Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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LIQUIDITY RISK MANAGEMENT

Summary: The FDIC is issuing this guidance to highlight the importance of liquidity risk management at financial institutions. Liquidity risk measurement and management systems should reflect an institution's complexity, risk profile, and scope of operations. Institutions that use wholesale funding, securitizations, brokered deposits and other high-rate funding strategies should ensure that their contingency funding plans address relevant stress events. The requirements governing the acceptance, renewal, or rolling over of brokered deposits are applicable to all insured depository institutions.

Distribution:
FDIC-Supervised Institutions (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Financial Officer

Related Topics:
Part 337.6 of the FDIC's Rules and Regulations - Brokered Deposits
Liquidity Risk Management

Attachment:
"Liquidity Risk Management"

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Note:
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Highlights:

- Recent disruptions in the credit and capital markets have exposed weaknesses in liquidity risk measurement and management systems.
- Institutions using liability-based or off-balance sheet funding strategies, or that have other complex liquidity risk exposures, should measure liquidity risk using pro forma cash flows/scenario analysis, and should have contingency funding plans.
- Contingency funding plans should incorporate events that could rapidly affect an institution's liquidity, including a sudden inability to securitize assets, tightening of collateral requirements or other restrictive terms associated with secured borrowings, or the loss of a large depositor or counterparty.
- The FDIC limits the use of brokered deposits by insured institutions that are less than well capitalized, and also limits the effective yield that these institutions may offer on all their deposits. These limits are set forth in Part 337.6 of the FDIC Rules and Regulations and should be incorporated in contingency funding plans.
- Contingency funding plans should outline practical and realistic funding alternatives that can be implemented as access to funding is reduced, including diversification of funding and capital raising initiatives.
- Institutions that use volatile, credit sensitive, or concentrated funding sources are generally expected to hold capital above regulatory minimum levels to compensate for the elevated levels of liquidity risk present in their operations.
- Examiners will continue to evaluate an institution's ability to maintain access to funds and liquidate assets in a reasonable and cost-efficient manner in both normal and stressed markets.

Inactive