

Liquidity

Risk Management Considerations

Denton Elder

**Senior Examiner,
Examinations and Inspections**



**BANKING &
SUPERVISION FORUM 2023**

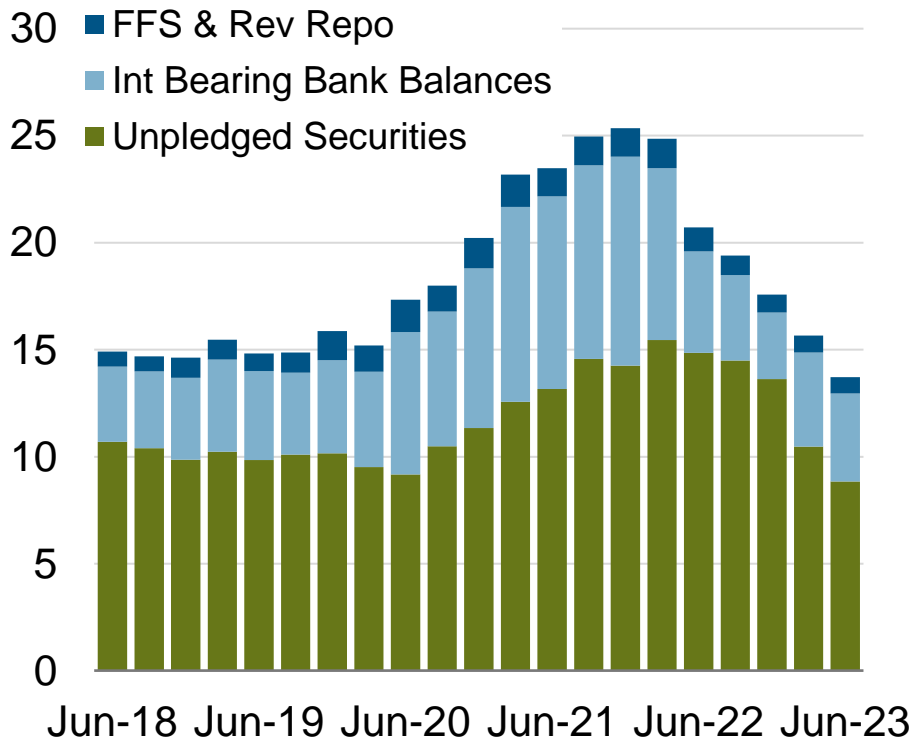
FEDERAL RESERVE BANK OF KANSAS CITY

In This Session, We'll Discuss:

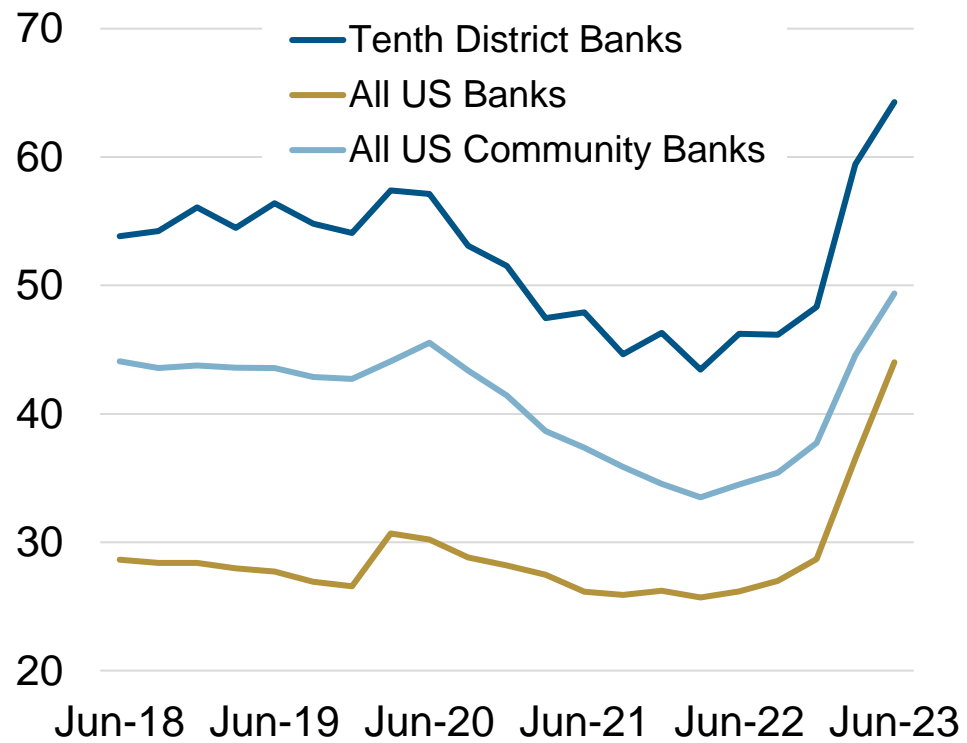
- Funding composition and changes since March disruption
- Liquid asset and Tangible Common Equity (TCE) trends
- Liquidity rating and MRA/MRIA trends
- Risk management reminders

Liquid Assets Have Declined

Liquid Asset Composition
Tenth District Banks, % of Assets



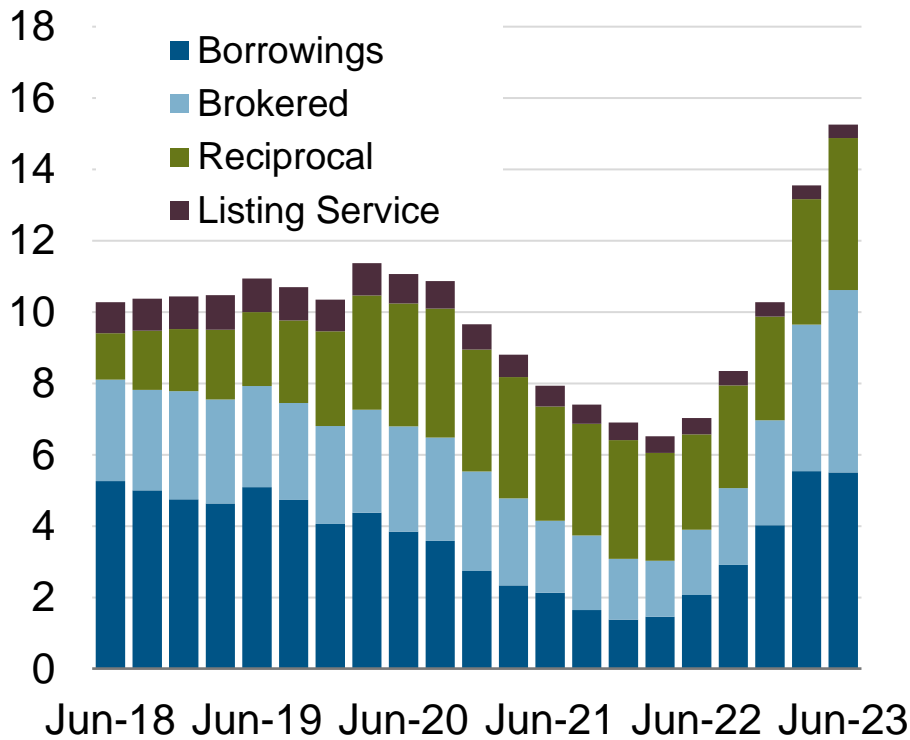
Pledged Securities
% of Total Securities



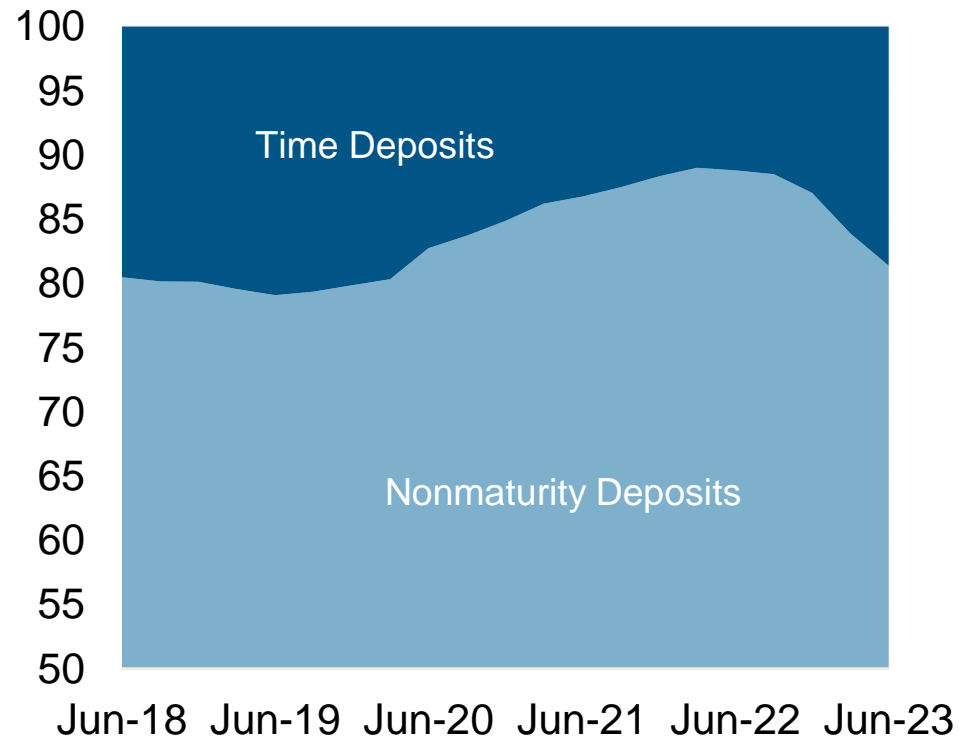
Source: Reports of Condition and Income

Shifts in Funding Composition

Wholesale Funding
Tenth District Banks, % of Liabilities



Deposit Migration
Tenth District Banks, % of Total

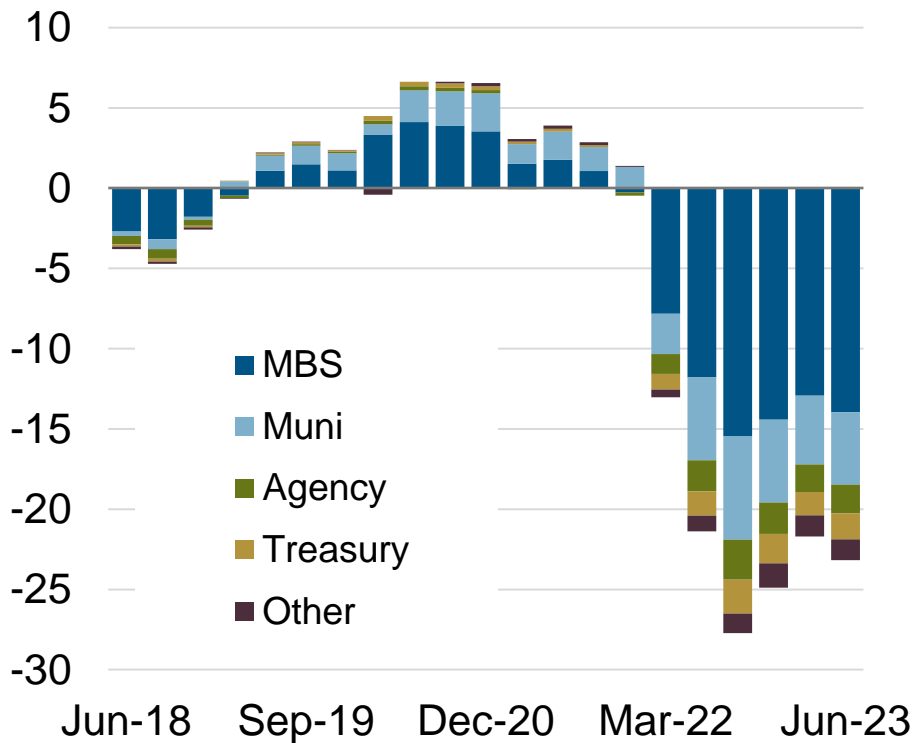


Source: Reports of Condition and Income

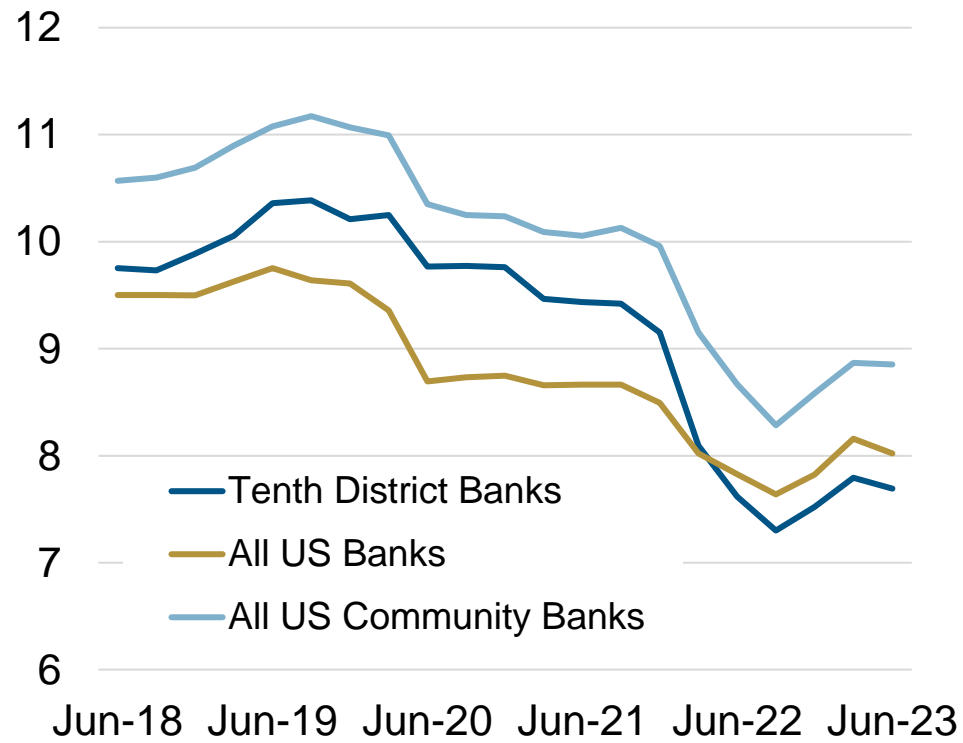


Unrealized Losses Impact Tangible Equity

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



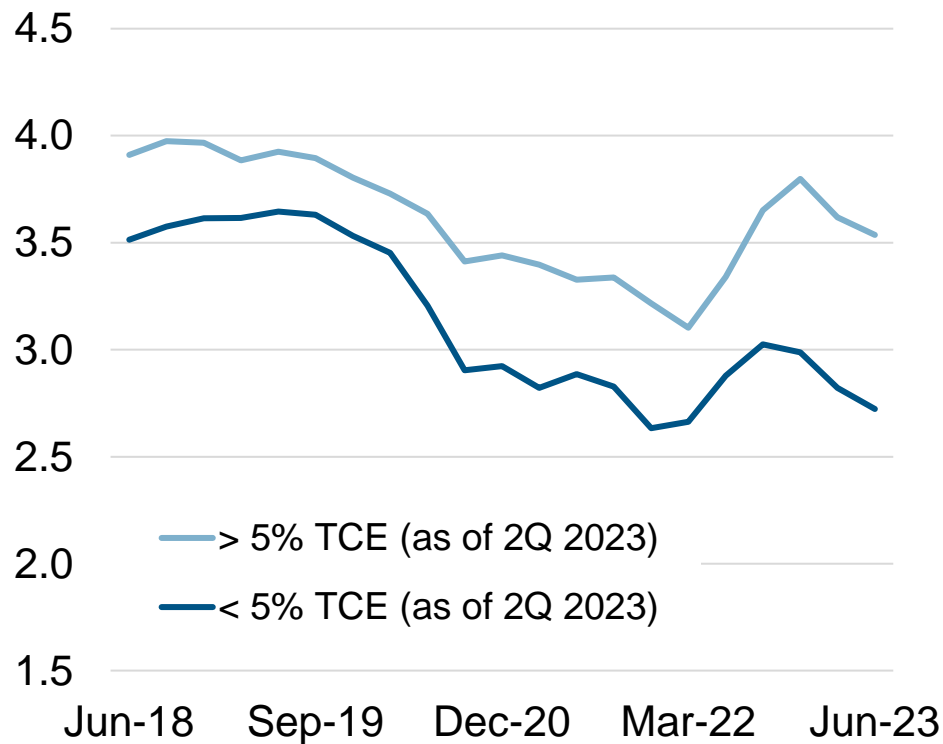
Tangible Common Equity
% of Tangible Assets



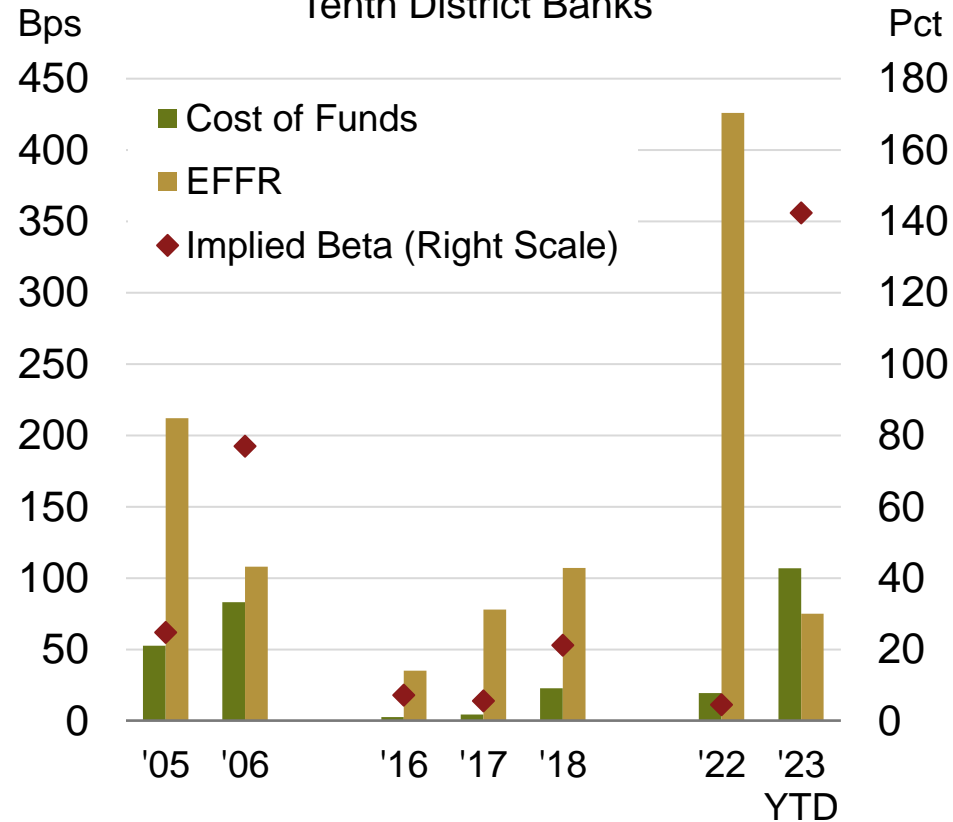
Note: Unrealized gains (losses) on available-for-sale securities.
Source: Reports of Condition and Income

Banks With Low TCE Headwinds to Earnings

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



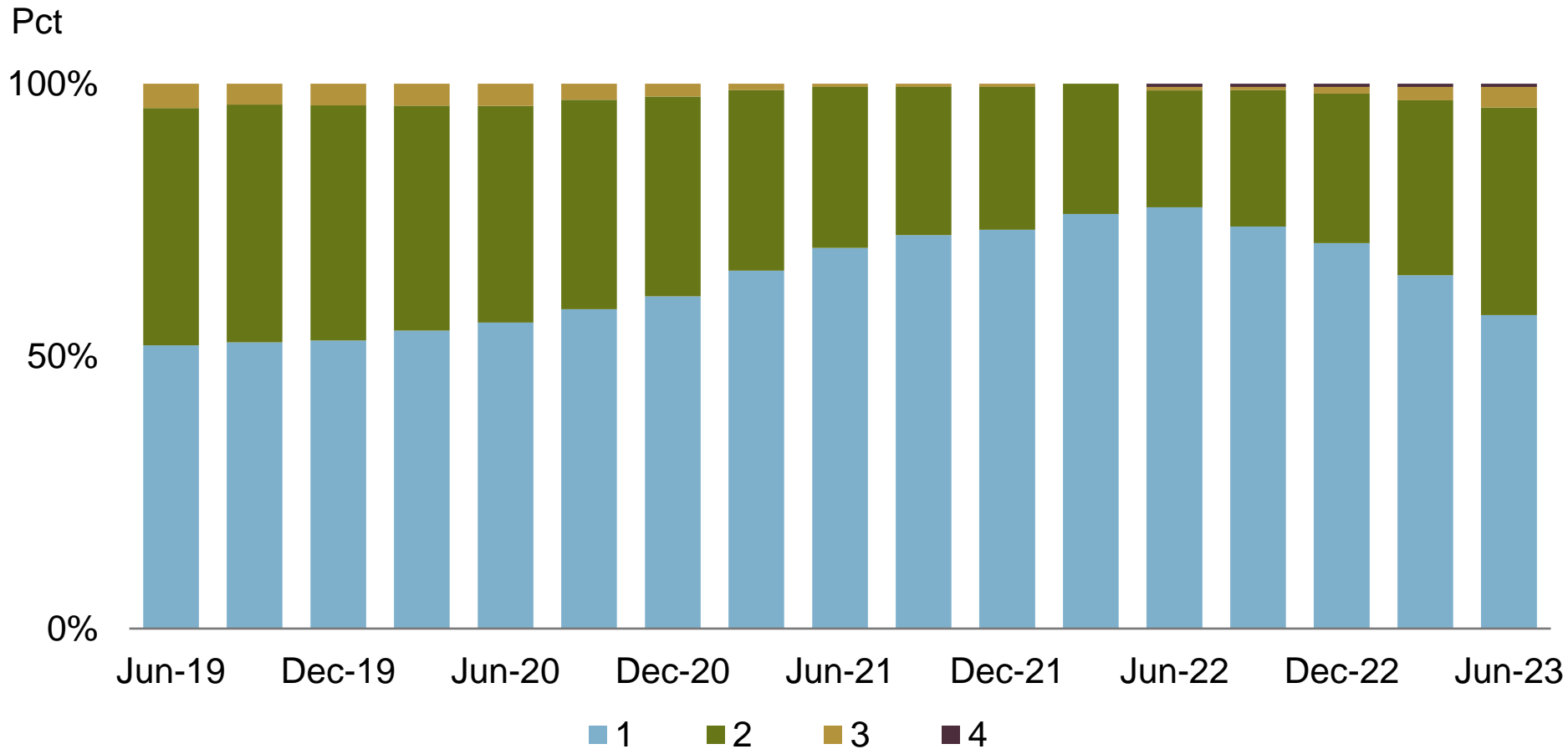
Change in Cost of Funds and EFFR
Tenth District Banks



Source: Reports of Condition and Income and Federal Reserve Bank of New York

Liquidity Ratings Reflect Financial Trends

Tenth District State Member Banks

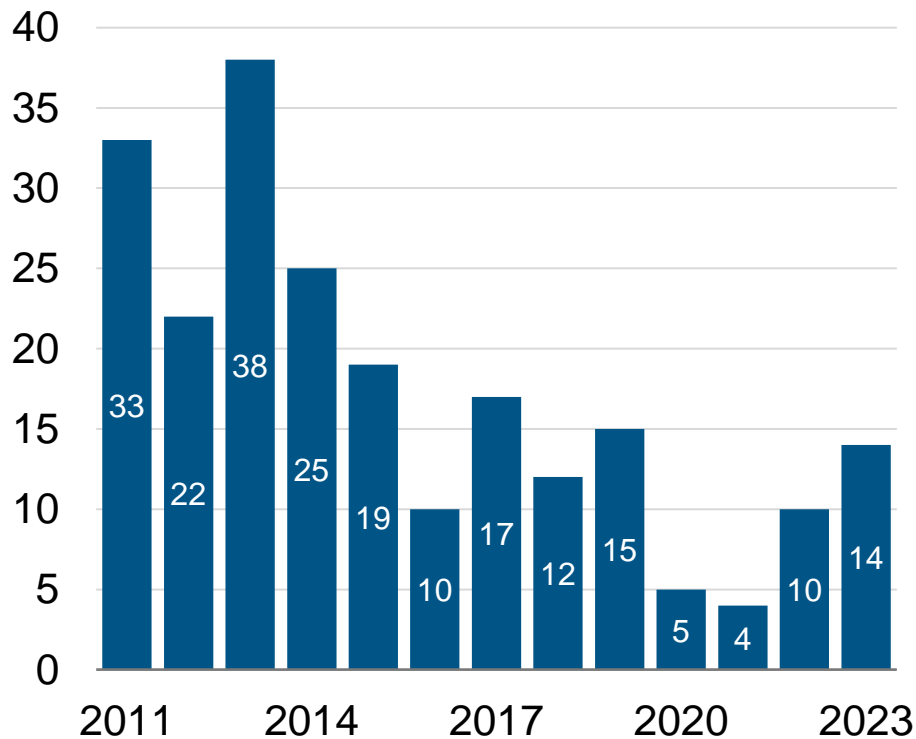


Source: National Examination Database

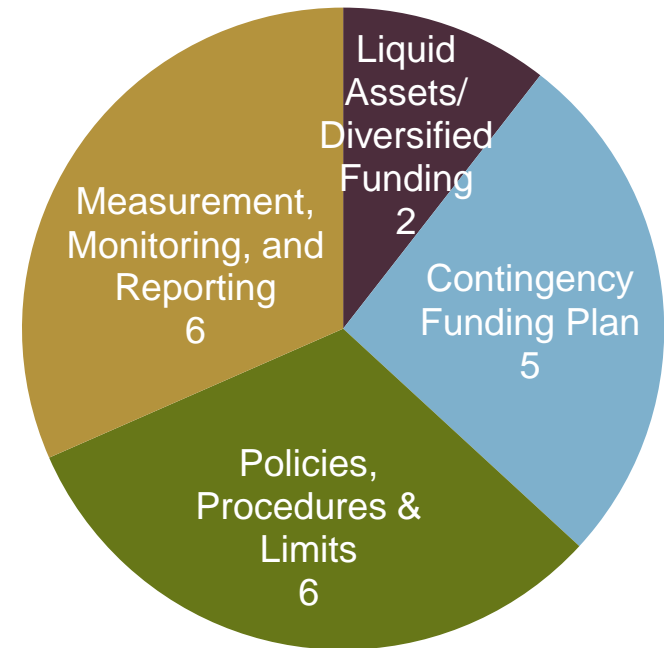
Common Exam Findings

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