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Emergency Liquidity Agenda

March 14, 2023

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Welcome . . .

1. Clients
2. Bankers
3. Lawyers
4. Competitors – At least provide FinPro with attribution as you utilize our material going forward
5. State Bank Associations
6. Regulators – It is gratifying that numerous State and Federal Agencies have attendees.

Record attendance – blowing by even the AOCI Special Webinar we held in September 2022 and our Quarterly Economic Webinars

Situation Assessment . . .

- Silvergate Bank – Self Liquidation
- Silicon Valley Bank and Signature Bank – Liquidity Failures
- I would be very worried if my bank name started with SI
- Lets discuss the Causal Impact:
  - ✓ Realized losses on AOCI
  - ✓ Threat of further Crypto collapse
  - ✓ Threat of much higher rates – Powell Commentary
  - ✓ Threat of Recession
  - ✓ Threat of weakening earnings

NOTHING WILL SINK A BANK QUICKER THAN A LIQUIDITY THREAT – REAL OR PERCEIVED

It is scary cause to some extent it depends on regulatory perception.

- This was our first Digital Run – no more Jimmy Stewart in *It's a Wonderful Life*

This is like having your neighbors uninsured house burn down and then having the authorities decide to rebuild the house and charge you and neighbors for the rebuild to avoid blight in the neighborhood.

From a Bank CEO

Source: Yahoo Finance

Who is responsible? Let the blame game begin.

Tristan Bove

Mon, March 13, 2023 at 1:24 PM EDT

The waters are still far from calm after federal regulators seized over $300 billion in deposits and assets from Silicon Valley Bank, the tech and VC sectors' lender of choice, in the second-biggest banking failure in U.S. history on Friday, and then the third largest, New York–based Signature Bank on Sunday. But the finger-pointing over what caused the banks' lightning-fast collapse has already begun. Traders and clients are blaming mismanagement at SVB's executive level, which among other things, lacked a chief risk officer for eight months last year. Cryptocurrency advocates said the centralized financial system was at fault. Venture capitalists are largely blaming one another for amplifying panic on social media that turned into a record $42 billion bank run. But for Democratic Senator Elizabeth Warren, legislative changes bank executives lobbied for years ago (including SVB's own CEO, Greg Becker) mean the banking sector's crisis was both predictable and overdue, and the writing on the wall is for more pain ahead.

Source: Yahoo Finance

Each day that passes without an event brings us back toward stability, however Investors are skittish over:

1. Rising rates
   - ✓ Impact on AOCI
   - ✓ Impact on earnings
2. Any BIG concentrations
   - ✓ Crypto
   - ✓ FinTech
   - ✓ Start-up Ventures
   - ✓ But also – Real Estate
3. High level of uninsured deposits
4. Poor Bank trends in Core Deposits and Loans

The problem that must be solved is . . .

1. Bifurcated system
   - ✓ Too big to fail has implicit guarantee on uninsured deposits
   - ✓ Community Banks do not have such a guaranty
   - ✓ FDIC called both SVB and Signature Bank systemically risky to facilitate their ability to payout uninsured depositors

What we are seeing . . .

1. Regulatory questions and calls
   - ✓ OCC, FDIC and FRB
   - ✓ Review questions we have provided and pro-actively address
2. Up to daily Liquidity Reporting if you have low levels of liquidity
3. Concerns over:
   - ✓ Overall available liquidity
   - ✓ On- balance sheet liquidity
   - ✓ Cash (raise from 3-5 to 8-10)
   - ✓ Decreasing ability to sell securities (we warned on this back in September)
   - ✓ AOCI
   - ✓ Uninsured deposit levels

What's next . . .

1. Increased Regulatory Scrutiny
   - ✓ No one wants a failure on their watch
2. Tighter rules
   - ✓ Policies
   - ✓ Limits on Uninsured deposits??
3. Focus on ALCO and IRR
4. Contingency Funding Plans
5. Business Plans

At end of webinar, FinPro is providing . . .

1. Form of questions from Regulators
2. Guide to discussions with clients
3. Terms of the Bank Term Funding Program
4. Policy Change Recommendations and Actions to consider
5. Information on ordering Webinar series and Bank Resource Guide

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Emergency Liquidity Webinar

March 14, 2023

Agenda . . .

1. Defining the liquidity problem
   - Recent seizures
2. Preparation
   - Data request
   - Discussion points for uninsured and large depositors
   - Rationale for use of diversified funding sources
   - Bank Term Funding Program
     - No longer a reason to liquidate investments
3. Short term actions
   - Hold more cash for 3 to 6 weeks
   - Talk to large depositors
   - Manage level of uninsured deposits
   - Create more on-balance sheet liquidity
   - Revisit liquidity policy
4. Long term actions
   - Private insurance like DIF in Massachusetts
   - Detailed analytics on uninsured deposits
   - Lobby for more insurance on all deposits
   - Revisit business plan

Banks should start collecting the following data . . .

1. Any large, unexpected withdrawals and deposits
2. The 10 largest deposit relationships (name and amount controlled)
3. Uninsured deposit exposure (amount over the limit)
4. Funding concentrations by industry (e.g. cannabis, crypto, etc)
5. AOCI
6. Pledged securities and encumbered securities
7. Contingent Funding sources (note Secured vs Unsecured)
   a) Cash at Fed / Cash at branches
   b) FHLB capacity
   c) Discount window capacity
   d) Repo availability
   e) Other secured funding availability
   f) Unsecured lines at financial institutions
8. Exposure to SVB or Signature
9. Exposure to SVB or Signature clients, including ACH/3rd party payment providers
10. Reputation risk issues/concerns

Bank Term Funding Program

Program: To provide liquidity to U.S. depository institutions, each Federal Reserve Bank would make advances to eligible borrowers, taking as collateral certain types of securities.

Borrower Eligibility: Any U.S. federally insured depository institution (including a bank, savings association, or credit union) or U.S. branch or agency of a foreign bank that is eligible for primary credit (see 12 CFR 201.4(a)) is eligible to borrow under the Program.

Eligible Collateral: Eligible collateral includes any collateral eligible for purchase by the Federal Reserve Banks in open market operations (see 12 CFR 201.108(b)), provided that such collateral was owned by the borrower as of March 12, 2023.

Advance Size: Advances will be limited to the value of eligible collateral pledged by the eligible borrower.

Rate: The rate for term advances will be the one-year overnight index swap rate plus 10 basis points; the rate will be fixed for the term of the advance on the day the advance is made.

Collateral Valuation: The collateral valuation will be par value. Margin will be 100% of par value.

Prepayment: Borrowers may prepay advances (including for purposes of refinancing) at any time without penalty.

Advance Term: Advances will be made available to eligible borrowers for a term of up to one year.

Fees: There are no fees associated with the Program.

Credit Protection by the Department of the Treasury: The Department of the Treasury, using the Exchange Stabilization Fund, would provide $25 billion as credit protection to the Federal Reserve Banks in connection with the Program.

Recourse: Advances made under the Program are made with recourse beyond the pledged collateral to the eligible borrower.

Program Duration: Advances can be requested under the Program until at least March 11, 2024.

§ 201.4 Availability and terms of credit.

(a) Primary credit. A Federal Reserve Bank may extend primary credit on a very short- term basis, usually overnight, as a backup source of funding to a depository institution that is in generally sound financial condition in the judgment of the Reserve Bank.

§ 201.108 Obligations eligible as collateral for advances.

(b) Under section 14(b) direct obligations of, and obligations fully guaranteed as to principal and interest by, the United States are eligible for purchase by Reserve Banks. Such obligations include certificates issued by the trustees of Penn Central Transportation Co. that are fully guaranteed by the Secretary of Transportation. Under section 14(b) direct obligations of, and obligations fully guaranteed as to principal and interest by, any agency of the United States are also eligible for purchase by Reserve Banks.

(c) Nothing less than a full guarantee of principal and interest by a Federal agency will make an obligation eligible.

(d) Also eligible for purchase under section 14(b) are “bills, notes, revenue bonds, and warrants with a maturity from date of purchase of not exceeding 6 months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage and reclamation districts.”

Short-Term Actions . . .

1. Complete full assessment of your deposit base
   a. % and $ amount of uninsured deposits
   b. Determine recent trends in overall deposit decline
   c. Determine recent decline in uninsured deposits
   d. OCC has sent out a liquidity questionnaire that all banks should consider completing, not just national banks
      i. Its likely that the other regulators (FDIC and FRB) will have a similar questionnaire
2. Develop a message for concerned depositors
   a. Essentially convey the differences in your balance sheet structure and activities compared to the three banks that failed
3. Assess your liquidity levels compared to your policy minimums
   a. Determine if your minimums are high enough given the stresses in the current market
   b. Determine if you have a need to increase liquidity to meet current or updated minimums
   c. Determine how much of liquidity needs to be in cash, vs. short-term investments
      i. Might need cash liquidity in the 10% range

Short-Term Actions (Continued) . . .

4. Review your contingency funding plan
    a. Determine if your previously approved strategies will work in today's market
        i. i.e. can you access these contingency funds, such as
            1. Borrowings from the FHLB of Fed
            2. brokered deposits
            3. Listing Services
            4. ICS, CDARS, etc.
        ii. Slow down lending
5. Have an ALCO meeting with board member participation and determine what actions need to be taken, such as,
    a. Is additional liquidity needed
    b. Boards need to set a limit on uninsured deposits
        i. Or a plan to fund loss of these accounts
    c. Can you execute your current contingency funding plan?
        i. If not, what changes are needed
        ii. The CFP, at a minimum, needs to address an uncertain environment (no guarantee that there will be a backstop for deposits above $250k
        iii. And a plan if there is a temporary backstop
        iv. And, if needed down the road, a plan if there is a structural change in deposit insurance
            1. i.e. increased insurance coverage.
6. If necessary, execute contingency funding plan to increase liquidity to your revised minimums