Liquidity

~A CASE STUDY~

- **Objective** – Based on the following information, discuss the below facts and circumstances with your teammates and assign a Liquidity component rating utilizing the provided component rating definitions.

Exam Date: 9-30-2024

Liquidity Overview

	9/30/2024	12/31/2023	12/31/2022	12/31/2021	12/31/2020
Net Non Core Fund Dependence	31%	24%	19%	11%	-5%
Core Dep*/Total Dependence	55%	53%	64%	70%	72%
Loans/Total Dependence	102%	98%	95%	90%	89%
Brokered/Total Dependence	13%	12%	4%	2%	0%
AOCI/Tier 1 Capital	-14%	-12%	-8%	5%	5%
Asset Growth Rate	8%	9%	10%	18%	20%

*Given the competitive market, many "core" deposits are price sensitive

- The bank-calculated on-balance sheet liquidity ratio has stayed relatively steady over the past few years ranging from 11% to 15% depending on the time of year. The ratio has always stayed above the 10% Liquidity Policy minimum.
- Since rates started increasing in 2022, the bank experienced a large movement of deposits from DDA and MMDA accounts to CDs (including CDs >$250,000). The bank operates in a highly competitive deposit market so management must match interest rates that competitors offer.
- Uninsured deposits have trended up with the increase in CDs greater than $250,000. Presently, they represent 20% of total deposits. Note that the bank did not have any meaningful outflow in the second quarter of 2023.

Funds Management Practices

- The Board receives monthly reporting on liquidity. They held a special board meeting in March 2023 given the failures of Silicon Valley Bank and Signature Bank. They decided to issue a press release regarding their institution. They also directed management to test borrowing lines and be prepared to use those lines as needed.
- In March 2024, the bank breached board limits in two areas: Net Non Core Dependence ratio (28% limit) and Loans/Deposits ratio (100% limit). The Board directed management to develop a plan to get back under policy limits by June 2025. Examiners reviewed the plan, made a few minor suggestions regarding board reporting on progress, and found it overall satisfactory. Initial management efforts have reduced the loan-to-deposit ratio and curtailed the increase in the dependence ratio.

- Management conducts a robust cash flow analysis and presents it to the Board on a monthly basis.
- Management is updating the bank's Stress Test and the Contingency Funding Plan for a severe stress event from lessons learned from the second quarter of 2023. However, the update is not yet final as of the exam date.
- Examiners found capital, earnings, and asset quality satisfactory – all rated "2".

Question: What would you rate the Liquidity component?

Liquidity "2" Definition

A rating of 2 indicates satisfactory liquidity levels and funds management practices. The institution has access to sufficient sources of funds on acceptable terms to meet present and anticipated liquidity needs. Modest weaknesses may be evident in funds management practices.

Liquidity "3" Definition

A rating of 3 indicates liquidity levels or funds management practices in need of improvement. Institutions rated 3 may lack ready access to funds on reasonable terms or may evidence significant weaknesses in funds management practices.