

Financial
Performance

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◆ Risk Management Strategy & Solutions ◆

February 23, 2023

Solving the Liquidity Challenge



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Federal Home Loan Bank
NEW YORK

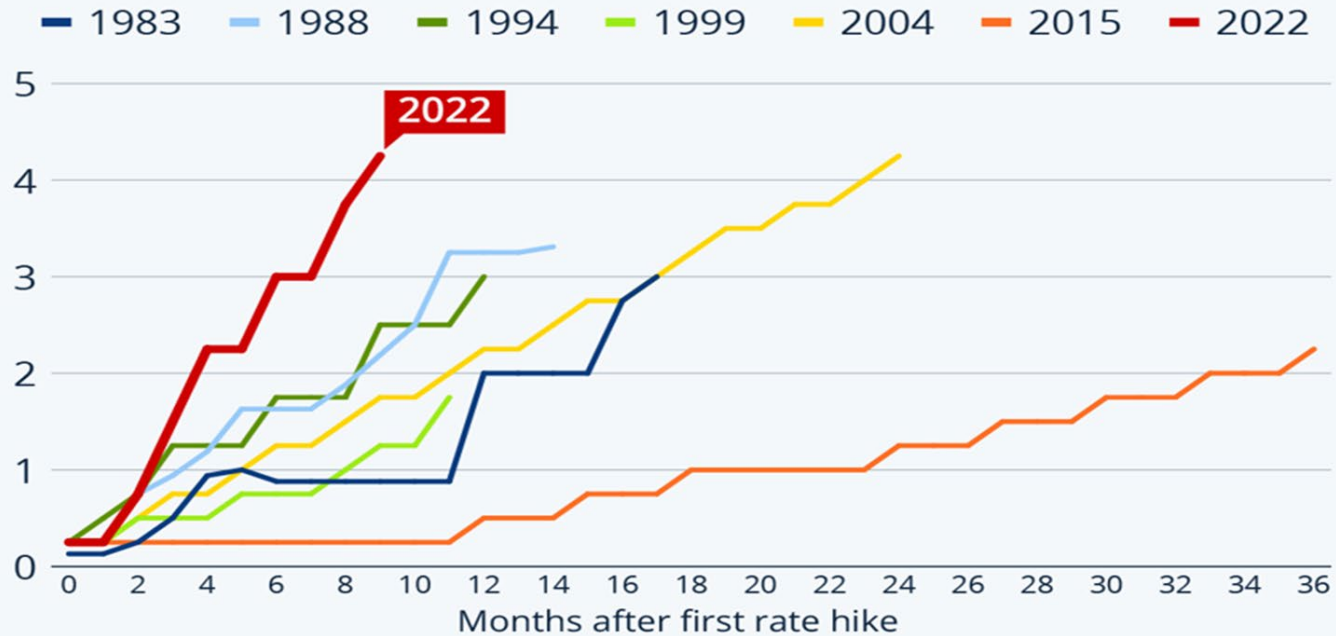
“It's tough to make predictions,
especially about the future.”

— Yogi Berra



PAST

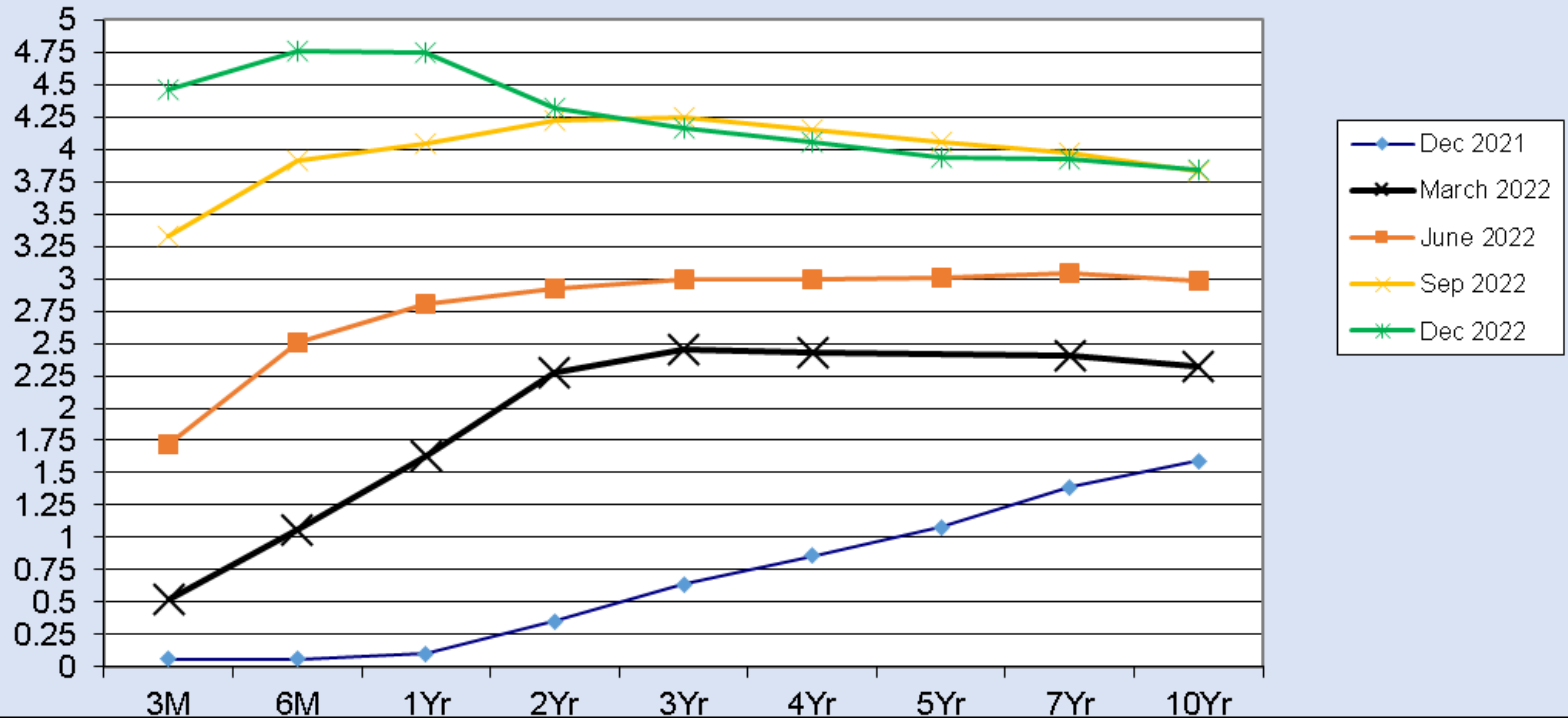
FUTURE



Source: Federal Reserve



U.S. Treasury Rates





UNCERTAINTY

FOMC

Loan Growth?

Inverted Yield Curve

Liquidity

Flux

NIM Pressures

Credit

Cost of Funds

Strategy Development

- ◆ Deposits
- ◆ Wholesale Funding
- ◆ Lending
- ◆ Investments
- ◆ Hedging

Risk Measurement, Assessment & Management Implications

- ◆ Liquidity
- ◆ IRR
- ◆ Credit
- ◆ Sensitivity & Stress Testing



Current Market Realities, Trends & Forecasts

Liquidity Measurement & Management

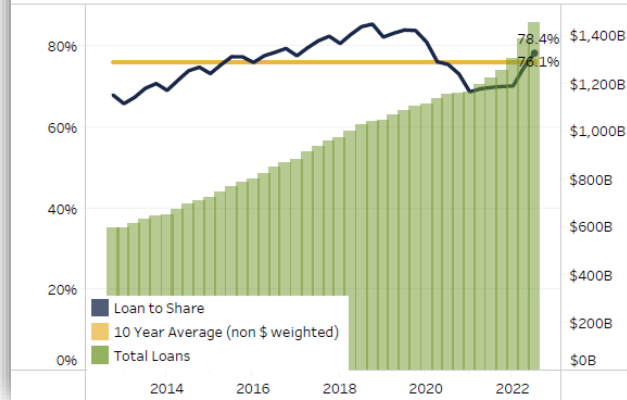
Establishing a Total Liquidity Solution & Action Plan

Risk Monitoring & Contingency Funding Plan

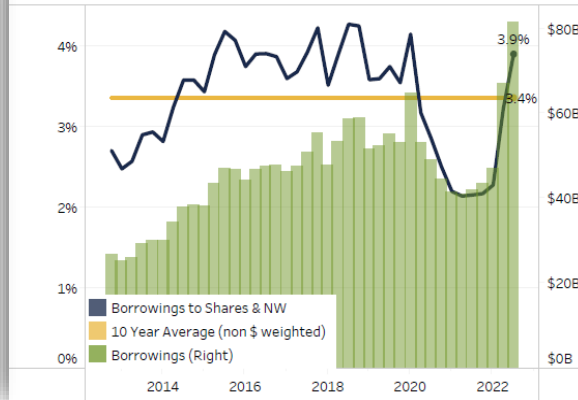
Stress Testing Considerations



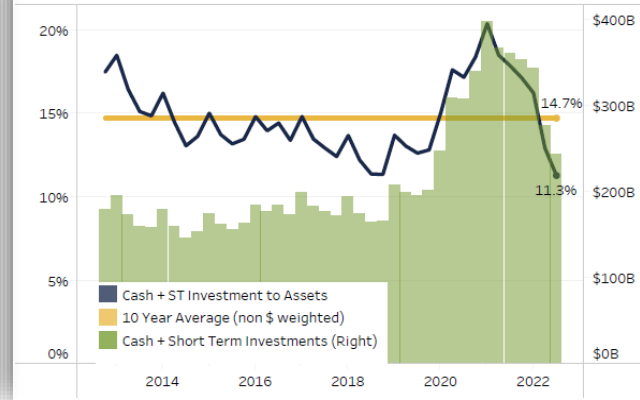
Total Loans / Total Shares



Borrowings / Total Shares & Net Worth

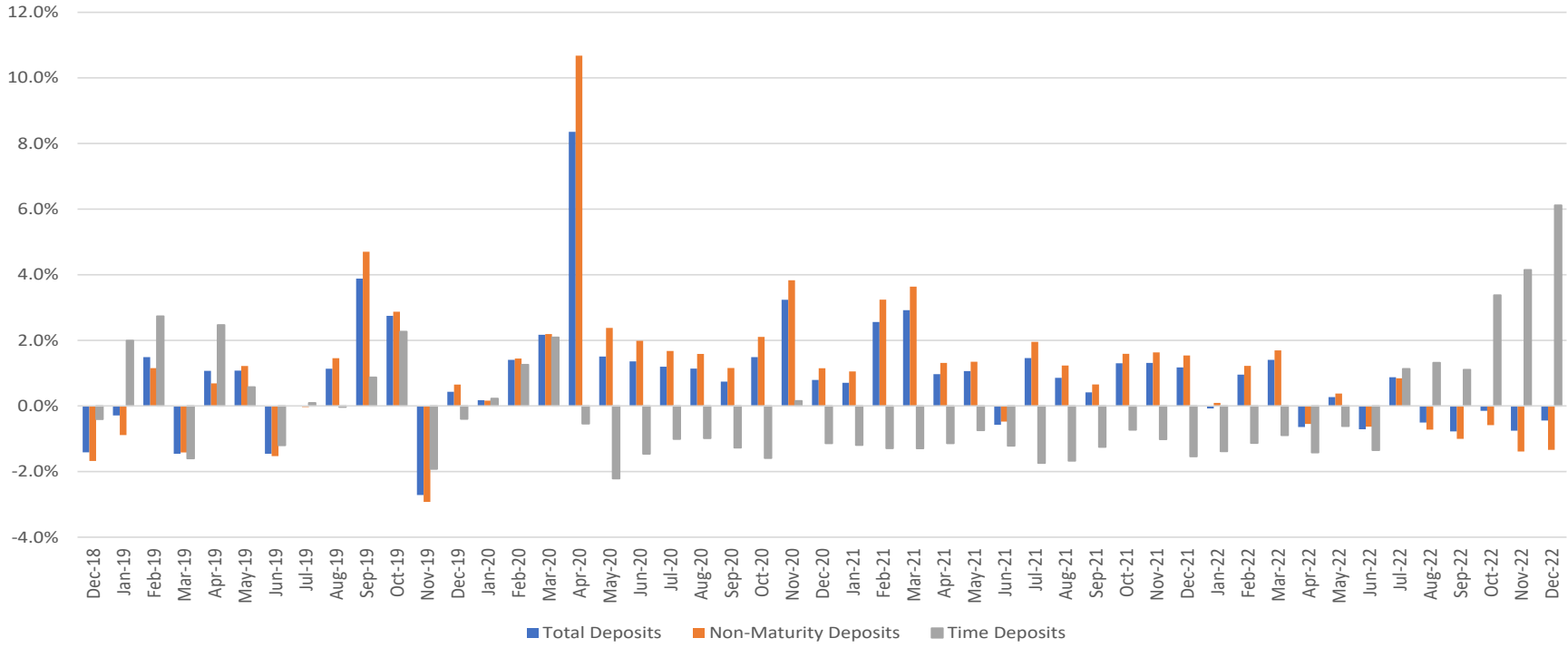


Cash + Short Term Investments / Assets

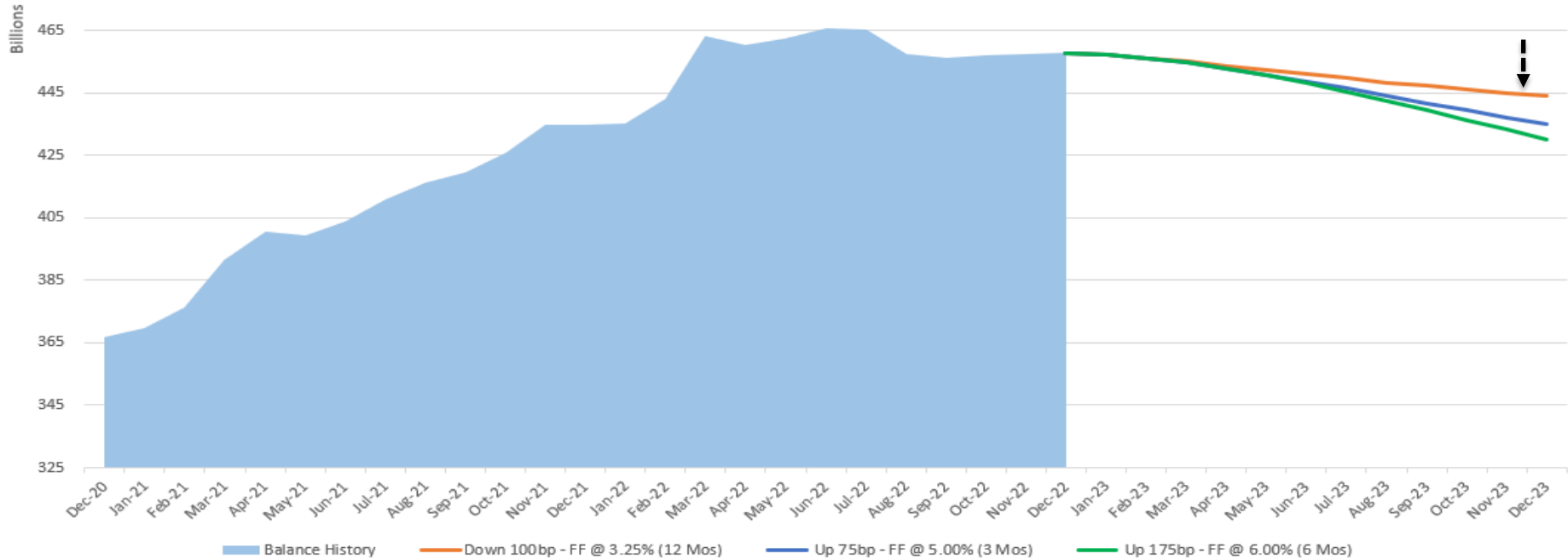


Source: NCUA 9/30/22 Chart Pack

Deposits360[®] Month-Over-Month Growth Rates (Banks & Credit Unions)

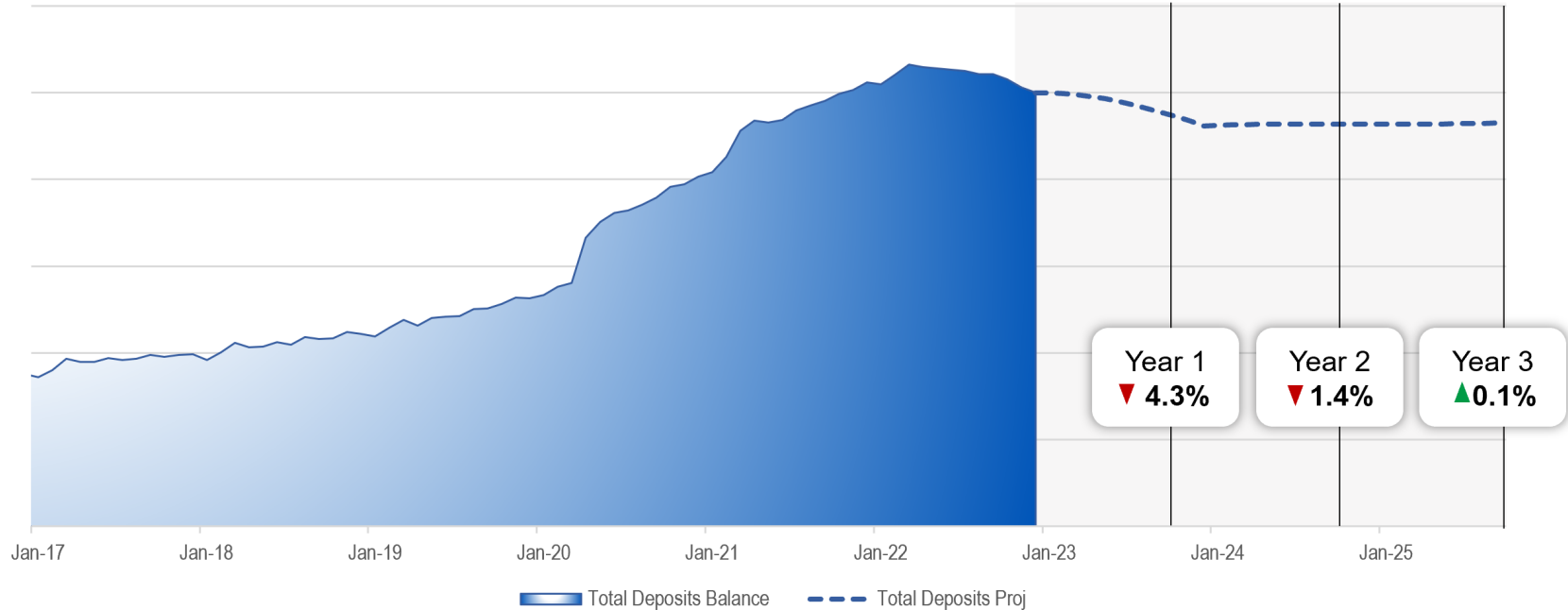


NMD Balance History & Forecast



*Forecast derived from Deposits360[®]

Total Deposit Balance History & Forecast



- Model Assumes Fed Funds at 5% at end of 2023, declining to 3.50% by 2025 – based on December 2022 FOMC dot plot
- Forecast derived from Deposits360® - Industry NMD Rates above are balance weighted averages and do not include any outlier removal

NCUA's 2023 Supervisory Priorities



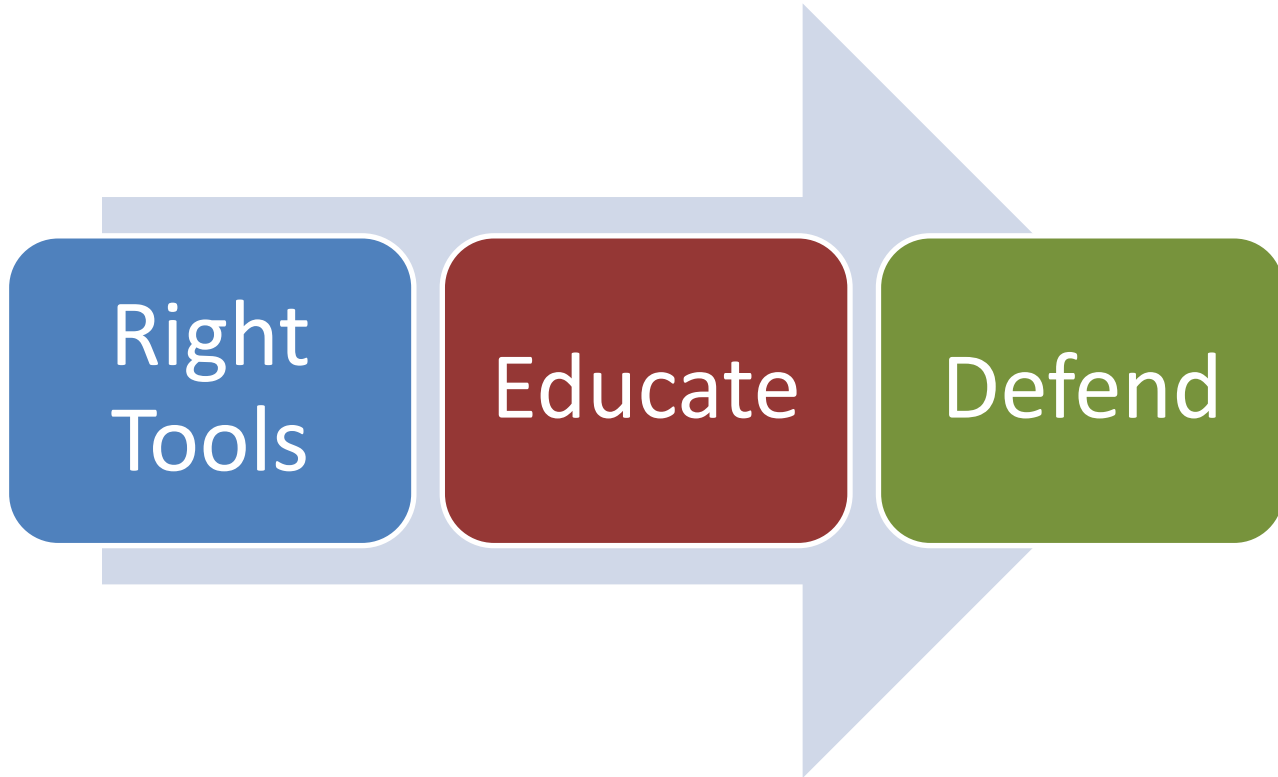
Liquidity Risk

**A. RISING INTEREST RATES ARE CAUSING
SIGNIFICANT INVESTMENT PORTFOLIO
DEPRECIATION**

 Office of the
Comptroller of the Currency

**Funding pressure a theme for
community banks across US**

S&P Capital IQ PRO



On-Balance Sheet Liquidity

The development of a Category 1 minimum liquidity (cash and short-term investments) parameter should align with the Board's risk tolerance and Credit Union's risk profile and be supported by management's estimates of liquidity needs during periods of stress.

NCUA 13-CU-10 “A simple rule of thumb is to identify the largest liquidity outflow your credit union has ever experienced and how long it persisted.”

Risk Monitoring

Revisit your Liquidity Policy and Contingency Funding Plan and develop specific liquidity metrics that are quantifiable and convey your tolerance for liquidity risk... developing a liquidity dashboard would be beneficial in documenting and tracking them for management and the ALCO

Cash Flow Forecasting

Forecast liquidity based on budget and strategic initiatives. Understanding source so volatility in cash flows will help to anticipate shortfalls and plan for contingencies

Contingency Funding Plan

Develop a written CFP commensurate with its complexity, risk profile, and scope of operations that sets out strategies for addressing liquidity shortfalls in emergency situations

Stress Testing

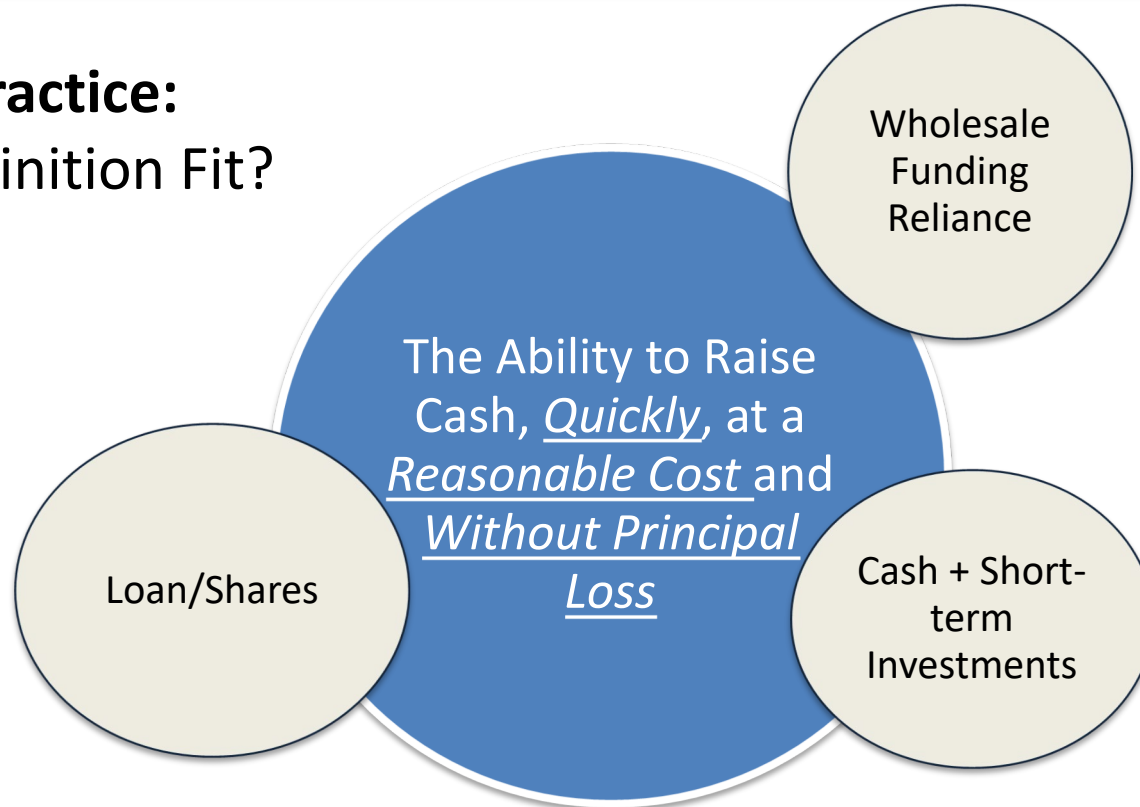
Management should apply various stressors such as share runoff, asset quality deterioration, loss of borrowing capacity, and draws on off-balance sheet assets. Ability to remediate the stress event should subsequently be evaluated. Comprehensive stress testing, particularly given elevated IRR and increasing unrealized losses on securities, will be beneficial in early identification of liquidity shortfalls. This reporting should be made available to the BOD.

1. Define Cash Minimum
2. Establish Total Liquidity Process & Policies
3. Have a Strong Contingency Funding Plan
4. Build Dynamic Liquidity Forecast
5. Stress Test In Accordance With Current Environment
6. Develop Remediation Scenarios (very important, don't leave out)
7. Establish a Diverse Risk Monitoring Process

ESTABLISHING A TOTAL LIQUIDITY SOLUTION

- ◆ How Much Liquidity Do We Have?
- ◆ How Much Liquidity Do We Need?
- ◆ How Much Do We Want to Pay for that Liquidity?
- ◆ How Much Exposure Do We Have to Changes in Rates?
- ◆ Are We Being Paid Adequately for the Risks We Take?

Theory vs. Practice: Does the Definition Fit?



LIQUID ASSETS & TOTAL LIQUIDITY SOLUTION

I. LIQUID ASSETS				
TOTAL ASSETS =	\$500,000			
Overnight Funds Sold & Short-Term Investments (avg. balance, if wide daily fluctuations)				35,000
Security Collateral		UST & Agency	MBS / CMOs	
	<i>Collateral Value</i>		Agency Backed	Municipal
		100%	95%	90%
Total Market Value of Securities		20,000	40,000	0
Less Securities Pledged to:				
FHLB		0	0	0
Fed Discount/Other Secured		0	0	0
Wholesale Repos		0	0	0
Retail Repos/Sweeps		0	0	0
Municipal Deposits		0	0	0
Other		0	0	0
Available / Unencumbered Security Collateral		20,000	38,000	0
Unencumbered Security Collateral				58,000
Over Collateralized Securities Pledging Position				0
Government Guaranteed Loans				0
Cash flow (< 30 Days) from Securities not listed above				0
Other Liquid Assets (Int. Bearing Deposits, MM Mutual Funds, etc.)				0
TOTAL LIQUID ASSETS				93,000

\$9MM > unrealized loss

Cash + ST Investments/Assets

Shortfalls:

- ✓ Forces to hold more cash
- ✓ Could increase IRR exposure to falling rates
- ✓ Focuses more on cash flow vs. collateral (needing to wait for cash to come due)
- ✓ Ultimately can hurt NII

Pct. Of Assets

18.6%

I. LIQUID ASSETS

TOTAL ASSETS = \$500,000				
Overnight Funds Sold & Short-Term Investments (avg. balance, if wide daily fluctuations) 10,000				
Security Collateral		UST & Agency	MBS / CMOs	
	<i>Collateral Value</i>	100%	Agency Backed 95%	Municipal 90%
Total Market Value of Securities	20,000	65,000	10,000	0
Less Securities Pledged to:				
FHLB	0	0	0	0
Fed Discount/Other Secured	0	0	0	0
Wholesale Repos	0	0	0	0
Retail Repos/Sweeps	0	0	0	0
Municipal Deposits	0	0	0	0
Other	0	0	0	0
Available / Unencumbered Security Collateral	20,000	61,750	0	0
Unencumbered Security Collateral				81,750
Over Collateralized Securities Pledging Position				0
Government Guaranteed Loans				0
Cash flow (< 30 Days) from Securities not listed above				0
Other Liquid Assets (Int. Bearing Deposits, MM Mutual Funds, etc.)				0
TOTAL LIQUID ASSETS				91,750

Collateral-Based Approach

- ✓ Focuses on ability to access cash quickly
- ✓ Optimizes liquidity yield
- ✓ Increases overall Liquidity

Pct. Of
Assets

18.4%

What's comfort level for
our CU?



II. SHORT TERM / POTENTIALLY VOLATILE LIABILITIES & COVERAGES

Maturing Unsecured Liabilities (< 30 Days)		0
Deposit Coverages		
25% of Regular CDs Maturing < 30 Days		2,000
30% of Jumbo CDs Maturing < 30 Days	6.0% of Total Deposits	2,000
10% of Other Deposits		32,000
TOTAL SHORT TERM / POTENTIALLY VOLATILE LIABILITIES & COVERAGES		36,000

BASIC SURPLUS 57,000 11.4%

Reserve based on funding concentrations

III. QUALIFYING FHLB LOAN COLLATERAL

A. Maximum Borrowing Line at FHLB (Up to 50% of Assets)	175,000
B. Qualifying Loan Collateral at the FHLB (net of haircut)	105,000
C. Excess Loan Collateral (if A < B)	
Maximum Borrowing Capacity (Lesser of A or B)	105,000
Collateral Currently Encumbered by Outstanding Advances/Letters of Credit	20,000
REMAINING FHLB LOAN BASED BORROWING CAPACITY	85,000

BASIC SURPLUS W/ FHLB 142,000 28.4%

Available borrowing capacity vs. wholesale reliance

IV. BROKERED DEPOSIT ACCESS

Maximum Board Authorized Brokered Deposit Capacity (10% of Total Assets)	50,000
Current Brokered Deposit Balances	15,000
REMAINING CAPACITY TO UTILIZE BROKERED DEPOSITS	35,000

BASIC SURPLUS W/ FHLB & BROKERED DEPOSITS 177,000 35.4%

Non-Member CD capacity

I. LIQUID ASSETS			
TOTAL ASSETS =	\$500,000		
Overnight Funds Sold & Short-Term Investments (avg. balance, if wide daily fluctuations)			0
Security Collateral			
		UST & Agency	MBS / CMOs
		Agency Backed	Municipal
	Collateral / Value	100%	95%
			90%
Total Market Value of Securities	20,000	40,000	0
Less Securities Pledged to:			
FHLB	0	0	0
Fed Discount/Other Secured	0	0	0
Wholesale Repos	0	0	0
Retail Repos/Sweeps	0	0	0
Municipal Deposits	0	0	0
Other	0	0	0
Available / Unencumbered Security Collateral	20,000	38,000	0
Unencumbered Security Collateral			58,000
Over Collateralized Securities Pledging Position			0
Government Guaranteed Loans			0
Cash flow (< 30 Days) from Securities not listed above			0
Other Liquid Assets (Int. Bearing Deposits, MM Mutual Funds, etc.)			0
TOTAL LIQUID ASSETS			58,000

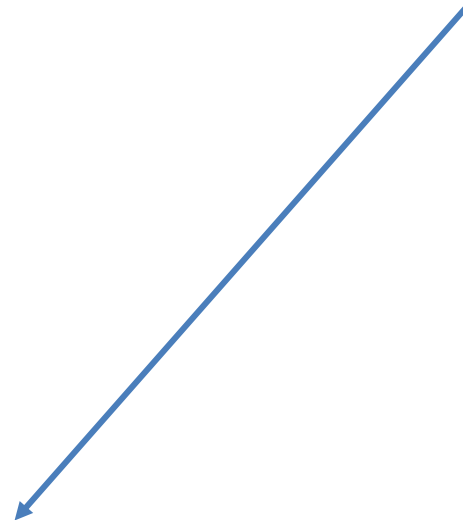
Shifting cash into loans reduces “liquid” assets but provides higher spreads of 200-300bps with minimal impact to Total Liquidity

III. QUALIFYING FHLB LOAN COLLATERAL	
A. Maximum Borrowing Line at FHLB (Up to 50% of Assets)	175,000
B. Qualifying Loan Collateral at the FHLB (net of haircut)	131,250
C. Excess Loan Collateral (if A < B)	
Maximum Borrowing Capacity (Lesser of A or B)	131,250
Collateral Currently Encumbered by Outstanding Advances/Letters of Credit	20,000
REMAINING FHLB LOAN BASED BORROWING CAPACITY	111,250

BASIC SURPLUS W/ FHLB 133,250 26.7%

IV. BROKERED DEPOSIT ACCESS	
Maximum Board Authorized Brokered Deposit Capacity (10% of Total Assets)	50,000
Current Brokered Deposit Balances	15,000
REMAINING CAPACITY TO UTILIZE BROKERED DEPOSITS	35,000

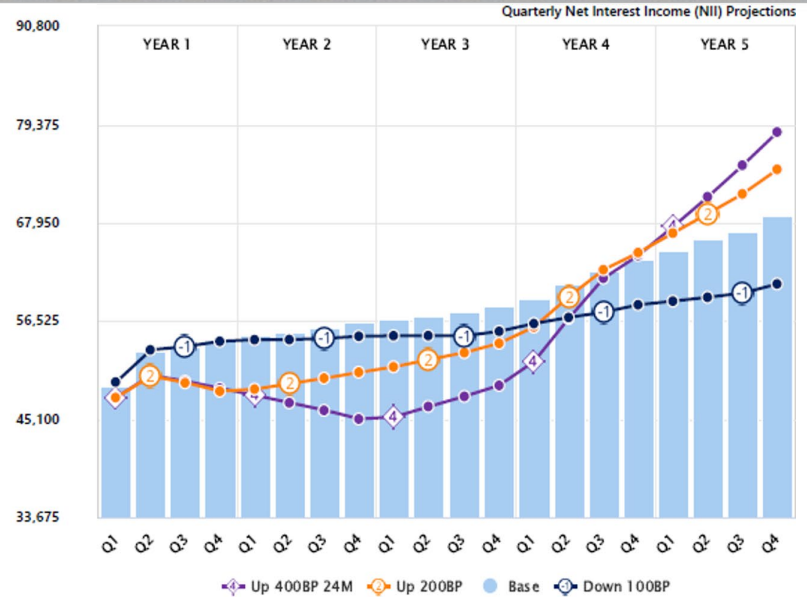
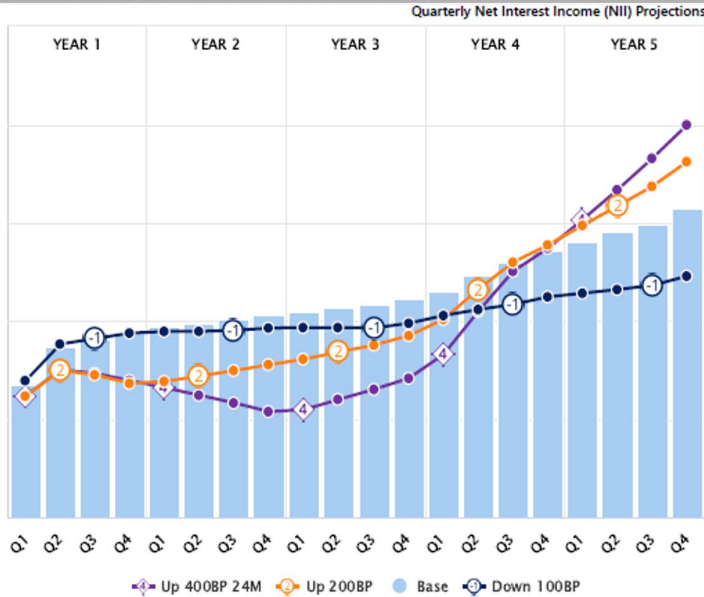
BASIC SURPLUS W/ FHLB & BROKERED DEPOSITS 168,250 33.7%



	<u>NEW DEPOSITS</u>	<u>WHOLESALE</u>
RELATIONSHIPS?	Potentially	No
PROTECTION?	Insurance	Collateral
AVAILABLE IN BULK?	At a Price	Yes
COST ?	Rate + Cost of Conversion	Coupon
TERMS DETERMINED BY...	Member of CU	Credit Union

“Wholesale Funds can be a Stable Source of Core Funds”

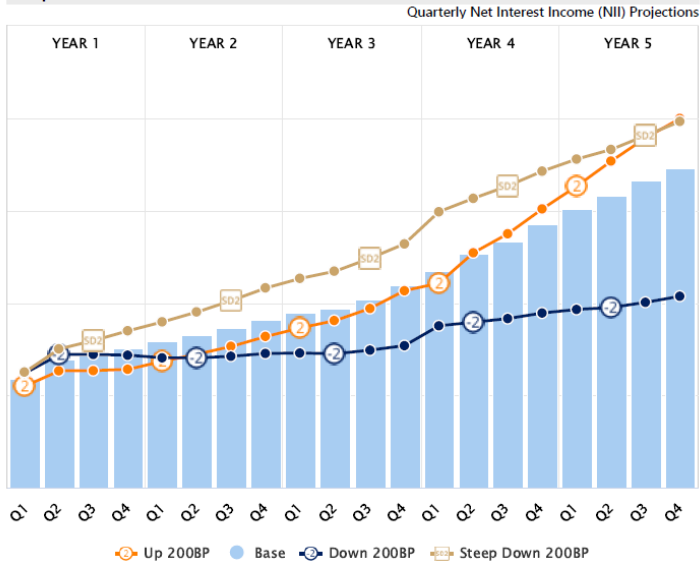
Terms Are Determined by You, Not the Depositor!!!



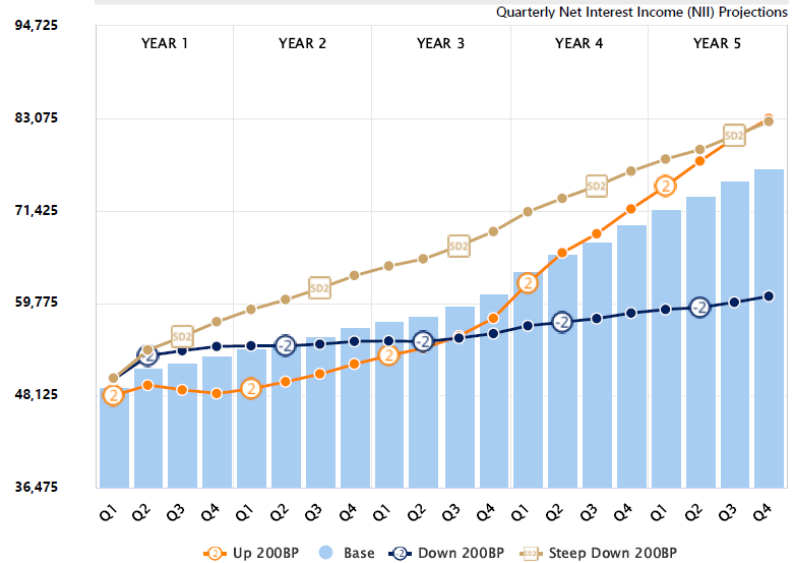
NII RESULTS

	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5
UP 400BP 24M	198,623	189,508	191,954	237,531	294,984	2,640	3,483	3,302	3,264	3,260	195,983	186,026	188,652	234,267	291,724
UP 200BP	197,991	201,763	213,491	245,653	284,883	2,639	3,568	3,529	3,537	3,556	195,351	198,195	209,962	242,116	281,327
BASE	212,176	225,837	233,093	249,733	270,150	2,698	3,761	3,751	3,749	3,749	209,477	222,076	229,342	245,984	266,401
DOWN 100BP	212,978	221,732	223,455	232,777	242,347	2,725	3,821	3,759	3,684	3,623	210,253	217,911	219,696	229,093	238,724
DIFFERENCE															

Swap Simulation as of 09/30/2022



Base Simulation as of 09/30/2022



NII RESULTS

	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	
UP 200BP	203,136	215,594	234,598	268,533	315,918	8,483	13,900	13,900	0	0	194,653	201,694	220,698	268,533	315,918	
BASE	210,013	224,989	239,995	267,268	297,067	3,900	3,900	3,900	0	0	206,113	221,089	236,095	267,268	297,067	
DOWN 200BP	210,632	212,134	215,014	230,543	238,640	-683	-6,100	-6,100	0	0	211,315	218,234	221,114	230,543	238,640	
STEEP DOWN 200BP	216,347	237,825	259,302	295,214	320,691	-752	-6,250	-6,250	0	0	217,099	244,075	265,552	295,214	320,691	
						DIFFERENCE										

1. Swap simulation assumes a \$500MM, 3 year swap is executed immediately, paying 3.73% fixed and receiving 3 Month SOFR (currently 4.51%).

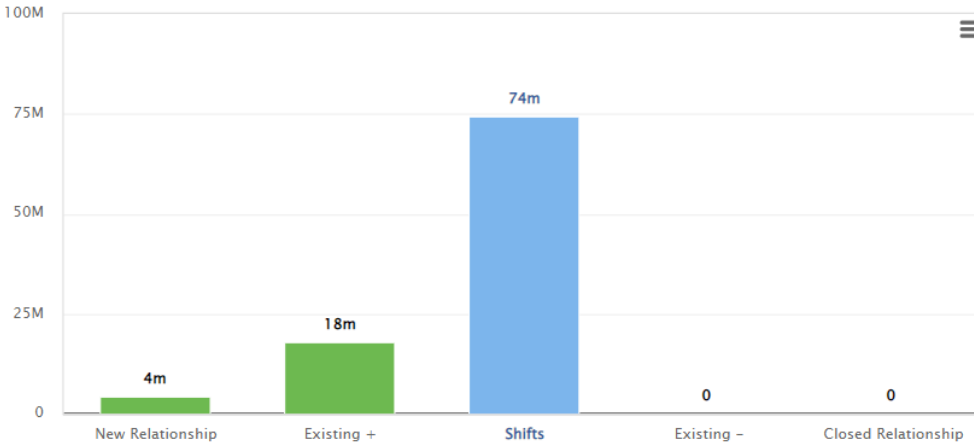
Loan
Strategy

Deposit
Pricing
Strategy

Investment
Strategy

Growth
Strategy

Earnings



MCOF
8.02%

Cannibalization
77%

	Balance	Rate	# Rel.
Starting Balance	0k	0.00	0
INFLOW	22,441k	3.00	591
New Relationship	4,444k	2.95	63
Existing +	17,997k	3.01	528
SHIFTS	74,386k	1.48	1,451
Share Drafts	3,379k	0.06	335
Regular Shares	6,652k	0.22	353
MMDA	22,960k	0.90	343
Time Deposits	41,395k	2.12	420
OUTFLOW	0k	0.00	0
Existing -	0k	0.00	0
Closed Relationship	0k	0.00	0
Ending Balance	96,827k	2.95	1,073
NET CHANGE	96,827k	2.95	1,073

Source: Deposits360®

1. Attrition: Identify, Monitor, Head-Off
 - Shift to CDs? Losing relationships? Balances? Tiers? Business vs. consumer?
 - Develop early warning systems, execute comeback campaigns
2. Need to Be Agile
 - Allow data analytics to guide strategies
3. Defining the next MMDA move
 - Trusting the exception process vs. walking up rates...Where do I have to be priced?
 - Review tier structure
4. Defining the CD portfolio objective
 - Relationship premium, new money component
 - **Focus on managing cannibalization**

3/31 thru 12/31



Total Growth
-26%

	Balance	Rate	# Rel.
Starting Balance	211,863k	0.33	1,805
INFLOW	10,582k	0.66	735
New Relationship	326k	0.55	9
Existing +	10,256k	0.66	726
SHIFTS	-35,846k	3.39	1,286
Share Drafts	-188k	0.07	465
Regular Shares	705k	0.05	436
Time Deposits	-36,363k	3.34	385
OUTFLOW	-30,300k	0.33	575
Existing -	-24,640k	0.33	540
Closed Relationship	-5,660k	0.34	35
Ending Balance	156,299k	0.66	1,692
NET CHANGE	-55,564k	0.33	-113

Source: Deposits360®

RISK MONITORING & CONTINGENCY FUNDING PLAN

Risk Monitor Must-Haves

1. Early warning system (3 levels)
2. Stress level response/action plan
3. Variety of indicators
4. Include leading indicators
5. Constant review

	Risk Level 1	Risk Level 2	Risk Level 3	Current Value	10/31/2022 Value	Risk Level	Cons. Periods Triggered	Stress Level
Indicators - Heightened Funding Needs								
1. S Change in Loan Growth less Non-Brokered Deposit Growth (1 Month) ¹	\$50,000	\$75,000	\$100,000	\$54,013	\$68,055	Level 1	9	N/A
2. % Change in Non-Maturity Deposit Balances (1 Month) ²	-2.00%	-4.00%	-6.00%	-3.46%	-0.16%	Level 1	1	N/A
3. % Increase in Utilization of LOC	5.00%	10.00%	15.00%	0.87%	0.74%	N/A	N/A	N/A
Indicators - Liquidity/Funding Ratios								
4. Cash/Assets ³	2.00%	1.75%	1.50%	1.64%	1.69%	Level 2	3	N/A
5. Liquid Assets / Assets ⁴	6.00%	5.00%	4.00%	4.45%	4.53%	Level 2	6	N/A
6. Basic Surplus – Tier 2 ⁵	15.00%	12.50%	10.00%	5.96%	1.99%	Level 3	7	Level A
7. Basic Surplus – Tier 3	20.00%	17.50%	15.00%	23.34%	19.50%	N/A	N/A	N/A
8. Brokered Deposits / Assets	7.50%	11.25%	15.00%	3.18%	3.19%	N/A	N/A	N/A
9. Fed Discount Window Borrowings	15.00%	20.00%	25.00%	0.00%	0.00%	N/A	N/A	N/A
10. Borrowings / Shares + Net Worth ⁶	10.00%	15.00%	20.00%	11.99%	10.97%	Level 1	3	N/A
11. FHLB Borrowings / Assets	15.00%	20.00%	25.00%	10.58%	9.77%	N/A	N/A	N/A
12. Borrowings to Assets	25.00%	30.00%	35.00%	10.58%	9.77%	N/A	N/A	N/A
13. Wholesale Funds / Assets	25.00%	32.50%	40.00%	13.76%	12.97%	N/A	N/A	N/A
14. Non-Member Shares and Public Funds	80.00%	90.00%	100.00%	7.73%	7.68%	N/A	N/A	N/A
15. Loans / Shares ⁷	105.00%	112.50%	120.00%	114.40%	113.42%	Level 2	6	N/A
16. Uninsured Deposits / Total Deposits	20.00%	40.00%	60.00%	16.33%	17.02%	N/A	N/A	N/A
Indicators - Capital at Risk								
17. ALLL / Delinquent Loans 60 Days or Greater	80.00%	75.00%	70.00%	101.61%	107.58%	N/A	N/A	N/A
18. Delinquent Loans / Gross Loans	0.75%	1.25%	2.00%	0.51%	0.47%	N/A	N/A	N/A
19. Net Worth Ratio	10.00%	9.00%	8.00%	10.41%	10.37%	N/A	N/A	N/A
20. Net Charge Off Ratio	0.40%	0.50%	0.60%	0.14%	0.11%	N/A	N/A	N/A
21. Net Interest Margin	2.70%	2.60%	2.50%	2.92%	2.87%	N/A	N/A	N/A

Composite Stress Level = N/A

Source: Liquidity360[®]

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CFP Must-Haves

1. Roles clearly outlined
2. Define risk tolerance and action
3. Mention KRIs and stress testing
4. Emergency contact information
5. Effective communication

Source: Liquidity360®

FORECAST & STRESS TEST

- Stress Testing Checklist
 - Contractual cash flows and forecast
 - Dynamic modeling
 - Assumption defense
 - Macro and idiosyncratic
 - Concentrations?
 - Document and back test
 - Run “Below Well-Capitalized” scenario
 - Remediation scenario

- Time to refresh scenario set?
 - Deposit runoff with continued loan demand
 - Credit concerns and collateral restrictions
 - FHLB restrictions - tangible capital

Cash In/Out Flow		(3,000)	(3,000)	(3,000)	(3,000)
Cumulative		9,207	6,207	3,207	207
Starting Cash Position	12,207				
COLLATERALIZED/SECURED FUNDING RESOURCES	Avall. Capacity				
Free UST / GSE Bond Collateral	136,315	136,315	136,315	136,315	136,315
Free Non-GSE Bond Collateral	0	0	0	0	0
Loan Based Borrowing Capacity (FHLB)	414,247	411,118	407,989	404,860	401,731
Residential Mtg Loan Collateral (FHLB)	215,920	212,797	209,668	206,539	203,410
Non-Residential Mtg Loan Collateral (FHLB)	198,327	198,321	198,321	198,321	198,321
TOTAL PRIMARY LIQUIDITY	550,563	547,433	544,304	541,175	538,046
	25.54%	25.31%	25.06%	24.86%	24.64%
OTHER LIQUIDITY RESOURCES	Avall. Capacity				
<i>Unsecured Funding</i>					
Remaining National Deposit Capacity	0	0	0	0	0
Remaining Brokered Deposit Capacity	54,255	54,255	54,255	54,255	54,255
Other Unsecured Funds (i.e. Fed Fund Lines)	24,000	24,000	24,000	24,000	24,000
<i>Other Secured Funding Resources</i>					
Other Loan Based Borrowing Capacity (FRB)	28,696	28,696	28,696	28,696	28,696
TOTAL OTHER LIQUIDITY RESOURCES	106,951	106,951	106,951	106,951	106,951
	4.96%	4.94%	4.93%	4.91%	4.90%
Total Funds Availability (\$000)	669,720	663,591	657,462	651,333	645,204
Total Assets (\$000)	2,155,911	2,162,911	2,169,911	2,176,911	2,183,911
Total Funds Availability (% of Assets)	31.06%	30.68%	30.30%	29.92%	29.54%
LIQUIDITY MINIMUM (% of Assets)	5.00%	5.00%	5.00%	5.00%	5.00%
FUNDING EXCESS/(SHORTFALL)	561,925	555,446	548,967	542,487	536,008

\$40MM Loan Growth
\$8MM Deposit Growth
\$20MM Wholesale
\$12MM Cash

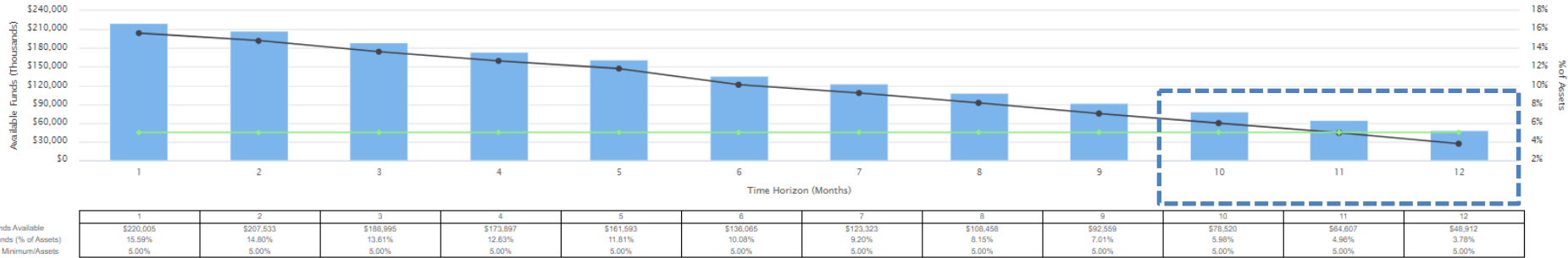
Source:
Liquidity360®

Loans				
Loan Cash Flow (Inc. Estimated Prepayments)	20,760	45,658	19,304	19,458
Auto	7,083	7,060	7,138	7,223
Commercial & Industrial	4,205	4,255	4,305	4,356
Home Equity	1,684	1,658	1,663	1,684
Residential	3,845	4,143	4,059	4,022
Other Loans	3,943	32,582	2,139	2,173
Loan Cash Flow Reinvested	0	0	0	0
Loan Sales	0	0	0	0
Loan Originations/Purchases	(20,557)	(52,100)	(21,725)	(21,854)
Auto	(8,985)	(8,948)	(9,033)	(9,126)
Commercial & Industrial	(5,030)	(5,082)	(5,133)	(5,186)
Home Equity	(1,794)	(1,774)	(1,784)	(1,811)
Residential	(3,044)	(3,342)	(3,265)	(3,228)
Other Loans	(2,124)	(32,954)	(2,510)	(2,543)
Net Loan Cash Flow	(197)	(2,402)	(2,421)	(2,436)

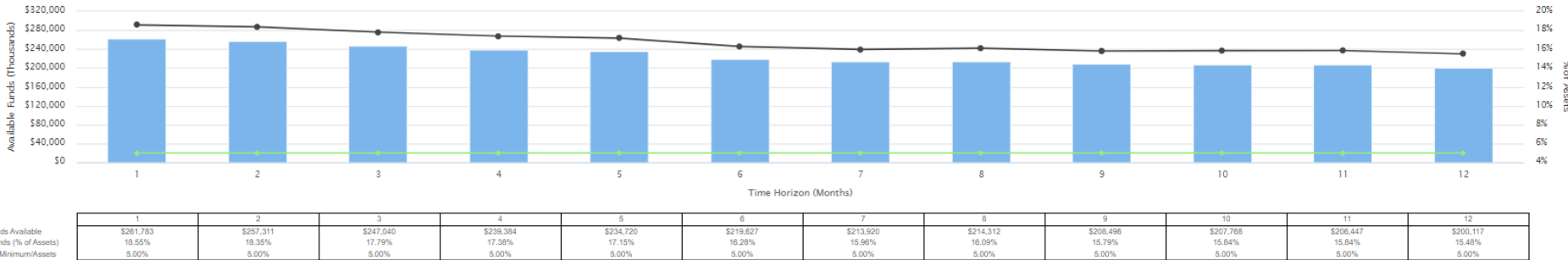
Source: Liquidity360®

Source: Liquidity360®

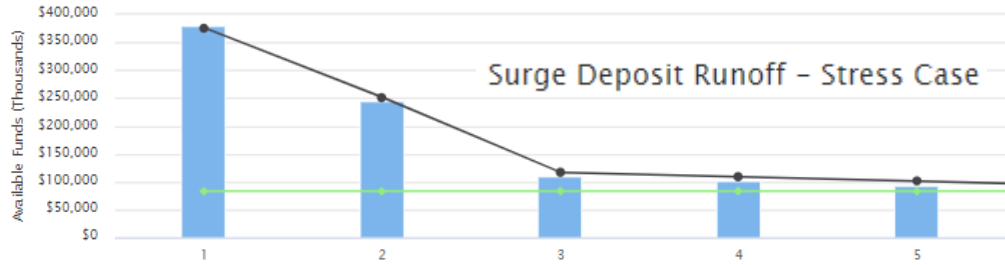
Severe 2023 Stress - Stress Case - LIQUIDITY FORECAST (TOTAL FUNDS AVAILABLE)



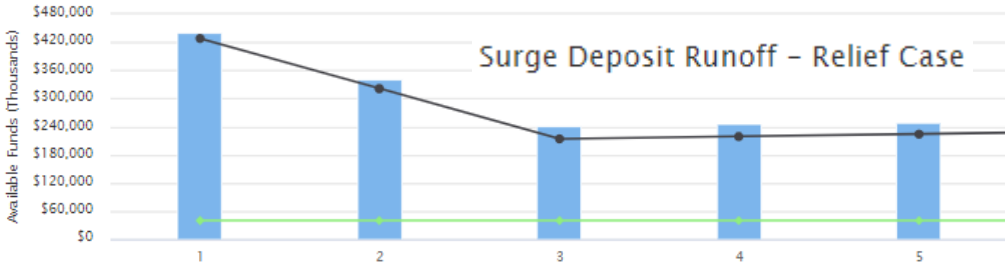
Severe 2023 Stress - Relief Case - LIQUIDITY FORECAST (TOTAL FUNDS AVAILABLE)



Source: Liquidity360®



	1	2	3	4	5
Total Funds Available	\$378,622	\$243,913	\$109,204	\$101,670	\$94,138
Avail. Funds (% of Assets)	22.57%	15.09%	7.02%	6.55%	6.07%
Liquidity Minimum/Assets	5.00%	5.00%	5.00%	5.00%	5.00%



	1	2	3	4	5
Total Funds Available	\$441,249	\$340,423	\$241,778	\$245,087	\$248,165
Avail. Funds (% of Assets)	24.38%	19.05%	13.70%	13.96%	14.22%
Liquidity Minimum/Assets	5.00%	5.00%	5.00%	5.00%	5.00%

Liquidity Ratios	Min / Max	Current	Oct-22	Nov-22
Cash + Unencumbered Coll. / Assets		7.06%	11.25%	10.41%
Net Loans / Deposits	115.00	82.30%	80.71%	84.38%
Brokered Deposits / Assets	25.00	14.96%	20.80%	22.37%
Borrowings / Assets	15.00	1.15%	4.10%	7.19%

1. Revisit Liquidity Measurement Methodology
2. Develop a Dynamic Forecast & Stress Test Framework
3. Revitalize Your Risk Monitor
4. Have the Right Tools, Educate, and Defend
5. Revitalize Liquidity & Wholesale Funding Policies from a business perspective!
6. Don't Panic! Seek Advice from your Friends at FHLB!

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The Deposit Difference

**The Deposit Difference
(1.18.2023)**

▶ WEBCAST ⌚ 01:08:00

The Fed has triggered a Shocked Rising Rate environment in its effort to battle inflation with short-term market rates increasing substantially while Fed...

☆

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**Managing Liquidity Risk in
Turbulent Waters**

**Managing Liquidity Risk in
Turbulent Waters (12.8.2022)**

▶ WEBCAST ⌚ 01:17:00

In light of the recent pronounced hike in market rates and ongoing economic uncertainty, examiner concerns over liquidity risk management practices –...

☆



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