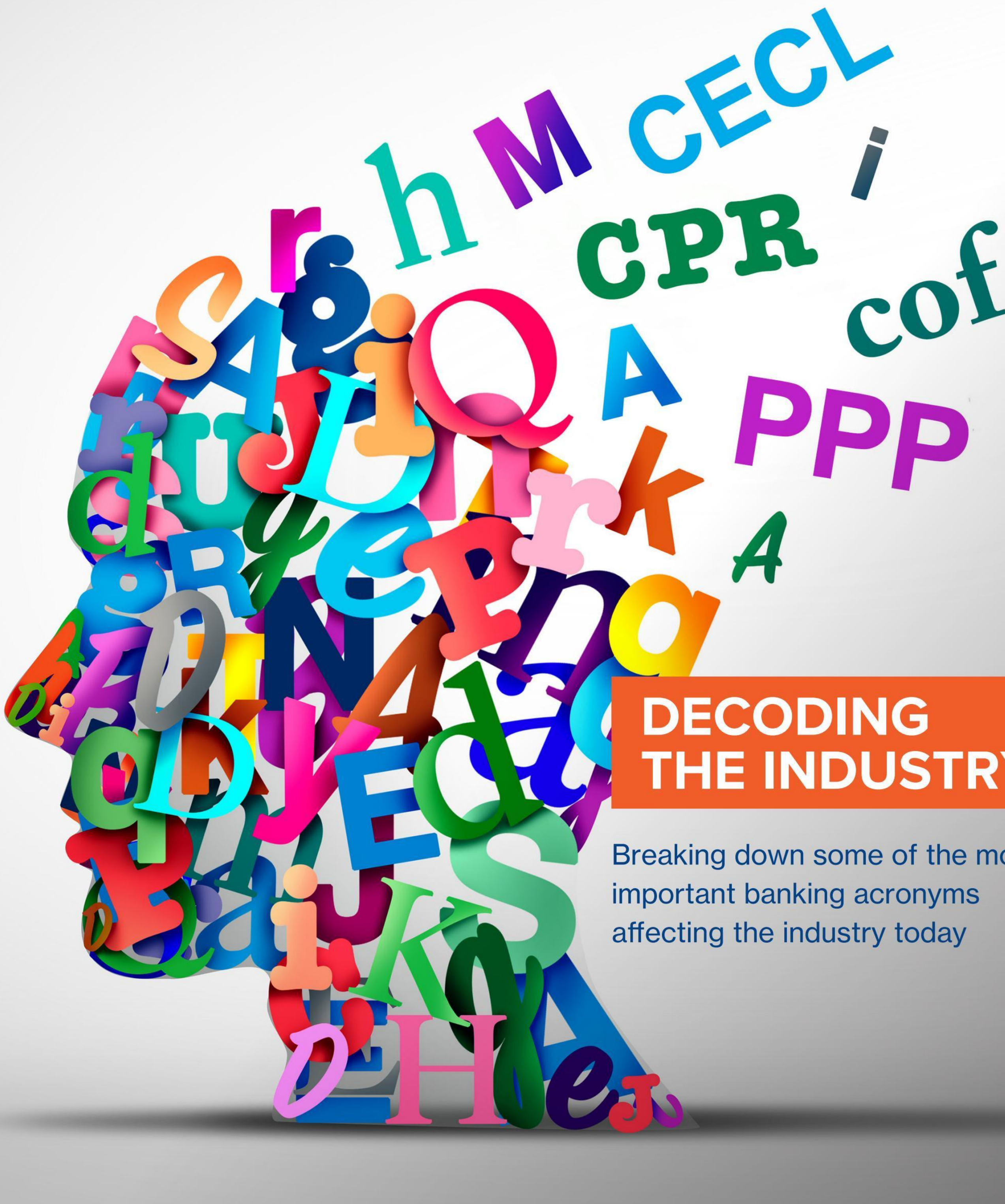
The Official Magazine of the Ohio Bankers League

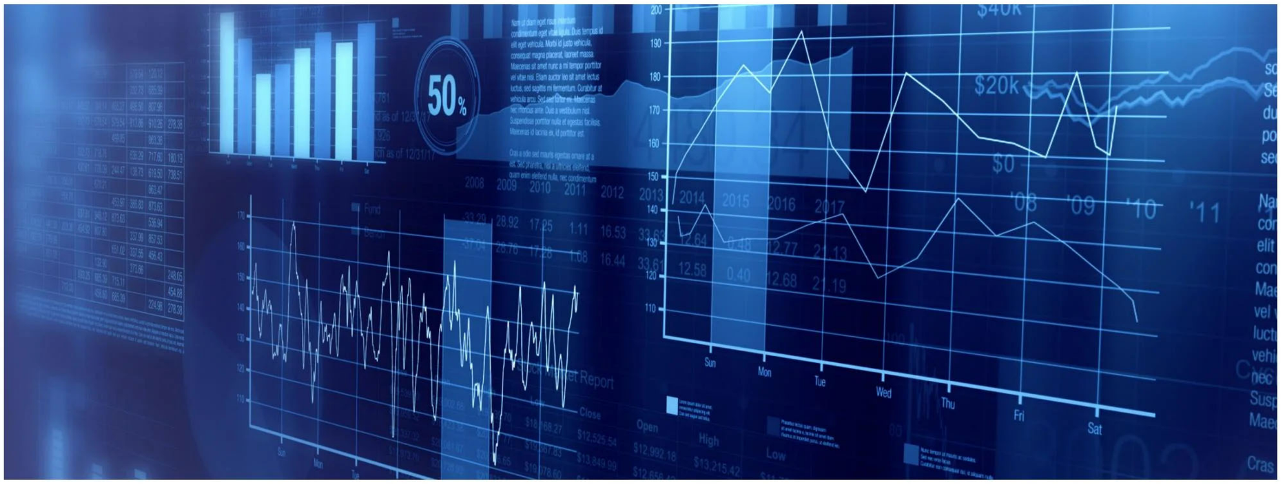
OHIO RECORD

SUMMER 2023 ISSUE



DECODING THE INDUSTRY

Breaking down some of the most important banking acronyms affecting the industry today



WHERE ARE YOUR BALANCE SHEET BLIND SPOTS?

Stress testing your institution's liquidity is no longer an academic exercise! Recent bank failures of Silicon Valley Bank and Signature Bank shocked the banking sector, and the fallout continues to ripple through the industry and the economy. Liquidity and Contingency Funding Plans have taken center stage, and regulators will be ultra-focused on liquidity risk management practices. Given the unprecedented uncertainty in the banking sector, we must fortify our liquidity risk management practices and prepare our balance sheet for a challenging environment.

Liquidity Assessment

The events of the past few weeks have certainly forced executives to dust off Contingency Funding Plans and assess the importance of having a robust approach to liquidity management. Beyond strengthening your current on-balance sheet liquidity, the following are key questions to ask as you prepare for tomorrow's risks:

- Federal Reserve's Bank Term Funding Program – Have you set up access and identified eligible collateral? How quickly can you access this funding source?
- Have you identified additional eligible collateral (loans and investments) to pledge to the FHLB or the Fed Discount Window?
- Have you tested all lines of credit?
- Are you monitoring Reg F exposure for counterparty risk?
- Do you stress test your Tangible Equity Capital falling below zero and are you familiar with the resulting liquidity implications of this?
- Have you assessed your institution's reliance on uninsured deposits?
- Can you offer reciprocal deposits to your large depositors?
- Could our institution withstand a significant deposit outflow?

Executive teams need to ask themselves some additional important questions. Is our Liquidity Management and Continency Funding Plan up-to-date and reflective of the current economic environment? Are we overly reliant on funding sources that may not be available under a time of stress? How do our funding sources behave during periods of stress? Knowing the 'breaking points' within your current liquidity positioning and working to rectify any gaps will serve your institution well for your Board and especially the regulators.

Capital Assessment

The Capital position and stress testing should not be ignored in favor of a hyper-focused approach to liquidity. Stress testing your capital position is equally important today as liquidity access and capital are very much intertwined. We have a saying at Taylor Advisors': "Capital Erosion Leads to Liquidity Evaporation" and, historically, capital erosion stems from asset quality and loan impairment. While credit quality remains favorable today, the long and variable lags of Federal Reserve Monetary Policy can most certainly impact asset quality in the future.

Furthermore, some institutions have chosen to materially impair capital today by selling securities and realizing unrealized losses in investment portfolios (i.e. Silicon Valley Bank). Knowing the breaking points of your capital by comprehensively stress testing helps reinforce confidence in your liquidity risk management practices and your ability to implement your Contingency Funding Plan.

HUB | Taylor Advisors' Take:

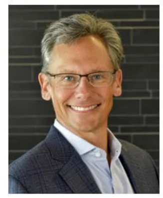
Checking boxes and going through the motions at ALCO is never sufficient!

The liquidity assessment and management processes continue to evolve for the Board, management, and regulatory perspective. The liquidity crises during the Great Recession stemmed from asset quality and capital issues. Fallout from recent liquidity failures could spread to even the most conservatively run financial institutions. Silicon Valley Bank converted interest rate risk into credit risk, eroding regulatory capital ratios.

Evaluating strategies in isolation can expose blind spots on other parts of the balance sheet. This is why a wholistic approach to balance sheet management is critical when evaluating each of your major ALCO positions: Capital, Liquidity, Interest Rate Risk, and Investments.

Have you considered reimagining your ALCO process? You can start with upgrading your tools and policies, improving your ability to interpret and communicate the results, and helping implement actionable strategies.

HUB |Taylor Advisors, an Affiliate Member of OBL, helps banking executives by providing strategies and expertise to effectively manage the balance sheet and maximize Net Interest Margin.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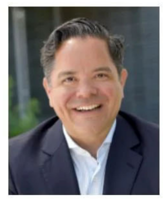
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