Set the Stage for Your Liquidity Needs

Building Your Access to FHLBank Funding

June 28, 2023

It's no secret that liquidity will remain at the forefront of examinations, increasing the need to prioritize building capacity to access reliable liquidity. Recent events in the banking industry have proven how critical it is to have the ability to obtain cash **quickly without incurring a loss** and at a **reasonable cost** to meet expected and unexpected cash flows.

Tapping into the security portfolio is likely off the table due to sizeable unrealized loss positions, so quick access at a reasonable cost leaves us with wholesale funding sources to fill liquidity needs (e.g., FHLBank, brokered deposits, deposit listing services, etc.). FHLBank Topeka is undoubtedly the fastest, most reliable and often cheapest funding source.

At FHLBank Topeka, liquidity or capacity is about the amount of identified eligible collateral. An improved total liquidity position through evaluating, identifying and pledging additional eligible collateral will help reduce examiner concerns on liquidity. While it's certainly much easier to have the eligible collateral pledged and capacity available before a stress event occurs, it also allows you to convert illiquid assets into readily available cash, improving liquidity risk management.

Below are a few additional benefits of proactively optimizing pledged collateral:

- Enhance operating flexibility and capitalize on profitable opportunities
- Agilely respond to stress events while also strengthening contingency plans
- Fortify a sufficient buffer against deposit migration and to fill the funding gap when liquidity needs arise

In today's environment, liquidity risk and liability management are top of mind. Allocate time to ensure your policies allow for meaningful borrowing flexibility with outlets and collateral pledged to secure funding if needed.

How can FHLBank enhance your liquidity risk management practices?
We have several resources and tools available to help you optimize your liquidity and identify how much capacity is needed for operational and contingent purposes. We'll review two commonly used and customizable tools that you can request to support more robust liquidity planning, policies and stress testing.

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1. **Using the Building Capacity and Contingency Liquidity Analysis**, we can help you develop a base and contingency funding strategy with FHLBank advances satisfying a portion of your base funding and still provide sufficient contingency funding sources. The analysis helps you optimize your capacity by providing an overview of your current collateral position and, using your most recent call report data, identifies additional pledgable collateral and illustrates your pro-forma collateral position.

   This tool helps support the position that not all "powder" or capacity at FHLBank needs to be kept "dry." An enhanced liquidity base with FHLBank provides access to maturities and structures to hedge interest rate risk and fill funding needs.

2. **The Liquidity Stress Analysis** helps us conduct an in-depth independent and objective evaluation of your funding and liquidity practices and how you can find additional value in your FHLBank membership. Each of the three customizable stress scenario assumptions demonstrates the cash flow and ratio impact.

   This allows you to further identify the amount of additional collateral and/or other funding sources needed to meet contingency liquidity needs under a low-, moderate- or high-stress environment. Proactively managing potential challenges that may arise should take into consideration the impact on future earnings, liquidity and reputational risk and deposit migration.

While no two members are the same and different risk profiles require varying levels of risk management and documentation, increasing your overall capacity with FHLBank is prudent and enables you to take advantage of the cost, efficiency and timely execution FHLBank advances provide.

Contact your regional account manager or Member Solutions to explore strategies that contribute to your risk management and earnings. Visit the Member Solutions landing page to view and request other solutions available to you.

Helpful Pages on Our Website

Collateral Resources Page
- MPSG
- Training
- Helpful guides + articles
- Collateral news
- Contacts

Financial Intelligence Page
- Liquidity Risk Management: More Than Checking a Box
- More "core" than core deposits whitepaper
- Beta Preparation
- Quarterly Economic Updates
- Quarterly Trends Reports