HOW TO MANAGE LIQUIDITY RISK IN TODAY’S BANKING ENVIRONMENT

SIX ESSENTIAL STRATEGIES TO STRENGTHEN YOUR LIQUIDITY MANAGEMENT PROCESS

A Best Practices Report
About Darling Consulting Group

Darling Consulting Group (DCG) is an ALM consulting firm that has provided industry-leading, independent solutions to financial institutions throughout the country for more than 30 years in the areas of:

- Interest Rate Risk
- Liquidity
- Capital Planning/Stress Testing
- Assumption Development and Support
- Financial Performance
- Regulatory Compliance

The breadth of professional expertise, proprietary technology and unmatched client support distinguishes DCG as the premier provider of ALM solutions to the banking industry.

All of DCG’s risk management services are founded on the education of the client. Some of our more popular services include:

**ALM Consulting**
- Balance Sheet Consulting
- Risk Analyzer Plus

**Model Validation**
- Large Institution
- Community Bank
- Credit Union

**Deposits360° (Non-Maturity Deposit Analysis & Online Tool)**

**Prepayments360° (Loan Prepayment Studies & Analytics)**

**Liquidity360° (Liquidity Management and Contingency Planning)**

**Liquidity Reviews**

**Capital Planning**

**Credit Stress-Testing Solution**
Darling Consulting Group

“Wholistic” Approach to Balance Sheet Management
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The Changing Liquidity Picture

Managing liquidity risk has become very challenging as balance sheets have grown in complexity and dependence upon the capital markets for funding continues to rise.

What were once considered contingency sources of liquidity—FHLB advances, repurchase agreements, brokered deposits and national CD listing services—are now part of the mainstream.

Out of necessity, these sources have become integral parts of the liquidity management process used by many financial institutions today.

Examiners understand the market forces that have led bankers to seek alternative funding sources and acknowledge their contribution to an effective liquidity management process (and profitability).

But this increased dependence also introduces additional issues and risks that institutions must understand and actively manage.

The issuance of the Interagency Policy Statement on Funding and Liquidity Risk Management in March 2010 provides the framework from which the regulators will be conducting their upcoming exams.

Regulatory Guidelines and Standards

The Interagency Policy Statement outlines the process for effectively managing liquidity risk. The Guidance re-emphasizes the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets and a formal well-developed contingency funding plan (CFP) as primary tools for measuring and managing liquidity risk.¹

These guidelines appropriately emphasize the need to use a liquidity risk management process that is commensurate with the liquidity management activities and risk profile of individual institutions.

Institutions that plan to rely on the capital markets to fund future growth need to demonstrate their understanding of the risks involved—and they need to have the appropriate measurement and management processes in place.

If the credit crunch that started in 2007 was not a wake-up call to liquidity managers in the finance industry, today’s volatile and uncertain market has gotten everyone’s attention: Times have changed and we need to be prepared.
The Role of ALCO and Board of Directors

As with every other aspect of the ALM process, your liquidity risk management process must be clearly communicated and evaluated by your Asset Liability Committee (ALCO) and Board of Directors.

ALCO and the Board should be overseeing liquidity management strategies, policies and procedures on an annual basis. Senior management should ensure that liquidity policies and procedures are clearly outlined and that the appropriate risk measurement and reporting systems are in place and the profile reported to the Board.

According to the Interagency Policy Statement, “[ALCO] should actively monitor the institution’s liquidity profile and should have sufficiently broad representation across major institutional functions that can directly influence the institution’s liquidity risk profile.”

The Liquidity Risk Management Process

Here are six steps you can take to strengthen your liquidity and liquidity risk management process.

Step 1: Determine how much liquidity you have

To fully understand your liquidity position, you need to begin with a working definition with which everyone in your organization agrees—and one upon which measures can be established. A definition we find works well is “the ability to raise cash quickly (within 30 days) with minimal principal loss and at a reasonable cost.”

The next step is to evaluate your current liquidity measures to see if they support this definition. Traditional regulatory measures, such as the loan/deposit ratio or the volatile liability dependency ratio, are backward-looking measures that cannot truly quantify an institution’s future cash availability or accessibility. Traditional cash flow projections (a sources and uses forecast) also fall short because future cash flows (beyond 30 days) will not help when you need cash most—quickly.

Moreover, all of these measures focus on just on-balance-sheet liquidity and do not factor in access to off-balance-sheet sources, which most financial institutions employ and rely on with regularity.

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1 From the Interagency Policy Statement on Funding and Liquidity Risk Management of March 2010
The approach that we find best encompasses both on- and off-balance-sheet liquidity is the basic surplus (deficit) method. The basic surplus (deficit) approach has been effectively used for the last 25+ years by financial institutions throughout the United States and the world to manage their liquidity and funding. Exhibit 1 shows a typical basic surplus (deficit) schedule.

This report begins with quantifying your liquid assets. This section is essentially an inventory of the assets that can be converted to cash within the next 30 days. These liquid assets fall into four categories. They:

1. are cash equivalents such as federal funds sold, overnight deposits or investments, money market mutual funds, etc.;
2. can be sold with a minimum of principal loss such as student loans, the guaranteed portion of Small Business Administration (SBA) loans and the like;
3. can be pledged as collateral for borrowings such as US government and agency securities and agency-issued mortgage-backed securities and collateralized mortgage obligations (MBS and CMOs); and,
4. will mature within the next 30 days.

Once the liquid assets have been inventoried, it is important to identify and categorize any liabilities that might create liquidity exposure, particularly those that would arise should customers or lenders lose confidence in the financial stability of the bank.

For short-term liabilities, we would include (1) total unsecured borrowings maturing within 30 days and (2) coverage for potential deposit runoff.

In the case of unsecured borrowings, we would include outstanding balances in Federal funds purchased and unsecured borrowings from other financial institutions. Because they are unsecured, they would be extremely vulnerable to being shut off in the event of a loss of confidence. Therefore, runoff (for contingency coverage) should always be maintained at 100 percent.

The parameters defined for deposit coverage should be broken down into two components: (1) time deposits and (2) non-maturity deposits (NMD).

For time deposits, an assumption for runoff should be applied to deposits scheduled to mature within the next 30 days, with sources, concentrations, relative costs, stability and reliability influencing the coverage defined. In general, banks typically use 25 percent for stable/reliable retail sources and anywhere from 25 percent to 100 percent for other products depending upon the relative risks.
For NMD, banks typically will use anywhere from 5 to 10 percent depending upon the coverage desired and the historical stability of these funding sources. While core deposit studies help in identifying historical trends and evaluating the stability of the deposit base for a given institution, a broader industry perspective of historical liquidity events or runs should also be taken into consideration.

It is important to keep in mind the assumptions used for deposits represent contingency coverage. Management and the Board must ultimately use judgment in developing the assumptions and relate the liquidity results to the assumptions applied.

In the case of Exhibit 1, the assumptions used for deposit contingency coverage can be off by over 900 percent before the core liquidity profile approaches a negative result.
To calculate the basic surplus (available or excess liquidity) or the basic deficit (liquidity shortfall), short-term liabilities are subtracted from liquid assets. To provide a perspective relative to historical capacity, results can be shown as a percentage of total assets. This will allow management to effectively evaluate trends and assess the bank’s capacity to fund additional growth or supplement unplanned deposit runoff (beyond the coverage already assumed).

The core basic surplus (deficit) in Exhibit 1 reflects the cash and funding available (net of contingency coverage) from brokerage firms and the FHLB (excluding loan collateral).

This core basic surplus can be enhanced by incorporating a few additional liquidity sources:

- **FHLB**: Access to the FHLB (using qualifying loans as collateral) represents a just-in-time inventory management of your funding.

- **Brokered CDs**: Use of the brokered CD market can be looked at as your institution’s strategic reserves, or funding that can be used when your just-in-time inventory begins to drop to levels below the policy guidelines. Brokered CDs can also be issued to pay down FHLB borrowings and increase the just-in-time inventory. While reliable and available without collateral, orders can take some time to fill and access can be restricted when there are credit concerns.

To the extent available, other liquidity items can be summarized and footnoted in this report. These sources may include:

1. other securities that could be sold or collateralized (for example, corporate or municipal bonds)
2. unsecured lines of credit such as federal funds lines; and
3. secured lines such as the Federal Reserve Bank (FRB). Establishing a borrowing arrangement with the District FRB with collateral that cannot be used to support borrowings elsewhere essentially provides catastrophe insurance in the event of a systemic liquidity crisis in which the FHLB or brokered CD markets are not available. Given today’s environment, every institution should have this line of credit established.

**Step 2: Estimate how much liquidity you need**

Once you have established your current liquidity position and can quantify your institution’s capacity to fund planned growth or potential deposit runoff, it is important to understand how future changes in your balance sheet could affect your liquidity position.

A projection of sources and uses would be an appropriate tool in this case.

The appropriate level of detail and the time frame will vary depending upon the complexity
of your balance sheet, your liquidity profile and data available. Your projection should at least extend over a three-month horizon.

While you may be encouraged to expand this forecast over 6 or even 12 months, the level of accuracy—and consequently the utility—for most institutions can diminish significantly.

If future cash flow information is presented to the ALCO and the Board in summary form, it may be worthwhile to separately maintain the details related to contractual and non-contractual cash flow runoff along with the estimates for new volume. Understanding the relative contribution of contractual cash flows, cash flows derived from your behavioral models or estimates and new volume could be important when you begin to look at contingency and stress-testing scenarios later in this process.

Exhibit 2 illustrates what a core liquidity matrix may look like.

**Step 3: Establish an early warning system**

Once you have established your current liquidity position and can quantify your institution’s capacity to fund planned growth or potential deposit runoff, it is important to understand how future changes in your balance sheet could affect your liquidity position.

Once we know our baseline liquidity position, it is important to define a system of key warning signals or risk indicators (triggers) that can alert management to an increased state of liquidity duress.

These triggers need to be institution-specific because balance sheets, liquidity sources, business practices and management philosophies all vary from one institution to another. For example, an institution that actively relies upon securitization and sales activities as a primary source of funding will want to establish a measure related to that practice. A bank that actively uses brokered funding will want a measure related to that activity.

When developing these potential triggers, management should discuss and take into consideration relevant local and broader (national) market trends and influences. Exhibit 3 summarizes common key risk indicators.

The extent of the risk measurement process should be commensurate with your institution’s size, complexity and liquidity risk profile.

In determining the specific measures or ratios, try to keep it simple and look for measures that are easily accessible or already reported.

For institutions with more robust financial modeling and reporting systems or data warehousing tools, more sophisticated metrics can be derived, tracked and used as part of the risk measurement process (for example, loan-loss migration, retail deposit stability, loan prepayment, product pricing).
Exhibit 2

<table>
<thead>
<tr>
<th>Sources of Cash (Existing)</th>
<th>Total</th>
<th>1 Month</th>
<th>2 Months</th>
<th>3 Months</th>
<th>4 Months</th>
<th>5 Months</th>
<th>6 Months</th>
</tr>
</thead>
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<tr>
<td>Short-Term Investments</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Other Liquid Assets</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Bond Cashflow / Sales - USTs &amp; GSAs</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Bond Cashflow / Sales - Other</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>1-4 Family Res Loan Cash Flow Received</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Other Loan Cash Flow Received</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Planned Loans Sales</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
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<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Existing Sources of Cash</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses of Cash (Existing)</th>
<th>Percentage</th>
<th>Total</th>
<th>1 Month</th>
<th>2 Months</th>
<th>3 Months</th>
<th>4 Months</th>
<th>5 Months</th>
<th>6 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond Replacement(s) - USTs &amp; GSAs</td>
<td>100.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Bond Replacement(s) - Other</td>
<td>100.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>DDA Balance / Monthly Outflow</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>NOW Balance / Monthly Outflow</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
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<tr>
<td>MMDA Balance / Monthly Outflow</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
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<tr>
<td>Savings Balance / Monthly Outflow</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Other NMD / Monthly Outflow</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>CDs Maturities - Not Replaced (6 mos.)</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Brokered CDs Maturities - Not Replaced (6 mos.)</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Secured Borrowings - Not Replaced (6 mos.)</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Unsecured Borrowings - Not Replaced (6 mos.)</td>
<td>$ -</td>
<td>0.0%</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>TRUP Dividends to be Paid</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Existing Uses of Cash</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Existing Balance Sheet - Cash Inflow/Outflow</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 3

Potential Key Risk Indicators

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic surplus ratio(s)</td>
<td>Credit events</td>
</tr>
<tr>
<td>Loan-to-deposits</td>
<td>Economic indicators</td>
</tr>
<tr>
<td>Borrowings-to-assets</td>
<td>Industry trends in NPLs</td>
</tr>
<tr>
<td>Brokered CDs-to-assets</td>
<td>Market rates/volatility</td>
</tr>
<tr>
<td>Liquidity gap</td>
<td>Credit spreads</td>
</tr>
<tr>
<td>IRR measures</td>
<td>Geopolitical events</td>
</tr>
<tr>
<td>Capital ratios</td>
<td>Natural catastrophes</td>
</tr>
<tr>
<td>Deposit cash flows/decay</td>
<td></td>
</tr>
<tr>
<td>NPLs/loans or “Texas” ratio</td>
<td></td>
</tr>
<tr>
<td>Charge-offs/recoveries</td>
<td></td>
</tr>
<tr>
<td>Growth rates</td>
<td></td>
</tr>
</tbody>
</table>
**Step 4: Stress test your funding needs and availability**

Most institutions are accustomed to stress-testing analyses in the context of earnings- and value-at-risk through their interest rate risk management practices.

Surprisingly, few institutions connect the information embedded in that analysis to its potential impact on liquidity.

Under varying interest rate environments, cash flows and estimated market values are changing. If they are changing a lot, your institution’s liquidity capacity and funding needs could be markedly affected.

No matter what your liquidity profile indicates, stress testing is a key component of any liquidity management process; however, the complexity and sophistication of the institution will dictate the magnitude and frequency of these tests.

In addition to projecting existing cash flows or values in differing environments, alternative assumptions that reflect potential events should be applied. We have found this type of analysis can be highly effective in evaluating the potential severity of a liquidity event and your institution’s readiness to handle that event. The stresses that are conducted should identify strains on your liquidity, and the results should be discussed with ALCO to allow for the taking of action to prevent or prepare for the potential scenarios.

As with interest rate risk management, it is important not to overdo it: We typically recommend developing a set of scenarios that represent three levels of liquidity duress (moderate, high and significant).

For each of these scenarios, management should evaluate the potential impact on a number of items including collateral values, tightening collateral standards that reduce borrowing capacity, deposit outflows, capital write-downs that ultimately affect the ability to access the brokered market, the need to securitize and sell assets at severe losses, at what point do we have to utilize our line at the Federal Reserve, etc.

In terms of ALCO and Board reporting, a liquidity scorecard that summarizes all of the liquidity measures, the key risk indicators and their levels relative to policy guidelines (perhaps color-coded red/yellow/green) would be appropriate. In addition, including historical trends would be beneficial from the standpoint of understanding how we got to the current liquidity state.

The results of the liquidity stress testing should correlate with the bank’s Contingency Funding Plan (CFP). The CFP should ensure the bank has adequate liquidity under “stressful” events, either internally driven or due to changes in the economic environment. Every bank’s CFP should include:

- Risk Monitor Report that incorporates ratios, trends and situations considered to be potential early warning indicators for liquidity crisis;
Cash Flow Projections (preferably two years) reflecting net cash positions;
Quantification of funding capacity from unencumbered securities and wholesale funding sources available;
Descriptions and modeling of a series of increasingly stressful financial situations and the potential impact on customer behavior and availability of credit facilities; and,
Pre-emptive strategies that will be implemented in response to the triggering of early warning indicators

If any of the action plans outlined in your CFP include the use of external resources or conduits, it is imperative to periodically contact and test these sources to ensure availability in a time of need.

If the first time you call an institutional broker for deposits is when you are having issues, the broker is going to be reluctant to assist. Periodically utilize the brokered deposit market, use repurchase agreements or solicit deposits though a national CD listing service.

Step 5: Outline management’s responses

Once the liquidity events are identified, management needs to outline its expected responses for each event.

For larger organizations, establishing a liquidity crisis team that meets and reports periodically to ALCO and the Board may be beneficial. This team of specialists should include those primarily responsible for the execution of specific activities outlined in your institution’s CFP.

Depending upon the type, severity and duration of the liquidity events, responses will vary in terms of complexity and execution effort.

Minimally, each action plan should include a prioritized sequence with procedural instructions, communication protocol and key contact information (personnel responsible, external contacts). Since actions may be staged with initial responses followed by longer-term activity, identifying timelines for each activity would also be appropriate.

When we assist clients in developing these action plans, we encourage them to initially keep it simple so it can be easily understood and executed. Over time, these plans can be enhanced to include more substantive activities such as public relations efforts and detailed marketing plans.

Step 6: Document your process and periodically test liquidity sources

It is important that your liquidity management process is well documented and tested periodically to ensure both the stability of potential funding sources and that the key parties involved know their roles and responsibilities under normal business practice as well as during a stressful event.
As part of this documentation, include a complete description of what you do in terms of your liquidity monitoring and management process, your liquidity management philosophy and why your institution has selected (or excluded) specific risk measures and key risk indicators.

If done well, this document can:

1. serve as your liquidity management playbook;
2. inform and educate all of your significant stakeholders (management, the Board, funding providers, examiners and independent risk auditors); and
3. reduce the risk of poor execution.

A key aspect of a robust liquidity management process is the development of policies and strategies that limit risk exposures and are aligned with the bank’s risk tolerances. The strategies should outline management’s responses to stressful scenarios and identify the primary funding sources available for meeting daily operations. Liquidity policies should define the bank’s risk tolerance and explain the assumptions utilized in the liquidity management process, and should read more like a procedures manual than a typical ALCO policy.

Your liquidity management process and CFP should be reviewed by an independent third party on a regular basis to confirm the accuracy of cashflow forecasts, determine the reasonableness and support of the assumptions and assess the level to which the process complies with the regulatory guidance as well as industry “best practices.”
Conclusion

Continuing to effectively fund asset growth is going to be one of the key challenges facing the banking industry in the years to come.

All financial institutions need an approach and a plan for managing liquidity and funding that is practical and provides safeguards against an institution-specific or systemic liquidity crisis.

Institutions that are most successful in managing liquidity and liquidity risk will:

- Maintain an appropriately detailed measuring and monitoring process that includes a comprehensive collateral inventory management process, accurate sources/uses forecasts and alternative funding source diversity;
- Implement a liquidity stress-testing process that can quantify the bank’s ability to withstand moderate, significant and severe liquidity events;
- Develop and monitor an early warning system that can detect issues before they become problems; and
- Document and maintain a contingency funding plan that can be relied upon in the event of various liquidity events or crises.

It is important to recognize that one size does not fit all and that the success of a liquidity risk management process is a function of not only its design but also the people involved in its management and execution.

By engaging your management team, as well as outside expertise, the right process can be developed and implemented. Benjamin Franklin said it best, if you do not have the proper pieces in place to effectively manage your liquidity process and anticipate unforeseen events that could impact your liquidity, then “By failing to prepare, you are preparing to fail.”
DCG’s Liquidity360° Solution

DCG’s Liquidity360° is an interactive web-based tool that provides your institution access to the necessary resources for effective operating and contingency liquidity management. The suite of modeling, monitoring and reporting tools enables your institution to prepare pro forma cash flow forecasts, stress test your liquidity position with “what-if” simulations, establish liquidity risk triggers, and produce a Board-ready liquidity monitoring report. Liquidity360° can be tailored to meet your particular needs.

Liquidity360° is a forward-looking liquidity management solution that allows you to customize your own liquidity management process while maintaining full compliance with the 2010 Interagency Guidance on Funding and Liquidity Risk Management (FIL 13-2010).

Liquidity360° takes your existing liquidity management analysis to the next level, providing a one-page “scorecard” to gauge your current levels vs. risk tolerances and looks forward to determine sources and uses in the years to come. But most importantly, it allows the ability to run multiple stress scenarios to see how your liquidity profile will change under a variety of circumstances, and analyze what actions you will need to take to alleviate each stress.

We are ALM specialists. Unlike other firms whose roots are just based in auditing, government regulation or academic theory, we are active balance sheet management practitioners—developing detailed financial models and software solutions, providing education, guidance and strategic advice to hundreds of institutions annually.

Since 1982, we have supported more than 1,500 institutions.

To learn more about our services or to request a proposal, contact us at info@darlingconsulting.com or 978.463.0400.
How DCG Can Help

Darling Consulting Group (DCG) is the banking industry’s leading asset/liability management (ALM) consulting firm. We have been providing independent balance sheet management advice, analyses and support to banks and credit unions throughout the country for more than 30 years.

DCG becomes a part of your management team, providing expertise in the areas of interest rate risk management, liquidity management and contingency planning, stress testing (including credit), capital planning and regulatory compliance.

DCG also provides in-depth risk model validations and independent reviews of risk management processes. Our large bank group provides Dodd-Frank Act Stress Testing (DFAST) model validations. We have a suite of online state-of-the-art decision support tools including deposit base analytics, loan portfolio analytics and liquidity management/planning. The breadth and depth of our professional expertise, proprietary technology and unsurpassed client support are what distinguish DCG as the premier provider of ALM solutions.

All of our services are founded on the strong belief that continued client education culminates in effective decision making. DCG has the experience and resources to tailor the ideal solution for your institution.

ALM Consulting
The industry’s most complete ALM solution gives you the information, tools and expert resources needed for your institution to succeed.

ALM Model Validations
More than a regulatory “check box,” our ALM model validations ensure your ALCO is getting the information it needs to make the key strategic decisions at the right time.

Credit/Credit Stress-Test Model Validation Services
DCG provides comprehensive credit and credit stress-test model validations to financial institutions. Validation services include credit scoring, credit default, ALLL and DFAST/CCAR.

Deposits360° (Non-Maturity Deposit Analysis & Online Tool)
Deposits360° supports institution-specific assumptions that satisfy regulatory requirements in a next generation tool for deposit analysis that provides strategic insight for senior management to manage your non-maturity deposit base in any business environment.

Prepayments360° (Loan Prepayment Studies & Analytics)
Prepayments360° is an interactive web-based tool that supports institution-specific prepayment assumptions while providing a strategic advantage for senior lenders.
Liquidity360° (Liquidity Management and Contingency Planning)
Liquidity360° is a complete and interactive set of online tools for liquidity risk management monitoring, forecasting, contingency planning and reporting.

Liquidity Reviews
DCG’s Liquidity Risk Review service provides your institution with the most thorough evaluation of your liquidity measurement and management process.

Capital Planning
DCG’s development of a dynamic capital plan lays the foundation for your institution to meet its growth plans for the future while incorporating stress scenarios to reflect the impact of unanticipated events.

Credit Stress-Testing Solution
DCG has developed a best-in-class community bank credit stress-testing solution that provides a forward-looking approach to credit risk management and capital planning.

To learn more about DCG’s “Wholistic” approach to ALCO, contact us at info@darlingconsulting.com or 978.463.0400.