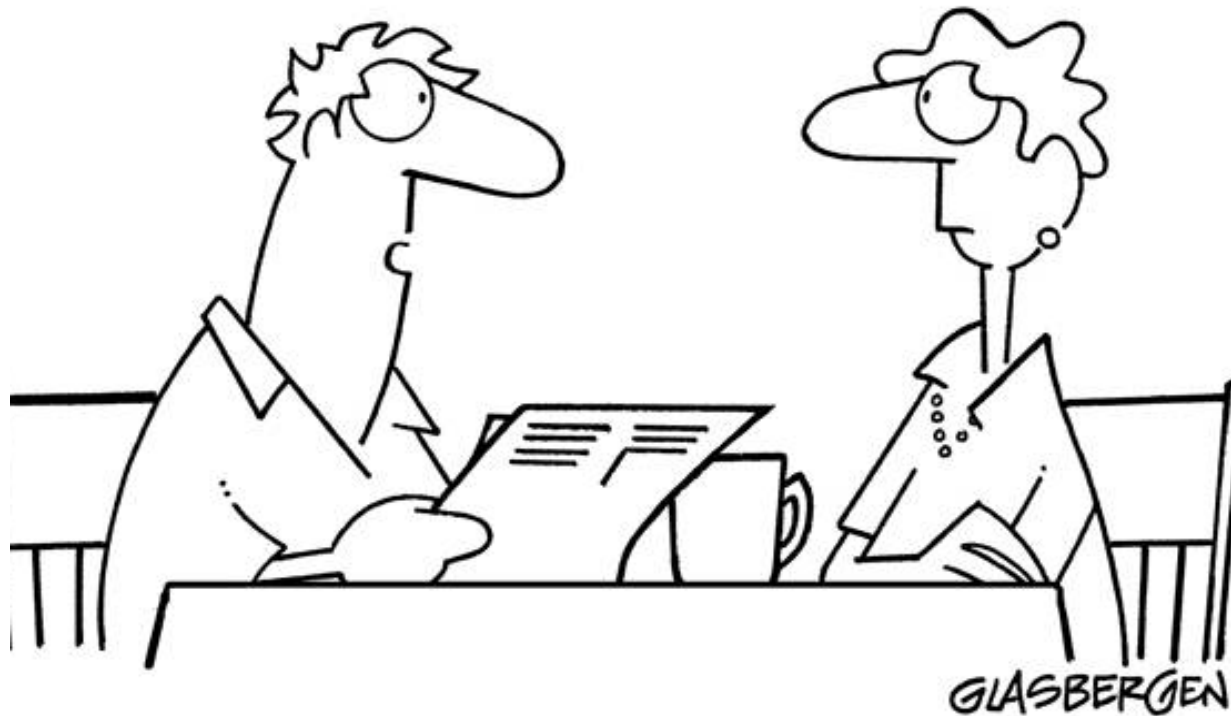
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COMPLETE  
ALM  
SOLUTIONS

“No earnings....crippling. No  
liquidity...terminal”

L. William Seidman, fmr. FDIC Chairman

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**“Liquidity. That’s when you look at your  
~~investments~~ assets and wet your pants.”**

- Asset quality erosion at heart of all liquidity concerns
  - ◆ Initially a “Wall Street” thing
  - ◆ Trickle down effect undeniable
  
- FDIC has done a tremendous job instilling confidence in system
  
- Cannot count on unprecedented assistance continuing
  
- Banks need to seriously address liquidity management going forward

- Repo market pullback
- FHLB system problems evident
- “Main Street” community banks feeling the after effect
  - ◆ Asset quality deterioration issues of our own
  - ◆ Fewer places to access collateralized funding

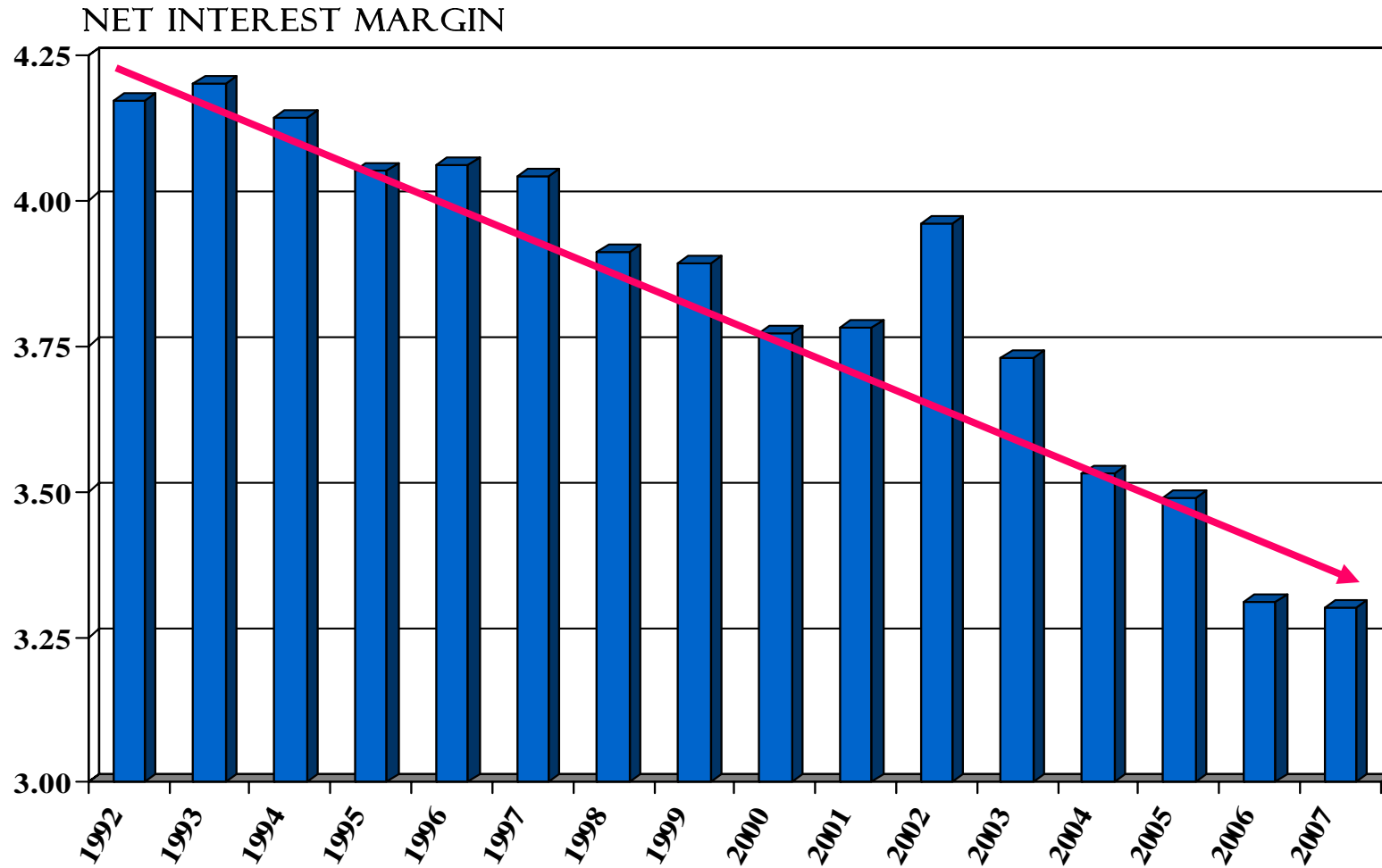
- How does a community bank manage liquidity?
  - ◆ Operational in best of times?
  - ◆ Contingency in worst of times?
  
- How should a community bank answer the above?
  - ◆ In policy?
  - ◆ In practice?
  
- One thing is for sure
  - ◆ Better get serious quick if you have not gotten serious already

- Current market realities
- Key questions bankers need to ask
- Regulatory perspective
- Traditional measures and why they don't work
- Best practices in liquidity risk management
  - ◆ Operational
  - ◆ Contingency
- Effective liquidity contingency planning
- Questions & Answers

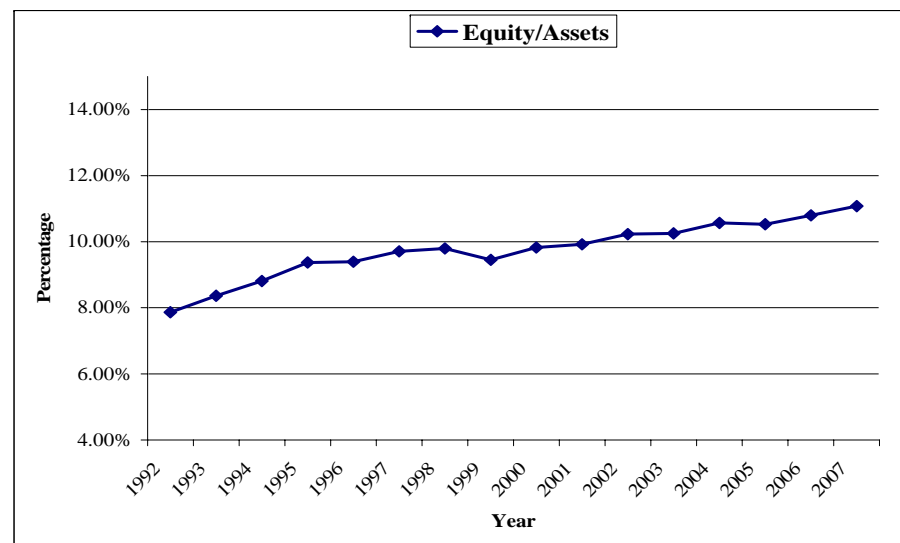
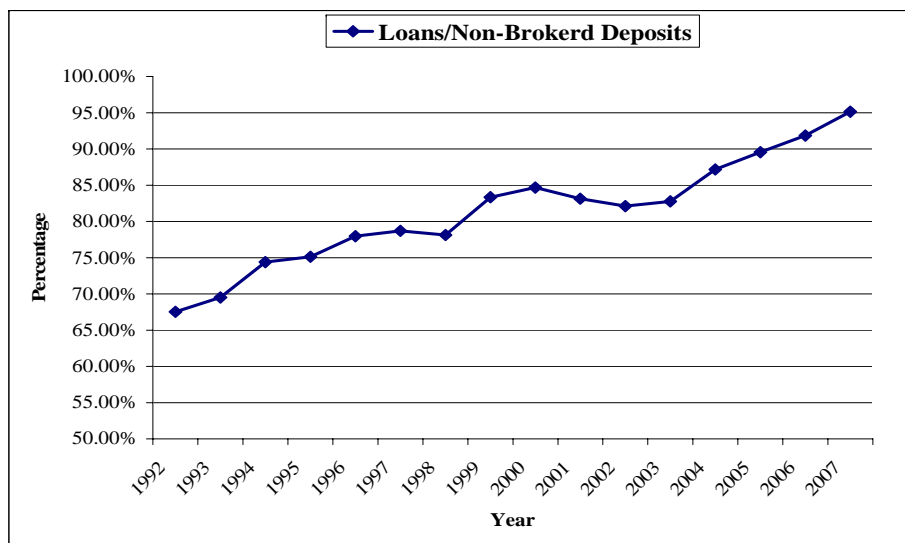
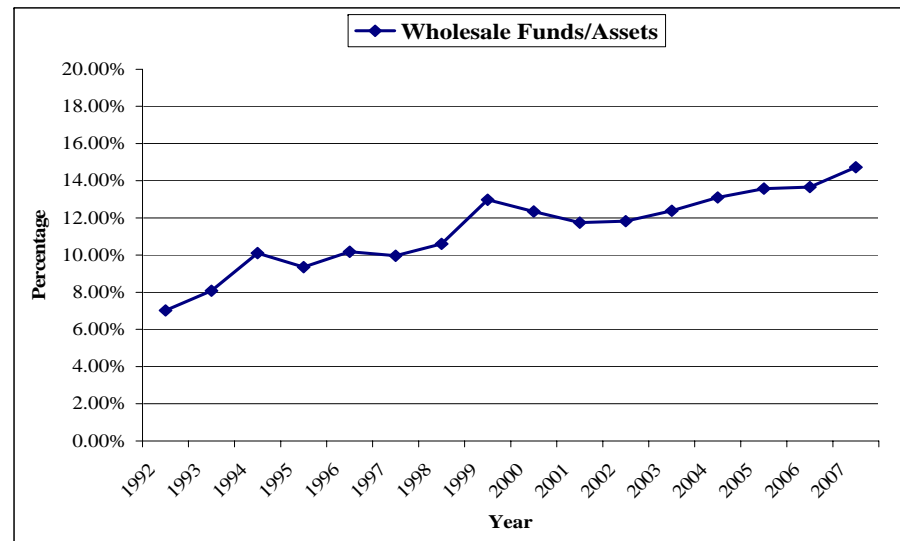
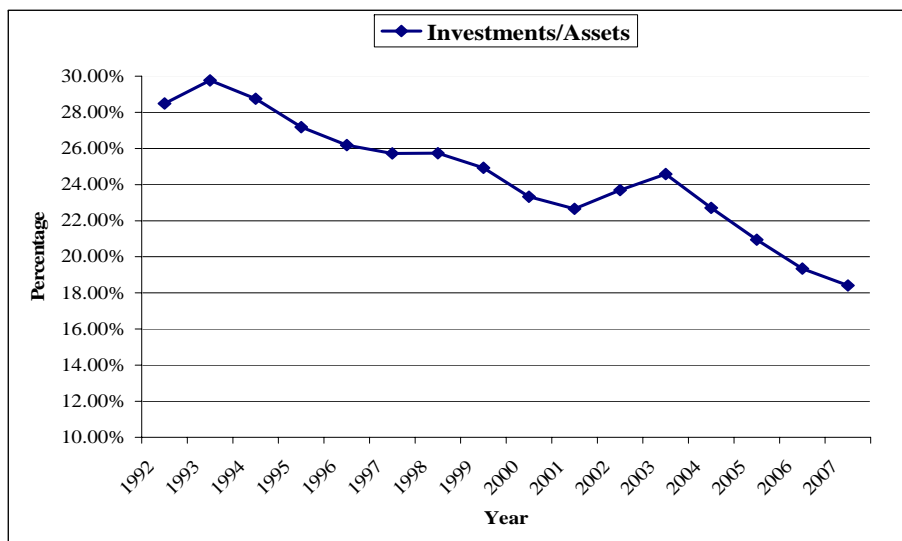
# So, What Have We Learned?



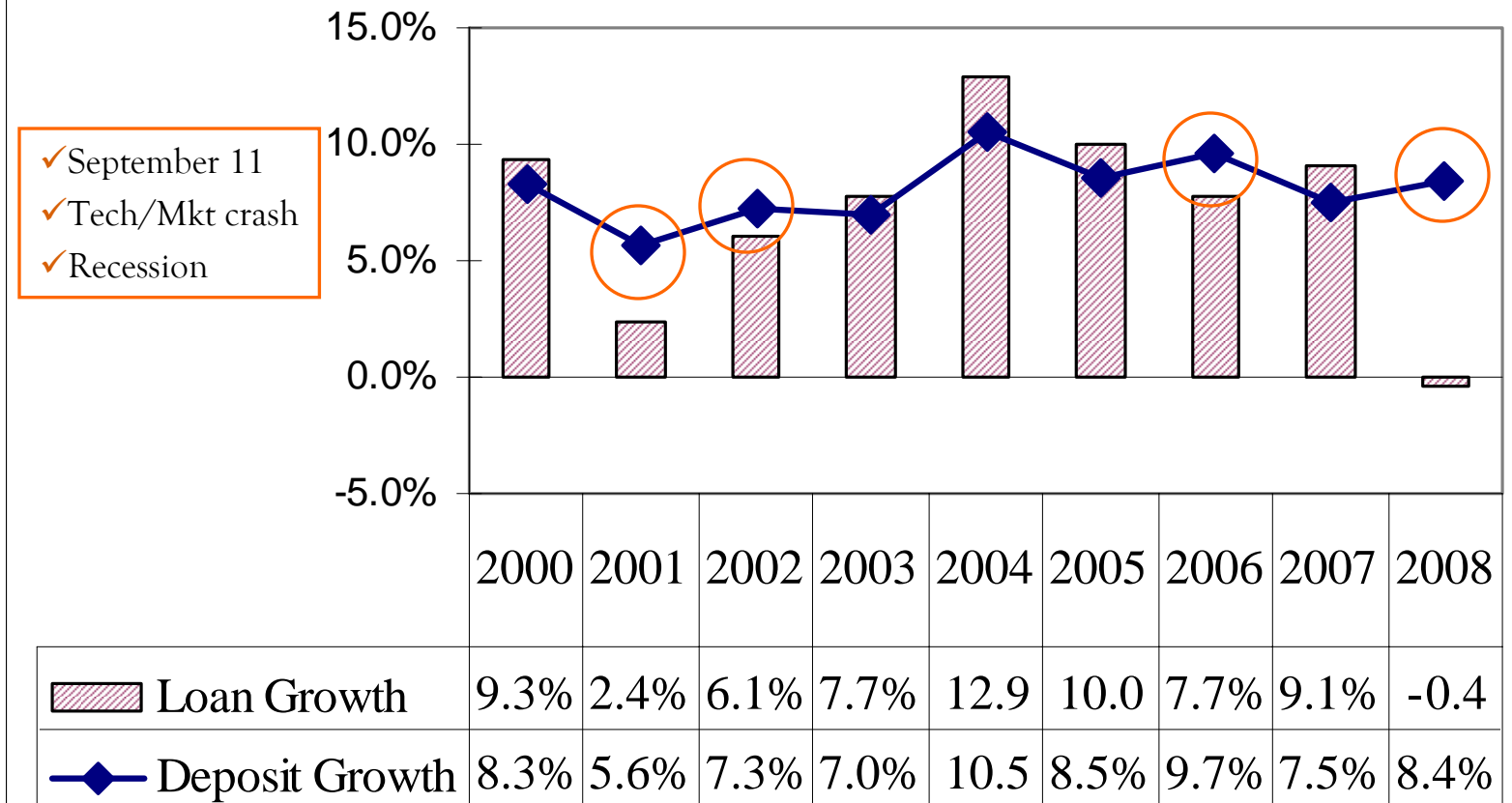
- “Not having it” NOT the only challenge
  - ◆ Some finding challenge not that great
  
- Cost effective liquidity single greatest challenge facing community banks in normal times
  
- Day will come when banks not given pass on earnings performance
  
- What does the future look like?



Source: FDIC Statistics

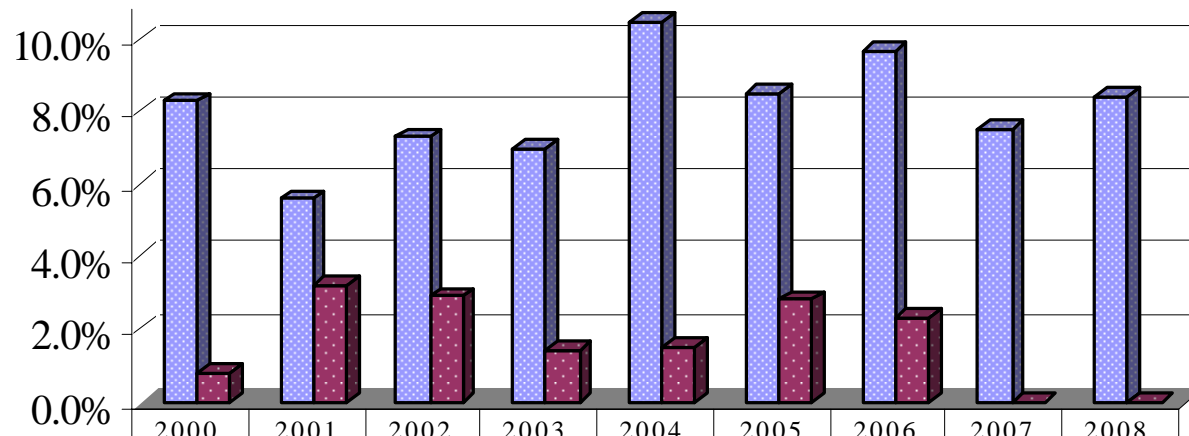


## Loan & Deposit Growth Rates (All FDIC Insured)



Source: FDIC SDI

## Annualized Deposit Growth Rates



■ Deposit Growth All FDIC Insured	8.3%	5.6%	7.3%	7.0%	10.5%	8.5%	9.7%	7.5%	8.4%
■ Deposit Growth <\$1 Bil.	0.8%	3.2%	2.9%	1.4%	1.5%	2.8%	2.3%	-0.3%	-0.3%

■ Deposit Growth All FDIC Insured ■ Deposit Growth <\$1 Bil.

Community Banks

Source: FDIC SDI

- Retail Banking Much More Difficult Post Internet
  - ◆ Aggregate deposits declining in some markets
  
- Branching is Expensive
  
- Blending Quality and Volume Driven Business Model is Painful to Bottom Line
  - ◆ Marginal cost of new funds
  
- More and More Community Banks Funding Asset Growth with Non-Traditional Funding Alternatives
  - ◆ Collateralized borrowings (FHLB & Repos)
  - ◆ Brokered CDs
    - Some even using FRB as alternative to brokered in current environment

- The Old School – Local Deposits Primary Funding Resource
  
- **The New School – Funding Shortfall (Deposit Growth vs. Lending)**
  - ◆ Investment portfolios smaller
  - ◆ More funds from secondary/wholesale funding market channels
    - FHLB, Repo, Brokered
  - ◆ Basic Surplus measurement approach
    - Predicated on access to wholesale markets
      - ✓ Quantify access to cash (reliable, cost effective, capital friendly)
      - ✓ “Just In Time” funds management
      - ✓ Inventory control system
      - ✓ Cost of alternatives

“If properly administered, such diversification of funding sources can benefit FDIC-insured institutions. The increased use of non-core funds can also enable a more precise structuring of liabilities than can be obtained primarily through changes in core deposit pricing”

- *FDIC Outlook (Spring 2005)*

“In 1992, FDIC camels ratios used “several static balance sheet ratios commonly used by bankers and regulators to assess liquidity risk—ratios that implicitly assumed loans were illiquid, securities were liquid, and insured deposits were stable..... The banking industry has moved from asset-based liquidity management to a more complex world of liability and off-balance-sheet funding”

“ Consistent with this movement, liquidity measurements have migrated from simplistic ratios that give an idea of the static level of liquidity toward forward-looking measures. ”

- *FDIC Supervisory Insight (Dec 2007)*

- Acknowledgement of need and benefit of wholesale funding
- Expectation - bankers to demonstrate they understand the risks

- Convergence of operating and contingency liquidity
- Ongoing reliability of wholesale market (i.e. credit)
- Concentration risk
- Interest rate risk
- Structured funding concentrations
- Management's ability to “discuss/explain” strategy and liquidity management process
- Lack of meaningful forward looking liquidity planning
- More robust liquidity contingency planning process

- More formalized operating and contingency funding plans
- Integration with other risk management practices
  - ◆ Interest rate risk
  - ◆ Market risk
  - ◆ Credit risk
  - ◆ Budgeting/planning
  - ◆ Policies
  - ◆ Processes and controls
- Be prepared to explain/justify your actions!

*Note: examiners armed with updated liquidity risk handbooks*

## *Six Steps:*

1. Determine what liquidity is and how much you have available
2. Estimate how much liquidity you need
3. Establish an early warning system
4. Stress-test your funding needs and availability
5. Outline management's responses to various situations
6. Document process and periodically test sources

## Liquidity Defined

“the ability to raise cash quickly with minimal principal loss and at a reasonable cost.”

- Most common (traditional) measures don't
  - ◆ Loan/deposit ratio
  - ◆ Volatile liability dependency ratio
  - ◆ Cash flow projection
  
- Timing
  
- Most are backward looking
  
- Exclude off-balance sheet sources
  
- Require asset sales or high cost deposit specials



- Balance sheet liquidity
  - ◆ Available cash and securities
  
- Just-in-time inventory
  - ◆ Federal Home Loan Bank (FHLB)
  
- Strategic reserve
  - ◆ Brokered deposits
  
- Catastrophe insurance
  - ◆ FRB / BIC lines

# Basic Surplus/(Deficit)

## A liquidity measure that works

I. LIQUID ASSETS			
Overnight Funds Sold & Short-Term Investments (avg. balance, if wide daily fluctuations)			0
Security Collateral	<u>UST &amp; Agency</u>	<u>MBS / CMOs (-5% Haircut)</u>	
Total Market Value of Securities	500	88,139	
Less Securities Pledged to:			
FHLB	0	-6,938	
Wholesale Repos	0	0	
Retail Repos/Sweeps	0	0	
Municipal Deposits	0	-2,536	
Other	0	0	
Available / Unencumbered Security Collateral	<u>500</u>	<u>74,732</u>	75,232
Over Collateralized Securities Pledging Position			0
Gvt. & Agency Guaranteed Loans (SLMA / SBA unpledged)			0
Cash flow (< 30 Days) from Securities not listed above			0
Other Liquid Assets (Int. Bearing Deposits, MM Mutual Funds, etc.)			1,045
<b>TOTAL LIQUID ASSETS</b>			<b>76,277</b>

Short Term  
Cash Investments

Investment Collateral

Other Readily Available  
Cash Resources

II. SHORT TERM / POTENTIALLY VOLATILE LIABILITIES & COVERAGES			
Maturing Unsecured Liabilities (< 30 Days)			0
Deposit Coverages			
25% of Regular CDs maturing < 30 Days			2,104
30% of Jumbo CDs maturing < 30 Days		7.1%	3,573
10% of Other Deposits		of Total Deposits	19,173
Additional Liquidity Reserve(s)			0
<b>TOTAL SHORT TERM / POTENTIALLY VOLATILE LIABILITIES &amp; COVERAGES</b>			<b>24,850</b>

Fed Funds Purchased

Deposit Contingency/Reserve  
Pct. Of  
Assets

**BASIC SURPLUS**

51,426

10.1%

# Basic Surplus/(Deficit)

## A liquidity measure that works

BASIC SURPLUS 51,426 10.1%

III. QUALIFYING FHLB LOAN COLLATERAL	
A. Maximum Borrowing Line at FHLB is Not Available	
B. Qualifying Loan Collateral at the FHLB (net of haircut)	127,017
C. Excess Loan Collateral (if A < B)	
Maximum Borrowing Capacity (Lesser of A or B)	127,017
Collateral Currently Encumbered by Outstanding Advances	133,955
<b>REMAINING FHLB LOAN BASED BORROWING CAPACITY</b>	<b>0</b>

FHLB - Loan Collateral

BASIC SURPLUS W/ FHLB 51,426 10.1%

IV. BROKERED DEPOSIT ACCESS	
Maximum Board Authorized Brokered CD Capacity (per policy)	34,934
Current Brokered CD Balances	11,438
<b>REMAINING CAPACITY TO UTILIZE BROKERED CDs</b>	<b>23,496</b>

Brokered CD Capacity  
4.5% of Assets

BASIC SURPLUS W/ FHLB & BROKERED CDs 74,922 14.7%

*Secondary Collateral?  
Saleable Assets?*

OTHER LIQUIDITY ITEMS			
	<u>Mkt Value</u>	<u>Pledged</u>	<u>Available</u>
Corporate Securities	23,264	0	23,264
Municipal Securities	0	0	0
Equity Securities	4,611	0	4,611
Other	0	0	0
	<u>Borrowing Line</u>	<u>Outstanding</u>	<u>Available</u>
Fed Funds Lines	0	0	0
Fed BIC Lines	0	0	0
Other	6,292	0	6,292

*Back-Up at Federal Reserve?*

- Quantifies the amount of cash readily available
  - ◆ “real world” liquidity / funding capacity
  - ◆ Eliminates dependence on cash-on-hand and cash flow
  - ◆ AFS vs. HTM irrelevant
    - But...price sensitivity is
  
- Inventory control system
  
- Ability to optimize “liquidity yield”
  
- Aids in strategy discussion and development

- Reliable sources of funding  
    (“Just-in-time inventory”)
  - ◆ FHLB
  - ◆ Repos
  - ◆ Brokered CDs
  - ◆ Other
  
- Board/management education
  
- Policy development
  
- Disciplined forecasting
  
- Active collateral management

# Step 2: How Much Liquidity Do We Need? ..and How Could It Change?

## CONTINGENCY PLANNING PROGRAM

### LIQUIDITY - CASH FLOW AND FUNDS AVAILABILITY ANALYSIS

Base Case - Normal Operating Conditions as of 11/30/08

		<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	
Loans	<b>Loan Cashflow (Inc. Estimated Prepayments)</b>	\$98,819	\$30,658	\$39,103	\$26,633	
	Agricultural (RE & Non-RE)	\$0	\$0	\$0	\$0	
	Commercial & Industrial	\$24,478	\$3,865	\$17,370	\$2,026	
	Construction	\$17,133	\$3,212	\$4,777	\$2,504	
	Commerical Real Estate	\$40,043	\$12,032	\$5,630	\$15,399	
	Other	\$0	\$0	\$0	\$0	
	Residential Real Estate	\$17,165	\$11,549	\$11,326	\$6,704	
	<b>Loan Sales</b>	\$0	\$0	\$0	\$0	
	1-4 Family Residential Loans	\$0	\$0	\$0	\$0	
	Other Loans	\$0	\$0	\$0	\$0	
	<b>Loan Originations/Purchases</b>	(\$109,119)	(\$61,358)	(\$49,103)	(\$50,633)	
	1-4 Family Residential Loans	(\$23,465)	(\$31,249)	(\$17,326)	(\$22,704)	
	Other	(\$85,654)	(\$30,109)	(\$31,777)	(\$27,929)	
	<b>NET LOAN CASHFLOW</b>	(\$10,300)	(\$30,700)	(\$10,000)	(\$24,000)	
	Deposits	<b>Non-Maturity Deposit Decay</b>	<b>Annual Decay</b>	(\$1,983)	(\$1,983)	(\$1,983)
Core Savings/MMDA		12.0%	(\$1,567)	(\$1,567)	(\$1,567)	(\$1,567)
DDA		8.0%	(\$413)	(\$413)	(\$413)	(\$413)
Interest Checking		4.0%	(\$4)	(\$4)	(\$4)	(\$4)
Premium Savings/MMDA		16.0%	\$0	\$0	\$0	\$0
Retail Repos		4.0%	\$0	\$0	\$0	\$0
<b>New Non-Maturity Deposit Balances</b>			\$6,975	\$7,920	\$7,600	\$7,950
<b>Net Non-Maturity Deposit Cashflow</b>			\$4,992	\$5,937	\$5,617	\$5,967
<b>CD WITHDRAWALS</b>			(\$250)	(\$250)	(\$250)	(\$250)
CD Early Withdrawals			(\$250)	(\$250)	(\$250)	(\$250)
CD Maturities			(\$127,388)	(\$83,377)	(\$21,095)	(\$9,485)
Retention Factor - CD Maturities			\$127,388	\$83,377	\$21,095	\$9,485
<b>New CD Balances</b>			\$15,883	\$17,633	\$17,683	\$18,282
<b>Net CD Cashflow</b>			\$15,633	\$17,383	\$17,433	\$18,032
<b>NET Deposit Cashflow</b>			\$20,625	\$23,320	\$23,050	\$23,999

# How Much Liquidity Do We Need? ...And How Could It Change?

## CONTINGENCY PLANNING PROGRAM

### LIQUIDITY - CASH FLOW AND FUNDS AVAILABILITY ANALYSIS

Base Case - Normal Operating Conditions as of 11/30/08

Investments	<b>Investment Cashflow</b>	<b>\$24,300</b>	<b>\$12,103</b>	<b>\$0</b>	<b>\$0</b>
	MBS/CMO Bonds	\$0	\$0	\$0	\$0
	Municipal Bonds	\$0	\$0	\$0	\$0
	Other Investments	\$0	\$0	\$0	\$0
	Other Liquid Investments	\$24,300	\$12,103	\$0	\$0
	Overnight Investments	\$0	\$0	\$0	\$0
	UST/GSE Debentures	\$0	\$0	\$0	\$0
	<b>Investment Sales</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
	Government (UST/GSE)	\$0	\$0	\$0	\$0
	Non-Government	\$0	\$0	\$0	\$0
Investment Purchases	<b>Investment Purchases</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
	Government (UST/GSE)	\$0	\$0	\$0	\$0
	Non-Government	\$0	\$0	\$0	\$0
<b>Net Investment Cashflow</b>	<b>\$24,300</b>	<b>\$12,103</b>	<b>\$0</b>	<b>\$0</b>	
Wholesale Funds	<b>Wholesale Funding Maturities</b>	<b>(\$33,561)</b>	<b>(\$13,641)</b>	<b>(\$7,454)</b>	<b>(\$4,082)</b>
	Borrowings (Bond Collateral)	\$0	\$0	\$0	\$0
	Borrowings (Loan Collateral)	(\$5,000)	\$0	\$0	\$0
	Brokered CD's	(\$28,561)	(\$13,641)	(\$7,454)	(\$4,082)
	Other Borrowings	\$0	\$0	\$0	\$0
	<b>Wholesale Funding Drawdowns</b>	<b>\$33,561</b>	<b>\$13,641</b>	<b>\$7,454</b>	<b>\$4,082</b>
	Borrowings (Bond Collateral)	\$0	\$0	\$0	\$0
	Borrowings (Loan Collateral)	\$5,000	\$0	\$0	\$0
	Brokered CD's	\$28,561	\$13,641	\$7,454	\$4,082
	Other Borrowings	\$0	\$0	\$0	\$0
<b>PRO-FORMA CASH SURPLUS (DEFICIT)</b>	<b>\$34,625</b>	<b>\$4,723</b>	<b>\$13,050</b>	<b>(\$1)</b>	
<b>CUMULATIVE</b>		<b>\$39,348</b>	<b>52,398</b>	<b>52,397</b>	

# How Much Liquidity Do You Need? ...And How Could It Change?

**CONTINGENCY PLANNING PROGRAM**  
**LIQUIDITY - CASH FLOW AND FUNDS AVAILABILITY ANALYSIS**  
Base Case - Normal Operating Conditions as of 11/30/08

Total Assets \$577,000

<u>Primary Funding Resources</u>			<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
	<u>Current</u>	<u>Haircut</u>				
Available Primary Loan Collateral with FHLB	\$53,968	29.0%	\$58,439	\$72,428	\$76,686	\$88,046
Available UST/GSE Bond Collateral	\$0	5.0%	\$0	\$0	\$0	\$0
Remaining Approved Brokered Deposit Cap	\$117,601		\$117,601	\$117,601	\$117,601	\$117,601
	<u>\$171,567</u>		<u>\$176,040</u>	<u>\$190,027</u>	<u>\$194,287</u>	<u>\$205,647</u>
Pro-Forma Cash Inflow/Outflow	\$0		\$34,625	\$4,723	\$13,050	(\$1)
<b>FUNDS AVAILABILITY</b>	<b>\$171,567</b>		<b>\$210,665</b>	<b>\$194,750</b>	<b>\$207,337</b>	<b>\$205,646</b>
<b>PERCENT OF ASSETS</b>	<b>29.73%</b>		<b>36.51%</b>	<b>33.75%</b>	<b>35.93%</b>	<b>35.64%</b>
<i>Trigger Threshold (Minimum)</i>	7.5%		7.5%	7.5%	7.5%	7.5%
<u>Secondary Funding Resources</u>			<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
	<u>Current Line Availability</u>	<u>Max. Line Capacity</u>				
FHLB (secondary loan collateral)	\$0	N/A	\$0	\$0	\$0	\$0
Non-GSE Bond Collateral	\$0	N/A	\$0	\$0	\$0	\$0
Fed Fund Lines	\$0	N/A	\$0	\$0	\$0	\$0
FRB Availability	\$15,904	\$15,904	\$15,904	\$15,904	\$15,904	\$15,904
Holding Company Support	\$0	N/A	\$0	\$0	\$0	\$0
	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>
Other Borrowings	\$0		\$0	\$0	\$0	\$0
<b>Total Secondary Funding</b>	<b>\$15,904</b>		<b>\$15,904</b>	<b>\$15,904</b>	<b>\$15,904</b>	<b>\$15,904</b>
<b>TOTAL FUNDS AVAILABILITY</b>	<b>\$187,471</b>		<b>\$226,569</b>	<b>\$210,654</b>	<b>\$223,241</b>	<b>\$221,550</b>
<b>PERCENT OF ASSETS</b>	<b>32.5%</b>		<b>39.27%</b>	<b>36.51%</b>	<b>38.69%</b>	<b>38.40%</b>

## Step 3: Establish Early Warning System

- Key warning signals or risk indicators (triggers)
- Should be institution specific
- Match to operating activities and philosophies
- Management should take into consideration both local and national market elements
- Be commensurate with complexity of balance sheet / risk profile

*Note – look for measures that already exist*

- Operating Liquidity Measures
  - ◆ Loan vs. Investment Collateral Levels
  - ◆ Well Capitalized Status and Related Access to Brokered Deposit Market
  
- Increased Funding Needs
  - ◆ Deposit trends (compared to loan growth)
    - Municipal and Retail Repos?
  - ◆ Utilization of LOCs
  
- Capital at Risk
  - ◆ Forced Asset Sales at Losses / Impairment
  - ◆ Asset Quality - Cash flow, C/Os, Loss Provisions
  - ◆ Net Operating Losses
  
- Decreased Funds Availability (or restrictions)
  - ◆ IRR - Collateral Values
  - ◆ Deteriorating Condition of Balance Sheet (Threat of C&D?)

<b>Indicators - Capital at Risk</b>	<u>User Response</u>		<u>Response Level</u>
	NO	YES	
Operating Loss for Period?	✓		N/A
Well Capitalized Status Threatened by Credit Charge Offs?	✓		N/A

<b>Indicators - Decrease in Funds Availability</b>	<u>User Response</u>		<u>Response Level</u>
	NO	YES	
Borrowing Lines at Risk? If so, why? (Yes or No)	✓		N/A
Downgrade in Credit Rating (if applicable)? (Yes or No)	✓		N/A
Expectation for CAMELS downgrade, 3 or worse? (Yes or No)	✓		N/A
Increased Collateral Restrictions on borrowing lines? (Yes or No)	✓		N/A
Term to Maturity restrictions on borrowings? (Yes or No)	✓		N/A
Threat of Cease and Desist? (Yes or No)	✓		N/A
Turn downs in brokered CD market? (Yes or No)	✓		N/A

	Stress Level 1	Stress Level 2	Stress Level 3	Curr. Trend	Comp.	Risk Level	Response Level
<b>Core Liquidity/Funding Analysis</b>							
Basic Surplus w/ FHLB & Brokered Deposit Availability	10.00	7.50	5.00	29.70	Current	N/A	N/A
Basic Surplus w/ Avail. FHLB Loan Collateral	5.00	2.50	0.00	9.30	Current	N/A	N/A
Core Basic Surplus (as a % of assets)	0.00	-2.50	-5.00	2.60	Current	N/A	N/A
Free FHLB Loan Collateral / Assets	5.00	2.50	0.00	6.60	Current	N/A	N/A
Free Investment Collateral & Short Term Inv.'s / Assets	5.00	2.50	0.00	6.30	Current	N/A	N/A
Tier One Leverage Capital Ratio	7.00	6.00	5.00	9.90	Current	N/A	N/A
Tier One Risk Based Capital Ratio	9.00	8.50	8.00	11.20	Current	N/A	N/A
Total Risk Based Capital Ratio	11.00	10.50	10.00	12.20	Current	N/A	N/A
<b>Indicators - Capital at Risk</b>							
Change in Classified Loans	10.00	20.00	30.00	-0.10	Current	N/A	N/A
Non Performing Loans / Gross Loans	3.00	5.00	7.00	1.20	Current	N/A	N/A
Non Performing Loans / Tangible Capital	7.00	15.00	25.00	11.20	Current	Level 1	N/A
<b>Indicators - Decrease in Funds Availability</b>							
Change in Fair Value of Investment Collateral	2.00	5.00	10.00	-19.00	Current	N/A	N/A
<b>Indicators - Heightened Funding Needs</b>							
Change in Non Maturity Deposit Balances *	-5.00	-7.00	-10.00	2.50	Current	N/A	N/A
Increase in Utilization Percentage of LOC Commitments	5.00	10.00	15.00	0.40	Current	N/A	N/A
Loans / Deposits ~ Change over 3 Months	2.00	5.00	10.00	-3.30	Current	N/A	N/A

- Most institutions stress-test their balance sheets for interest rate risk purposes
- Few stress-test to manage liquidity risk
  - ◆ Interest Rate Risk Concepts
    - Cash flow variability
    - Valuation (i.e. Economic Value of Equity)
  - ◆ Asset Quality (Loans and Investments)
  - ◆ Deposit Flows – Competition and/or Confidence
  - ◆ Systemic Variables – Restricted borrowing facilities
  - ◆ Etc.

*How Could the Bank's Liquidity Posture Change ? Materiality?*

# How Could Liquidity Posture Change?

<b>PRO-FORMA CASH SURPLUS (DEFICIT)</b>	<b>\$34,625</b>	<b>\$4,723</b>	<b>\$13,050</b>	<b>(\$1)</b>
<b>CUMULATIVE</b>		<b>\$39,348</b>	<b>52,398</b>	<b>52,397</b>

<u>Primary Funding Resources</u>	<u>Current</u>	<u>Haircut</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
Available Primary Loan Collateral with FHLB	\$53,968	29.0%	\$58,439	\$72,428	\$76,686	\$88,046
Available UST/GSE Bond Collateral	\$0	5.0%	\$0	\$0	\$0	\$0
Remaining Approved Brokered Deposit Cap	\$117,601		\$117,601	\$117,601	\$117,601	\$117,601
	<u>\$171,567</u>		<u>\$176,040</u>	<u>\$190,027</u>	<u>\$194,287</u>	<u>\$205,647</u>
Pro-Forma Cash Inflow/Outflow	\$0		\$34,625	\$4,723	\$13,050	(\$1)
<b>FUNDS AVAILABILITY</b>	<b>\$171,567</b>		<b>\$210,665</b>	<b>\$194,750</b>	<b>\$207,337</b>	<b>\$205,646</b>
<b>PERCENT OF ASSETS</b>	<b>29.73%</b>		<b>36.51%</b>	<b>33.75%</b>	<b>35.93%</b>	<b>35.64%</b>
<i>Trigger Threshold (Minimum)</i>	7.5%		7.5%	7.5%	7.5%	7.5%

<u>Secondary Funding Resources</u>	<u>Current Line Availability</u>	<u>Max. Line Capacity</u>	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
FHLB (secondary loan collateral)	\$0	N/A	\$0	\$0	\$0	\$0
Non-GSE Bond Collateral	\$0	N/A	\$0	\$0	\$0	\$0
Fed Fund Lines	\$0	N/A	\$0	\$0	\$0	\$0
FRB Availability	\$15,904	\$15,904	\$15,904	\$15,904	\$15,904	\$15,904
Holding Company Support	\$0	N/A	\$0	\$0	\$0	\$0
	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>	<u>\$15,904</u>
Other Borrowings	\$0		\$0	\$0	\$0	\$0
<b>Total Secondary Funding</b>	<b>\$15,904</b>		<b>\$15,904</b>	<b>\$15,904</b>	<b>\$15,904</b>	<b>\$15,904</b>

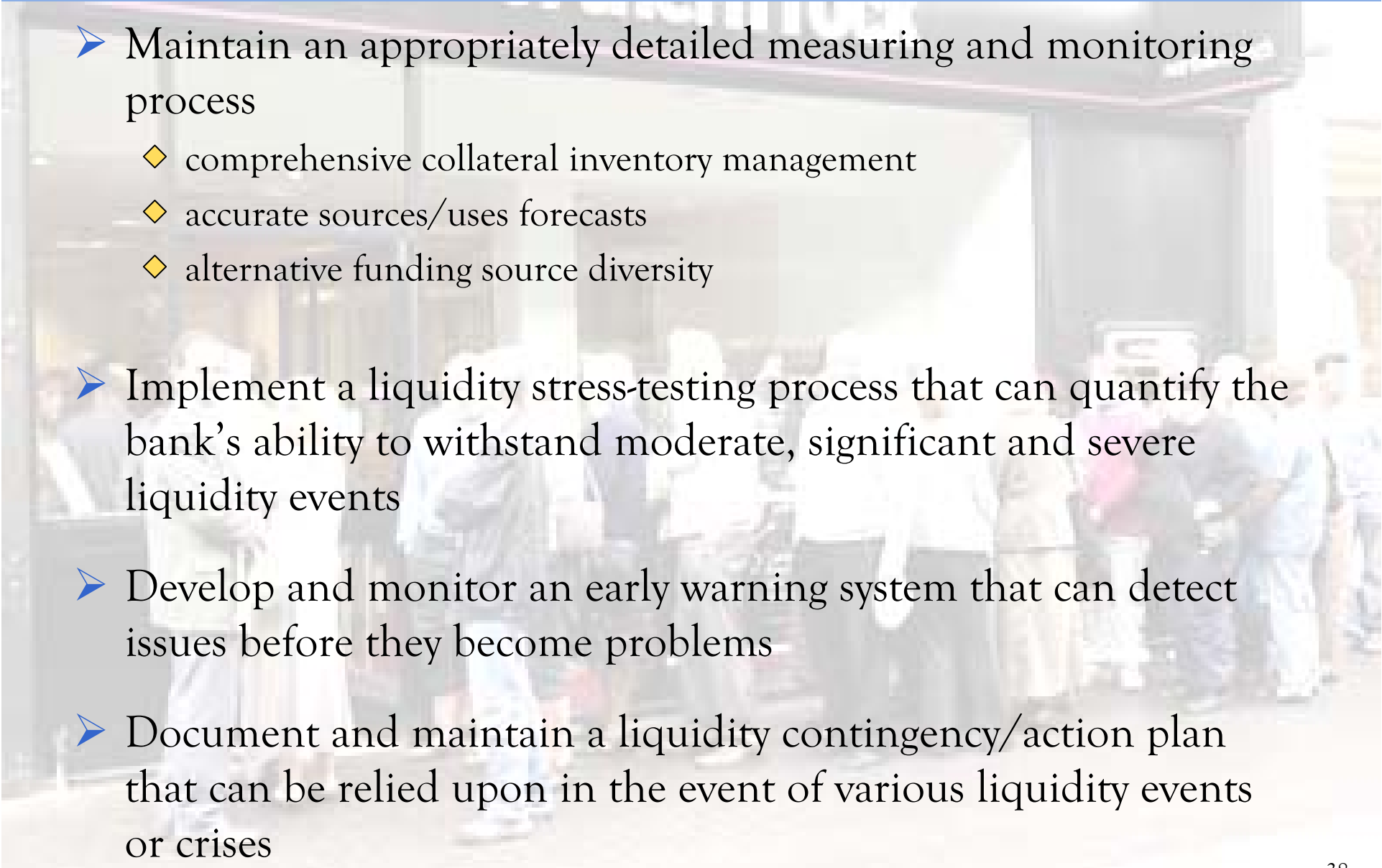
<b>TOTAL FUNDS AVAILABILITY</b>	<b>\$187,471</b>		<b>\$226,569</b>	<b>\$210,654</b>	<b>\$223,241</b>	<b>\$221,550</b>
<b>PERCENT OF ASSETS</b>	<b>32.5%</b>		<b>39.27%</b>	<b>36.51%</b>	<b>38.69%</b>	<b>38.40%</b>

- Depends upon your risk profile (IRR, liquidity, capital, earnings)
- Should be based upon specific events
- Represent various crisis levels (i.e. moderate, significant, severe)
- Involve management in defining scenarios and responses
- Important – DO NOT OVER DO IT!

- Changing collateral values
- Tightening collateral standards that reduce borrowing capacity
- Deposit outflows
- Capital hits that affect the ability to access the brokered market
- The need to securitize and sell assets at severe losses
- At what point do we have to utilize the FRB
- Etc.

- Each action plan should include a prioritized sequence
  - ◆ Procedural instructions
  - ◆ Communication protocol
  - ◆ Key contact information (personnel responsible, external contacts)
  - ◆ Activity timelines (short-term, longer-term)
  
- Larger organizations may establish a liquidity crisis team
  - ◆ Meets and reports periodically to ALCO and the Board
  
- Membership - those primarily responsible for the execution of specific activities outlined in your institution's liquidity contingency plan
  
- Keep it simple initially; build over time

- Include a complete description of what you do
  - ◆ Liquidity monitoring and management process
  - ◆ Your liquidity management philosophy
  - ◆ Why your institution has selected (or excluded) specific risk measures and key risk indicators.
  
- If done well, this document can
  - ◆ Serve as your liquidity management playbook
  - ◆ Inform and educate all of your significant stakeholders
    - Management, the Board, funding providers, examiners and independent risk auditors
  - ◆ reduce the risk of poor execution
  
- Test your liquidity sources

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- Maintain an appropriately detailed measuring and monitoring process
    - ◆ comprehensive collateral inventory management
    - ◆ accurate sources/uses forecasts
    - ◆ alternative funding source diversity
  - Implement a liquidity stress-testing process that can quantify the bank's ability to withstand moderate, significant and severe liquidity events
  - Develop and monitor an early warning system that can detect issues before they become problems
  - Document and maintain a liquidity contingency/action plan that can be relied upon in the event of various liquidity events or crises

- More Disciplined Forecasting / Improved Planning
  - ◆ Loan Forecasting Fairly Well Developed At Most Banks
  - ◆ Deposit Forecasting Often Leaves Much To Be Desired
  
- Deposit Growth Accountability
  - ◆ Executives Grow Tired Of Hearing Flat
  - ◆ Forecasts Missed = Questioning Why
  - ◆ Banks Execute Deposit Strategies Better

- CFP Drives Decision Making Rather Than Rational Thought/Analysis
  
- Liquidity Triggers May Overstate Real Risk
  - ◆ Importance Of Doing Research On Funding Trends Can Not Be Overstated
  
- CFP Can Take On Life Of Its Own
  - ◆ Operational Impact

- One Size Does Not Fit All
  
- Success Is A Function Of...
  - ◆ Proper Design...
  - ◆ The Right People In The Right Positions
  - ◆ Recognition of Liquidity Stress & Execution (DON'T IGNORE THE SIGNS)

**“Control Your Own Destiny Or Someone Else Will”**

*- Jack Welch – Rules For Success*

Q & A