Liquidity
Risk Management Considerations

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In This Session, We’ll Discuss:

• Funding composition and changes since March disruption

• Liquid asset and Tangible Common Equity (TCE) trends

• Liquidity rating and MRA/MRIA trends

• Risk management reminders
Liquid Assets Have Declined

Liquid Asset Composition
Tenth District Banks, % of Assets

- FFS & Rev Repo
- Int Bearing Bank Balances
- Unpledged Securities

Pledged Securities
% of Total Securities

- Tenth District Banks
- All US Banks
- All US Community Banks

Source: Reports of Condition and Income
Shifts in Funding Composition

Wholesale Funding
Tenth District Banks, % of Liabilities

- Borrowings
- Brokered
- Reciprocal
- Listing Service

Deposit Migration
Tenth District Banks, % of Total

- Time Deposits
- Nonmaturity Deposits

Source: Reports of Condition and Income
Unrealized Losses Impact Tangible Equity

Unrealized Gains (Losses)
Tenth District Banks, % of Tier 1

Tangible Common Equity
% of Tangible Assets

Note: Unrealized gains (losses) on available-for-sale securities.
Source: Reports of Condition and Income
Banks With Low TCE
Headwinds to Earnings

Quarterly Net Interest Margin
Tenth District Banks, % of Earning Assets

Change in Cost of Funds and EFFR
Tenth District Banks

Source: Reports of Condition and Income and Federal Reserve Bank of New York
Liquidity Ratings Reflect Financial Trends

Tenth District State Member Banks

Source: National Examination Database
Common Exam Findings
Tenth District State Member Banks

Liquidity MRA/IAs Cited
Count, By Year

Liquidity MRA/IAs Cited
By Category, 2Q 2022 to 2Q 2023

Source: National Examination Database
Risk Management Remains Critical

• Understand funding stability
  ➢ Core deposits are not necessarily stable

• Reciprocal Deposits
  ➢ Manage uninsured levels
  ➢ Generally not brokered
  ➢ Understand potential restrictions

• Understand operational steps to access contingent funding lines
Contingency Funding Plan Refresher

• Tailor to bank’s profile
  ➢ Deposit segmentation
  ➢ Bank-specific scenarios

• Leading liquidity stress testing practices
  ➢ Multiple time horizons
  ➢ LTWC scenario + rate restrictions & collateral haircuts
  ➢ Consider effects on earnings and capital
  ➢ Test sensitivity of key assumptions

• Secured funding sources are critical during stress events

• Addendum to SR 10-6: Interagency Policy Statement on Funding and Liquidity Risk Management