Liquidity Special Webinar
March 14, 2023

FinPro
Building value together

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Be proactive with liquidity the week of March 13 and don’t wait, act now!

- Implement contingency funding plan as laid out in the policy as if it were a liquidity crisis.
  - While your institution may not yet have a liquidity issue, external market factors warrant implementation of your contingency funding plan to protect your institution.
- Position itself to have cash liquidity of about 10% of your deposit base for the near term.
- Increase on-balance sheet liquidity by holding about 10% of your deposits in unpledged investments (excluding cash)
- Be proactive now as liquidity sources may become less available in upcoming days and weeks. The Bank could do this by utilizing diversified sources:
  - FHLB borrowing short term
  - Short term brokered deposits – don’t require collateral and cannot be withdrawn early (like customer deposits)
  - Federal Reserve Discount Window
- Become knowledgeable on the new Federal Reserve Bank Term Funding Program.
- Direct customer contact by relationship bankers to largest deposit customers.
- Get your board involved so that they are aware of actions taken by your management team to ensure sufficient liquidity at your institution.
- Communicate proactively with your regulatory authorities.
- Test borrowing liquidity lines.
- Optimize collateral so that it is pledged to places for available liquidity.

Key Takeaways . . .

- Does your institution have policy limits for different types of wholesale funding?
  - Do you have support for those limits?
  - Are you conducting an analysis of your balance sheet and financial simulations in setting these limits?
- Review your liquidity Policy for new limits, such as the level of uninsured deposits.
- Do you have relationships and capacity with wholesale funding sources (FHLB, brokered deposits, listing service deposits, Federal Reserve)?
- Do you have a borrowing line at the Federal Reserve Discount Window? Correspondent banks? Has it been tested recently?
- Do you have collateral for borrowing purposes pledged to the right places? Do you have securities ‘pledged’ when you could or should be pledging loans? Can you free up your securities that are pledged but not encumbered?
- Be very cautious about going long on wholesale funding, you may get stuck with higher costing funding if rates are lower 12-18 months from now.
- Submit the standard template email to your Reserve Bank to facilitate the ability to obtain advances under Federal Reserve Bank Term Funding program.

https://www.frbdiscountwindow.org/GeneralPages/bank_term_funding_program

Contingency funding plans must be reviewed and updated . . .

- Determine the order of obtaining necessary liquidity for your institution; what is your waterfall?
  - Use excess cash, brokered deposits, run CD special, new Nonmaturity deposit special, listing service deposits, borrowings, sell investments, slow loan originations, sell loans, etc.
- Liquidation of investments, particularly those that are underwater, should **NOT** be done
  - The actually realized losses taken at SVB could be argued to have been the final catalyst for the bank run
- Review and discuss contingency funding plans with your board of directors

Key Takeaways . . .

- Manage and monitor actual and projected cash flow under a multitude of scenarios is the key to managing liquidity risk.
- Deposits across the industry will decline and deposit decay rates are likely to increase given competitive rate pressures, especially if rates remain high for an extended period.
- Deposit rates have increased sharply, and after a lag, betas are increasing and likely continue to increase. Use new premium products to maintain deposits and potentially drive growth.
- CD specials at off-term (14 month for example) could be a good source to raise funds.
- Liquidity should be managed in stages: immediate, intermediate, and long term.
- Run individual investment and portfolio stress tests – remove securities with large losses.
- Get securities unpledged – pledge loans for borrowings, get municipal depositors into products (such as ICS) with large FDIC insurance limit to free up investment collateral
- Longer duration securities should be held HTM.
- Stress testing and contingency funding plans should be performed and documented on a periodic basis to ensure liquidity is properly managed.
- Banks should maintain diversified funding alternatives including, but not limited to, cash, liquid investments, readily available collateralized borrowing sources (FHLB, FRB) with collateral pledged, unsecured borrowing lines, brokered deposits and listing service deposits.

ABOUT FINPRO

Established in 1987, FinPro is a full service management consulting firm specializing in providing advisory services to the financial institutions industry. FinPro's competitive advantage is that we are regarded as thought leaders in the industry who are on the forefront of banking. Our services include: strategic planning, board retreat moderation, planning, enterprise risk management, leadership and education, corporate governance, market feasibility, de novo bank formation, asset/liability management, and regulatory consulting. FinPro also conducts M&A, capital/debt raises and valuations through its wholly owned subsidiary, FinPro Capital Advisors (FCA) as a FINRA registered broker/dealer. Every service we offer underscores our dedication to FinPro's core principle of Building Value Together.

FINPRO...

- ✓ Is structured to advise Community Banks from Cradle to Grave
- ✓ Works with over 400 community banking institutions in 46 states and internationally
- ✓ Works with community banks ranging from de-novo groups to $30 billion in assets
- ✓ Performs quarterly Enterprise Risk Assessments on over 100 recurring Clients
- ✓ Provides quarterly ALCO analyses and conducts meetings for over 80 recurring Clients
- ✓ Moderates over 100 board retreats a year
- ✓ Has a team of significant heavy hitting Ex-Regulators
- ✓ Builds long-term relationships with Clients focused on Building Value Together
- ✓ Serves hundreds of Clients with any consulting need as FinPro has numerous fields of expertise
- ✓ Works with Clients to avoid regulatory pitfalls and to mitigate and eliminate regulatory issues as they arise
- ✓ Advises on Capital Markets strategies that are in the best interest of the Client
- ✓ Invests heavily in digital technology to ingest, analyze, interpret and present data
- ✓ Teaches at Stonier Graduate School of Banking, and the Graduate School of Banking at Colorado
- ✓ Hosts Webinars throughout the year which focus on hot topic and economic forecast with 2,500 registered attendees annually

OUR SERVICES

CONSULTING

The Consulting Division focuses on serving FinPro clients, providing institution specific advice. FinPro offers a full array of consulting services designed to align with our core principle of Building Value Together. (Any of our services below can be grouped as a Bundled Service.)

- *Strategic Planning*
- *Asset Liability Management*
- *Balance Sheet Management*
- *Enterprise Risk Management*
- *Value Enhancement*
- *Corporate Governance*
- *Talent Management*
- *Market Feasibility*
- *Asset Quality Analytics*
- *De novo Bank Consultation*

DIGITAL

FinPro's Digital Division is an interactive experience that puts the power of FinPro's models and what-if analytical capabilities in your hands. These analytical models are cloud-based and can be run 24/7 using your Bank's data.

- *Static ALM*
- *Scorecard*
- *Comparable Analytics*
- *Value & Goal Builder*
- *Dashboard Analytics*

REGULATORY

FinPro's Regulatory Division has a team of Regulators who discuss policy issues with all Bank Regulatory Agencies, conduct pre-exam reviews to avoid regulatory missteps, and correct as well as eliminate regulatory issues including both informal and formal actions.

- *Risk Assessment*
- *USDA Asset Review*
- *Expert Witness*
- *Regulatory Order Advisory*
- *Board/Management Reviews*
- *Policy Review*
- *Regulatory Retainer*
- *Pre Exam Review*

FINPRO CAPITAL ADVISORS

FinPro Capital Advisors (FCA) combines the insight and analysis of a premier consulting firm with the flexibility and innovation of a quality investment banking firm. Our top priority is unlocking maximum value for a company and its stockholders. *(FCA is a registered broker dealer and is a wholly-owned subsidiary of FinPro, Inc.)*

- *Capital Markets*
- *Mergers & Acquisitions*
- *Capital Raising*
- *Integration*
- *Valuation*

LEADERSHIP AND EDUCATION

FinPro's Leadership and Education Division focuses on real world training solutions. We teach Strategic Planning, Mergers & Acquisitions, ALM and Enterprise Risk Management at the top Graduate Banking Schools. FinPro speaks at multiple state and association conferences each year and also moderates board retreats for over 100 community banks annually.

- *Webinars*
- *Banking Schools*
- *Board Education*
- *Bank Training Manual*
- *Executive Roundtables*
- *Speaking Engagements*
- *Community Bank Resource Guide*

STRATEGIC ALLIANCES

Please call for details on FinPro's Strategic Alliances.

- *Atlys (Disaster Recovery Financing)*
- *Dominion (Non Owner Occupied Loans)*
- *Newcleus (BOLI Executive Compensation)*
- *Founders (ECIP/CRA Qualifying Investments)*
- *Vikar (API Portal to Core)*

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