

## LIQUIDITY

### Expanded Analysis Decision Factors

*This section evaluates the significance of deficiencies or other specific concerns identified in the Core and Expanded Analyses. Click on the hyperlinks found within each of the Expanded Analysis Decision Factors to reference the applicable Expanded Analysis Procedures. If needed, proceed to the accompanying [Impact Analysis](#).*

**Do Expanded Analysis and Decision Factors indicate that risks are appropriately identified, measured, monitored, and controlled?**

**E.1. Are deficiencies immaterial to management's supervision of liquidity? Refer to Expanded Analysis [Procedures #1-16](#).**

**E.2. Are liquidity deficiencies immaterial to the bank's financial condition? Refer to Expanded Analysis [Procedures #1-16](#).**

## LIQUIDITY

### Expanded Analysis Procedures

*Generally, procedures used in the Expanded Analysis should target concerns identified in the Core Analysis and Decision Factors. The flexible guidelines specified for the Core Analysis also apply to the Expanded Analysis.*

#### Policies, Procedures, and Risk Limits

1. Investigate why the bank's policies and procedures are deficient based on the Core Analysis. Discuss the deficiencies with management. Consider whether management:
  - Overlooked issues;
  - Is unfamiliar with prudent liquidity guidelines and procedures; or
  - Has not been responsive to prior recommendations to create or enhance policies and procedures.

2. If management is deficient in following the bank's policies and procedures, determine the reasons. Possible reasons include:
  - Lack of awareness of policies;
  - Disregard for established policies;
  - Misunderstanding of policy guidelines; and
  - Poor internal communication of revisions to policies and procedures.

3. Determine whether management commits to and supports proper controls and monitoring to ensure the bank's policy guidelines are followed in the future. Determine whether proposed controls and implementation periods are reasonable.

#### Information and Communication Systems

4. Determine the validity of internal liquidity reports and ratios by verifying the amounts to the bank's general or subsidiary ledgers, budgets, projections, or other records.

5. Assess the scope and frequency of internal reports for measuring and monitoring liquidity. Reportable items may include, but are not limited to:
  - Cash flow gaps,
  - Asset and funding concentrations,
  - Critical assumptions used in cash flow projections,
  - Key early warning or risk indicators,
  - Funding availability,

<ul style="list-style-type: none"> <li>• <b>Status of contingent funding sources,</b></li> <li>• <b>Available collateral, and</b></li> <li>• <b>Management of collateral usage.</b></li> </ul>
<p><b>6. If management is not properly monitoring the bank's liquidity position, identify weaknesses and formulate recommendations to correct deficiencies. Prudent liquidity management techniques may include:</b></p> <ul style="list-style-type: none"> <li>• <b>Monitoring and managing seasonal and cyclical factors that may cause loan and deposit levels to move in opposite directions. Failure to monitor these factors may cause insufficient liquidity to meet loan demand or deposit withdrawals;</b></li> <li>• <b>Monitoring intraday liquidity and applicable collateral requirements especially for institutions with material settlement and clearing activities;</b></li> <li>• <b>Monitoring daily cash letters and long-term liquidity needs through appropriate forecasting;</b></li> <li>• <b>Monitoring changes in economic conditions;</b></li> <li>• <b>Planning for contingencies including identifying minimum and maximum liquidity needs and weighing alternative courses of action;</b></li> <li>• <b>Monitoring the price and availability of credit and the level of liquid assets available to meet funding requirements; and</b></li> <li>• <b>Monitoring the incremental cost of liquidity, whether gained through asset management, liability management, or a combination of both.</b></li> </ul>
<p><b>Analysis of Funding Sources and Uses</b></p>
<p><b>7. Consider completing a cash flow projection if liquidity requirements are significant.</b></p> <ul style="list-style-type: none"> <li>• <b>Determine whether cash needs are likely to exceed available funding sources, and</b></li> <li>• <b>Determine how management plans to meet significant liquidity demands.</b></li> </ul>
<p><b>8. If specific deposit rates are significantly above market rates, determine whether the bank is soliciting brokered deposits or experiencing pricing pressures from competitors.</b></p> <ul style="list-style-type: none"> <li>• <b>Review internally prepared rate sheets, reflecting the bank's and competitors' rates, if available.</b></li> <li>• <b>Review interest rates for area banks.</b></li> <li>• <b>Verify compliance with interest rate restrictions that apply to less than well capitalized banks.</b></li> </ul>
<p><b>9. If the Core Analysis indicates the bank relies on concentrations in unstable funding sources for growing a program and leveraging capital, perform an in-depth analysis of the sources to determine the extent of reliance; if excessive, assess management's plan to stabilize or reduce risk exposure. As needed:</b></p> <ul style="list-style-type: none"> <li>• <b>Determine whether management understands its strategy;</b></li> </ul>

<ul style="list-style-type: none"> <li>• Perform migration analysis using internally prepared deposit schedules, the Uniform Bank Performance Reports, or Interest Rate Risk Standard Analysis (IRRSA) (FDIC). Determine whether certain deposit accounts are experiencing declines, the reasons for the declines, and the potential liquidity risk;</li> <li>• Compare deposit volumes with rate histories to see whether a significant correlation exists and how future events may impact these rates and volumes;</li> <li>• Review deposit accounts for any significant out-of-area deposits. Determine whether these deposits are stable funding sources or the customers are chasing attractive rates; and</li> <li>• Review insider deposit relationships.</li> </ul>
10. Determine whether the bank has securities that may be used for sale under agreements to repurchase and whether repurchase arrangements exist.
11. Determine whether the bank has adequate documentation to support lines of credit from other financial institutions.
12. Determine whether contingency funding plans, including funding commitments from other financial institutions, are periodically tested.
13. Determine whether credit lines contain material adverse change clauses that would preclude their use in problem situations.
14. Assess management's process for identifying, monitoring, and controlling risks associated with wholesale and rate-sensitive funding. When appropriate, assess management's plan to stabilize or reduce liquidity risks associated with complex or rate-sensitive funding.
15. For less than well-capitalized banks, assess management's plan to comply with Brokered Deposit and Interest Rate Restrictions in Section 29 of the Federal Deposit Insurance Act as implemented by Section 337.6 of the FDIC Rules and Regulations.
FDIC: Refer to FIL-42-2016 FAQ on Identifying, Accepting, and Reporting Brokered Deposits; and the Brokered and High-Rate Deposits ED Module.

**16. Determine whether appropriate stress testing was completed either internally or by a third party.**

**Appropriate stress testing generally:**

- **Is completed prior to obtaining wholesale or rate sensitive funding;**
- **Covers a reasonable range of contractual triggers and external events;**
- **Includes the potential impact of these events on individual wholesale funding sources, the assets funded, and on the overall liquidity of the institution; and,**
- **Provides for full disclosure to management regarding the risks associated with the wholesale funding.**

**End of Expanded Analysis. If needed, Continue to [Impact Analysis](#).**

<b>LIQUIDITY</b>
<b>Impact Analysis Procedures</b>

*Impact Analysis reviews the impact that deficiencies identified in the Core and Expanded Analysis and Decision Factors have on the bank's overall condition, and directs the examiner to consider possible supervisory options.*

<b>Impact Analysis Procedures</b>
<b>1. For deficiencies identified in the Core and Expanded Analysis, measure the effect on the bank's financial condition.</b>
<b>2. Determine how management plans to meet daily cash needs if liquidity is severely strained.</b>
<b>3. Assess whether the bank can continue to operate profitably. Assess whether severe liquidity problems will impair growth objectives and profits to a point where the bank's future viability is questionable.</b>
<b>4. Determine the need for administrative and enforcement actions, formulate specific recommendations, and advise appropriate supervisors on the nature of the concerns.</b>
<b>5. Discuss the possibility of administrative and enforcement actions with appropriate supervisory officials, executive management, and the board of directors.</b>
<b>End of Impact Analysis.</b>