

## EMERGENCY LIQUIDITY PLANNING

by [Steve Brown](#)

In this age of uncertainty, every bank should have a liquidity contingency plan. Let's just assume that one day, for whatever reason (financial problems, bad press, market dislocation, etc.), your bank cannot access the brokered CD market for a period of 6 months. What would you do? Hopefully, you have a written emergency liquidity plan. A good plan (and current bank operations) should encompass the following elements:

- 1) Ability to sell loans - the tested ability to sell a variety of loans is almost mandatory in this market. Knowing the steps involved in a sale, the documentation and due diligence requirements can assist in a sale and allow your bank to bring capital ratios back in line and provide liquidity. For that matter, banks should consider taking their largest exposures and selling small pieces of the loan now to other banks. In this manner, a troubled bank can quickly raise funds by selling the remaining exposure to those banks that already hold participations. This will cut execution time by 75%.
- 2) Multiple Fed Funds lines - (at least 3 and hopefully 5+ if you are over \$500mm) lines are recommended from a variety of entities. East Coast, Mid-west and West Coast providers should all be included to handle a variety of time zones and potential disasters. In addition, your Fed Funds should be from local banks (get reciprocal lines), bankers' banks and national banks to give you the broadest coverage possible.
- 3) Repo agreements - Those brokers that help you with your bonds should also provide you with liquidity using loans and securities as collateral. If your credit becomes a question, having collateral and repurchase agreement lines can help.
- 4) FHLB "Know and articulate the ins and outs of working with their blanket pledge if you have one. If you need funds, you don't want to waste a day learning about how to get a waiver or approval to pledge other those encumbered assets. In addition, make sure all of management understands and tracks your borrowing capacity through the FHLB system.
- 5) Other sources - As much as we hate to promote our competition, being able to use CDARs, Quickrate, excess deposit insurance and other diverse potential funding sources can help in a crisis.
- 6) Canned retail promotional program - If you must raise funds quickly, have local newspaper ads, e-mailings and postcards ready to go to current customers with a short-term CD promotion. Customers will take the time to understand your situation more than others and are good sources of emergency funds. In addition, be prepared to use the internet and advertise on major search engines to increase your reach.
- 7) Public relations - Have a pre-planned, board approved, public relations campaign ready to go. The goal is to have this out within 2 hours of crises. The plan should contain a fill in the blanks press release ready and the ability to access the wire services, local papers and community groups in order to help calm fears by getting your side of the story out. Northern Rock and Bear Sterns are two entities that could have benefited by a quick response; they didn't and hysteria took over.

8) Pre-planned scenarios - Bird flu, your CEO led away in handcuffs, a dirty bomb, hurricane or any other potential scenario that has a higher probability of occurrence should be thought out now and planned for in terms of liquidity. Make sure you have the right staff, network access, contact numbers and other logistical issues figured out now, as opposed to when you are in crisis mode.

## **BANK NEWS**

### **M&A**

NATCOM Bancshares (\$448mm, WI) (Nat'l Bank of Commerce) agreed to acquire Superior Bancorp (\$91mm, WI) (Community Bank) for an undisclosed sum.

### **Citi**

The Bank announced that it will cut 10% of its 65k employees in its investment-banking division.

### **Changing The Books**

Much to the regulators and account's chagrin, banks are changing when and how non-performing loans are recorded in their books. To lengthen the time to write-offs, financial institutions have increased wait periods for delayed payments before classifying loans as non-performing. Other maneuvers include shifting troubled loans to new subsidiaries and switching bank charters to different regulators.

### **Fed Outreach Program**

The Fed has launched the nationwide Partnership for Progress program. The Fed is providing technical assistance and outreach to de novo and minority-owned institutions through interactive web resources, workshops and individual guidance. Online materials are broken down into 3 steps along the life cycle of bank development.

### **George Carlin RIP**

You could take all the psychology classes you want and it still couldn't gain the insight that you would get from listening to a 1-hour comedy routine by Carlin. We will miss the man that helped teach us comedy.

*Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.*