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DARLING CONSULTING GROUP

Client Alert

We have been in contact with many of you since the SVB situation rapidly unfolded last week. Our “phones began ringing” with the first signs of trouble and continued throughout the weekend. There is a great deal of uncertainty and angst, and we are ready and prepared to assist you and your team in any way needed.

Our team has been meeting over the past few days sharing our conversations, assessing the situation, and discussing the array of possible outcomes and strategies/tactics. While there are a number of actions we believe are applicable to all DCG clients, there are some prudent strategies/tactics that can depend on the nature of your business model and balance sheet risk profile.

We fully expect a significant response from governing bodies to reduce the risk of a more systemic liquidity crisis. Notwithstanding, we all know that large/uninsured depositors everywhere have taken notice and their angst will result in varying degrees of deposit migration in the days ahead.

Mobilize Your Contingency Liquidity Team & Policy

First and foremost, put your liquidity contingency plan in motion. It is critical to quickly assess your particular situation and ensure appropriate and consistent internal and external communications at your institution.

Externally Focused Activities:

- Be proactive with your largest relationships. Help them understand that your business model is vastly different than what they are reading in the headlines.
- Be prepared to highlight key elements of your financial strength and to tell “your story.”
- Be prepared to offer options to those seeking additional protection (e.g. reciprocal insured deposit programs, customer repos, etc.).
- Make sure communication is consistent and controlled by the appropriate personnel. There can be a fine line between communicating productively and stirring up potential concerns.

Notwithstanding the “uninsured deposit” issue, some DCG clients have received inquiries by large depositors trying to move monies from other institutions to theirs. Here are some considerations:

- Initially, we suggest viewing such deposits as short-term funding (hopefully at an attractive rate) to reduce existing borrowings or hold in cash equivalents at a spread.
- The interest rate received may not be their immediate highest priority, and some or all of these monies could very well be with you as temporary parking until they assess their individual situation.
- At inception or shortly thereafter, ensure that they sign the appropriate paperwork enabling you to sell all or a portion of their deposits into one-way sell insured deposit programs. This will provide flexibility in managing capital ratios and creating off-balance sheet liquidity, if appropriate.

Internally Focused Activities:

- Revisit uninsured deposit levels and impact of potential volatility.
- Establish protocols for handling inquiries from larger depositors.
- Ensure that requests for large outgoing wires are reported without delay to appropriate person(s) for immediate reaching out to discuss and attempt to head-off the wire execution.
- Monitor deposit activity across your institution…as real time as possible/practical.
- Assess existing capacity to generate same-day funding as well as settlement timelines for other sources (e.g., brokered deposits, one-way buy insured deposits, etc.). Establish priorities and contingencies.
- Ensure access to the Federal Reserve (Discount Window & Borrower-In-Custody program) and identify all collateral that could be pledged to the Fed that not currently pledged elsewhere.
- Identify the extent to which securities in AFS could be sold at gains or negligible losses, if necessary.
- Revisit the potential for additional unrealized security losses to push tangible book value below zero and/or below any restrictive thresholds monitored by your FHLB.
- Communicate regularly with all internal stakeholders about current position and action plans.
- Strive to create clarity and minimize fear-based overreactions that may have unintended consequences.
- Assess the merits of immediately drawing down FHLB borrowings as a contingency measure.

Clearly, the above is not an exhaustive list of potential activities. As mentioned, there are many different and subtle nuances to your business model and risk position. Please reach out to your primary DCG contact.

DCG stands ready to assist you and your team.

Darling Consulting Group