Bank Liquidity

Bank Analysis and Examination School
Objectives

- Evaluate funding sources
- Analyze asset and liability liquidity
- Consider large and small bank differences
- Analyze liquidity ratios
- Review other liquidity risk factors
- Rate liquidity
- Prepare liquidity write-up
Objectives (cont.)

- Analyze liquidity ratios
- Review other liquidity risk factors
  - Contingency funding
  - Risk management
- Rate liquidity
- Prepare liquidity write-up
Asset Liquidity

- Loans
  - Earnings/liquidity trade-off

- Investments
  - The three “Ms”
  - Pledging and appreciation/depreciation

- Federal funds sold
Asset Liquidity (cont.)

- Loans
  - Earnings/liquidity trade-off

- Investments
  - The Three “Ms ”
  - Pledging and Appreciation/Depreciation

- Federal funds sold
Liability Liquidity

- Core deposits

- Noncore deposits
  - Volatile?

- Other borrowings
  - Purpose and terms
Liability Liquidity (cont.)

- Core Deposits
  - Are they stable?
- Noncore Deposits
  - Are they volatile?
- Other Borrowings
  - Purpose and terms
Strategies and Differences

- **Small Banks**
  - Asset liquidity
  - Core deposits

- **Large Banks**
  - Liability liquidity
  - Market access
Asset Liquidity Ratios

- Assets and ST Investments
- Loans/deposits and Loans/core deposits
- ST investments/ST non-core funding
- ST assets/ST liabilities
Asset Liquidity Ratios (cont.)

- Short-term Assets and Short-term Investments

- Loans/deposits and Loans/core deposits

- ST investments/ST noncore funding
Asset Liquidity Consolidation

- ST Assets/ST Liabilities
- Cash management report information
Liability Liquidity Ratios

- Core deposits/Total assets
- ST noncore funding
- Net noncore funding dependence ratio
Liability Liquidity Ratios (cont.)

- Net ST noncore funding dependence Ratio
- Federal funds purchased/Total assets
- Brokered deposits/Total deposits
Secondary Liquidity Ratios

- Investment appreciation (Depreciation)/Investment portfolio
- Pledged securities/Investment portfolio
Other Considerations

- Holding company affiliation
- Off-balance sheet items
- Market access
Other Considerations (cont.)

- FASB 115
- Credit Risk
- Reputational risk
- Asset securitizations
Management of Liquidity Risk

- Strategic objectives
- Policies and targets
- Reporting and monitoring
- Contingency planning
Rating Liquidity

- Subjective
- Balance sheet structure
- Ratio analysis
- Strategy
- Risk management
Liquidity Write-up Outline

- Conclusion and rating with support
- Liability liquidity (deposit mix and noncore funding)
- Asset liquidity
- Contingency plans
- Access to markets
- Policies and management supervision
Questions?