**Bank:** **Date of Exam:**

**Charter #:** **Prepared By:**

# #4 –LIQUIDITY/BORROWED FUNDS (Risk Focused)

## ASSIGNMENT OVERVIEW

The importance of liquidity is recognized by its separate rating among the CAMELS components; a bank experiencing severe liquidity problems is in danger of failure. A bank has liquidity when it can obtain sufficient funds, in a timely manner, at a reasonable cost. Borrowing represents a form of funding which has seen increased use by commercial banks, particularly with the advent of access to the Federal Home Loan Bank. Typical forms of borrowing include federal funds purchased or term loans, Treasury Tax and Loan (TT&L) accounts held under a note option, assets sold with recourse, and securities sold under an agreement to repurchase ("repos"). Borrowed funds may be justified and warranted if they are well managed and serve one or more of the following purposes: 1) to meet customers' temporary or seasonal loan or cash requirements; 2) to meet large, unanticipated deposit withdrawals which may arise during periods of economic distress; and 3) as an ongoing component of an effective liability management program. Borrowing may be **unjustified** if it is necessitated by poorly planned funds management practices or is used to fund inadequately controlled loan or investment expansion. Refer to the section on "Liquidity and Funds Management" in Section 6.1 of the FDIC Examination Manual for more information. Refer to the DOB's Reference Material documents for a list of/and links to regulations, guidance, and other issuances by various regulatory authorities.

## INSTRUCTIONS

Examiners must follow the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Commercial Examinations.

All examiners performing these procedures must be listed above in the "Prepared By" section. All of the CORE ANALYSIS PHASE should be completed. Comments and findings for each step should be made in the comment box below each question. Reference to work paper documentation should also be included here. Indicate compliance with regulations in the appropriate check box. Documentation is to be sufficient to allow an audit trail of the examiner's thought process and all significant findings.

Information on the Summary of Findings page must tie back to the findings noted within the procedure. The SEIC/EIC will determine which information in the Summary of Findings will be included in the Report.

The EIC/AEIC should review this procedure when complete. Acknowledgement that this procedure has been reviewed by the EIC/AEIC will be indicated on the SCOPE FORM.

**EXAMINERS ARE RESPONSIBLE FOR EXERCISING SOUND JUDGMENT AND UTILIZING REASONABLE INVESTIGATIVE AND ANALYTICAL SKILLS TO ARRIVE AT AN ACCURATE ASSESSMENT OF THE RISK PROFILE OF THIS SEGMENT OF THE INSTITUTION'S OPERATIONS. PERFORMING ALTERNATE PROCEDURES NOT LISTED WITH THESE GUIDELINES MAY BE NECESSARY TO COMPLETE THIS RISK ANALYSIS.**

# CORE ANALYSIS PHASE

## #4 - Liquidity / Borrowed Funds

### 1. Prior Criticisms

**1.** Determine whether deficiencies were noted in the **last examination** and most recent **internal/external audit.** If deficiencies noted, determine if these have been addressed and/or corrected by management. Detail how deficiencies were corrected.

*To document:(a) include a copy of the prior criticisms in the work papers; or (b) summarize the exceptions /criticisms in the comment box; or (c) indicate the page number in the last examination report where deficiencies are noted.*

**Comment:**

### 2. Analysis of Sources & Uses

**Liquidity and Cash Flow worksheets are available on DOBIE as further guidance.**

**2a.** Review the bank's balance sheet, UBPR and other analytical data to identify major sources and uses of liquidity considering the bank's liquidity needs. Assess liquidity trends and risk. Refer to **Appendix I** for guidance. Comment on findings.

Consider the following:

- unfunded loan commitments;
- off balance sheet items;
- borrowing lines of credit:
    - if the bank has loans pledged, ensure they are being appropriately reported on Call Report schedule RC-C M14. Refer to the bank's Borrowing Base Certificate, as applicable. Confer with the examiner performing the Loan procedure.;
- the extent of liquidity provided by:
    - the loan portfolio, including pledged assets and cash flows from loan payments or sales; and
    - the securities portfolio considering:
        - The availability of highly liquid assets that could be sold or pledged to obtain funds under a stress scenario (highly liquid assets included unpledged US Treasury and agency securities);
        - The extent of cash flows coming from mortgage-backed securities over the next 12 months; and
        - The vulnerability to market stress (i.e., price risk) and impact rising rates have on the ability to sell investments without realizing undue losses.

**Comment:**

## #4 - Liquidity / Borrowed Funds

**2b.** Determine the stability and volatility of funding sources including:

- borrowings,
- deposits,
- public fund accounts,
- brokered funds, and
- other volatile funds.

Perform 2b.1 to 2b.5, as applicable. Refer to the Liability Management section of Section 6.1 in the FDIC Risk Management Manual, to assist in evaluating the risks associated with these funding sources.

**2b.1. Borrowings**

A. Obtain a listing of all bank borrowings as of the examination date including federal funds lines of credit and repo lines available through correspondent banks, borrowing lines at the FRB or FHLB. *Include a copy of any agreements in the work papers.*

B. Review the last reconciliation on borrowing accounts and determine the following:

- Reasonableness of reconciling items; and
- Maintenance of subsidiary records for each type of borrowing

C. Assess the extent of proper control over the account(s) considering the following:

- Preparation, addition, and posting of subsidiary records performed or adequately reviewed by persons who do not also (1) handle cash or (2) singly issue official cashiers' checks and drafts;
- Account reconciliations to the general ledger account at least monthly; and,
- Investigation of reconciling items by persons who do not also (1) handle cash, or (2) prepare or post to the accounts.

D. Review appropriateness of individual borrowing arrangements considering the following:

- Reasons why the borrowing was undertaken;
- Terms – amortization/interest rate, maturity date, prepayment penalty provisions, and any circumstances under which the borrowing arrangement may be called or accelerated;
- Potential contingencies that may affect the bank's access to borrowing lines (i.e. the bank's commitment to retaining a certain leverage ratio); and
- Effect on the bank's NIM and earnings.

E. Evaluate borrowed funds activity since the last examination. Consider the following for each type of borrowing. *Include detail in work papers.*

- Source;
- High, low, and average amount borrowed;
- Number of days or extent borrowed;
- If secured or unsecured;
- Type of collateral pledged for each secured borrowing (blanket, delivery, or specific collateral lien);
- Past, present, and anticipated impact to the bank's size, balance sheet composition, and earnings; and

- Management's plans for future borrowings.

F. Obtain direct verification(s) from the lending entity to confirm outstanding balance(s) as of a specified date. *Include copy of verification(s) and explanation of exceptions in work papers.*

**Performed Borrowings Analysis? Yes ☐ No ☐**

**If Yes, comment:**

### 2b.2. Stability of Deposits

A. Address significant historical trends evident in the bank's deposit base. Consider the following, if applicable:

- Extent of diversification among smaller deposit accounts;
- Volume of deposits from outside the bank's normal trade area;
- Seasonality;
- High-rate deposit solicitation programs enacted since the last examination; and
- Solicitation programs including local, state, or national offerings using print or electronic mediums, including the Internet.

B. Review large depositors and determine the stability of these deposits and any risk mitigants. Consider significant or undue reliance on deposit concentrations/large depositors in funding sources and reason(s) held.

C. Confer with EIC to determine if a review time deposits of $250,000 or more is necessary. If so, consider the following:

- Reasons/plans for maintaining or increasing reliance on such liabilities;
- Overall volume and/or level;
- Upcoming maturities and anticipated run-offs;
- Depositor's location; and
- Reasonableness of rates paid versus market area.

**Comment:**

### 2b.3. Public Fund Accounts

Evaluate/document key terms of significant/large public funds. Consider the following issues:

- Funds expected to be withdrawn at expiration if under contract;
- Plans the bank has made to meet any expected payouts;
- Stability of public funds not under contract;
- General plans for existing or new public fund;
- Amount of over-pledged liquid collateral available to bank; and,
- Use of 3rd party guarantees or letters of credit in lieu of pledging a security.

**Performed Public Fund Accounts? Yes ☐ No ☐**

**If Yes, comment:**

## #4 - Liquidity / Borrowed Funds

### 2b.4. Brokered Funds

A. Based on the definitions in **Appendix II,** identify the volume of brokered deposits. Consider the primary impacts of brokered funds in the liquidity analysis/comment. Refer to **Appendix II** for guidance.

Consider the following, if applicable:

- Materiality of this source of funds (i.e., as a percentage of deposits);
- Purpose and volatility of brokered deposits;
- Service, entity, or person used to obtain these funds;
- Bank's overall experience and familiarity with this service, entity, or person;
- Correct reporting of these deposits in Call Report Schedule RC-E;
- Bank's future plans for brokered deposits;
- Concentrations by broker; and,
- Possibility of legal restrictions due to PCA Capital guidelines.

B. Ensure that the activity complies with the limits on brokered funds established by 12 CFR 337.6. See **Appendix II.**

**Complies with 12 CFR 337.6:** Choose an item.

*A response of "NO" requires a comment.*

**Performed Brokered Funds Analysis? Yes ☐ No ☐**

**If Yes, comment:**

### 2b.5. Other Volatile Funds

Determine if the bank relies on any of the following sources of volatile funding.

- Due to accounts;
- Eurodollar or off shore deposits;
- Pension funds; or,
- Other volatile wholesale funding (excluding federal funds).

**Performed Other Volatile Funds Analysis? Yes ☐ No ☐**

**If Yes, comment:**

**2c**. If any funding concentrations are noted, determine if the concentration is prudently managed, measured, and monitored. Describe management's practices.

Funding Concentrations are defined as obligations, direct and indirect, from a single source representing 10% or more of Total Assets.

**Comment:**

## #4 - Liquidity / Borrowed Funds

**2d.** Determine if the bank follows the sound practices for managing funding and liquidity risk provided in the guidance, *Interagency Policy Statement on Funding and Liquidity Risk Management* (March 2010).

Additionally, review contingency funding plans and existing arrangements and determine if they are adequate given the bank's past, present, and prospective liquidity position, strategic plans and overall financial condition.

Also, consider:

a. Sources of contingency funding;

b. Reliability of contingency funding (Revocable, irrevocable vs. "as available");

c. Terms and conditions of alternative or contingency funding arrangements;

d. Internal pro forma cash flows;

e. Potential effects of brokered deposits and high-rate fundings, including listing deposits, on the liquidity position if the bank becomes less than well capitalized and is required to replace the funding sources; and

f. Potential restrictions on deposit rates paid and the inability to renew deposits over the rate cap by banks that are less than well capitalized. Refer to the FDIC's Weekly National Rates and Rate Caps -Weekly Update for rate cap information.

Refer to Reference Material document for samples of Contingency Funding Plans and *FIL-13-2010 Funding and Liquidity Risk Management (4/5/2010).*

**Comment:**

## C. Public Fund Pledging Requirement

**3a.** Determine if public funds are adequately pledged. Confirm pledging requirements are met utilizing servicer report, safekeeping report, and safekeeping receipts.

Review the public fund confirmations and follow up on any differences.

Determine compliance with Texas Finance Code §34.304 and Texas Government Code §2257. Refer to **Appendix III** for additional guidance.

Comment on findings and any deficiencies.

*Include pledged asset report and public fund verifications in 4-H and 4-I of the work papers.*

**Complies With:**

**TFC §34.304:** Choose an item.

**TGC §2257:** Choose an item.

*Any response other than "YES" requires a comment.*

| #4 - Liquidity / Borrowed Funds |
| --- |
| **Comment:** |
| **3b.** If the bank pledges FHLB letters of credit toward public funds, ensure they are being appropriately reported in RC-L. (The amount of these FHLB letters of credit must be reported on RC-L 9c if the total outstanding amount exceeds 25% of total capital.) Confer with the examiner performing the Loan procedure. |
| **Comment:** |
| **3c.** Describe the bank's practice for monitoring public fund deposits and assets pledged. Determine if the process and reporting system utilized appear adequate. Comment on findings. |
| **Comment:** |
| **4. Management Oversight** |
| **4a.** Evaluate the adequacy of policy/procedures, internal controls and limits for managing and monitoring liquidity in relation to management abilities, the complexity of the bank's balance sheet structure, operating environment and overall financial condition of the bank.<br>Consider the factors outlined in **Appendix IV**. Comment on findings and explain any deficiencies. |
| **Comment:** |
| **4b.** Confer with the EIC if the bank has a high risk liquidity structure. Determine if this is addressed in the strategic plan, contingency funding plan or liquidity policy, Determine whether there are any recent or planned changes in strategic direction and discuss with management the implications for liquidity risks. Make recommendations, if necessary. |
| **Comment:** |
| **5. Final Analysis** |
| **5.** Prepare a Liquidity comment and assign a rating for the bank. Refer to Supervisory Memorandum 1001. Complete the **Summary of Findings**. |

# SUMMARY OF FINDINGS

| #4 - LIQUIDITY / BORROWED FUNDS |
|---|
| **Describe all strengths evident from the evaluation.** |
| |
| **Describe all weaknesses evident from the evaluation, including violations of law/regulation/rules; noncompliance with Departmental policies/guidelines; internal policy deficiencies/ noncompliance; internal control weaknesses; MIS problems; and deficiencies in management supervision.** |
| |
| **Determine why weaknesses exist and comment on management's response and plan of action. Identify bank personnel making the response.** |
| |
| **SUMMARY RISK RATING ASSIGNED:** Choose an item. |

**Ratings:1-Strong; 2-Satisfactory; 3-Less than satisfactory; 4-Deficient; 5-Critically deficient; NR-Not Rated**

Ratings Definitions.xlsm

*Provide copy of this page to EIC/AEIC. Receipt and review of this form by the EIC/AEIC will be evidenced by his/her initials in the appropriate column for this procedure on the SCOPE FORM.*

Return to Core Analysis

## APPENDIX I

## Analysis of Sources and Uses

Liquidity needs may be met by managing the bank's asset structure through either the sale or planned pay-down of assets. Banks relying solely on asset management focus on adjusting the price and availability of credit and the level of liquid assets held to meet cash demands in response to changes in customer asset and liability preferences. Assets normally assumed to be liquid sometimes are not liquidated easily and/or profitably. For example, investment securities may be pledged against public funds and repurchase agreements, or may be depreciated heavily because of interest rate changes. On the other hand, holding liquid assets for liquidity purposes becomes less attractive because of thin profit margins and capital maintenance requirements.

As an alternative to using assets to satisfy liquidity needs, these needs may be met through liability sources. Although core deposits continue to be a key liability funding source, many insured depository institutions have experienced difficulty attracting core deposits and are increasingly looking to wholesale funding sources to satisfy funding and liability management needs. Wholesale funding sources include, but are not limited to, Federal funds, public funds, Federal Home Loan Bank (FHLB) advances, the Federal Reserve's primary credit program, foreign deposits, brokered deposits, and deposits obtained through the Internet or CD listing services.

Refer to the FHLB Dallas website for Loan Collateral Eligibility Requirements and guides to products and services such as Letters of Credit.
Liquidity and Cash Flow worksheets are available on DOBIE as further guidance.

## Sources

**Identify Sources of Asset Liquidity**

Sources include “temporary investments”, marketable securities due over one year, excess cash and due from accounts, available-for-sale assets, and other sources.

- ***Investments***
  - Does the bank have investments that are MBSs, ABSs, CDOs, CMOs, mutual funds or other marketable securities?
  - What is the current book value?
  - What are the unrealized losses?
  - What are the current cash flows from MBS?
  - What is the composition mix of the investment portfolio? What amount of securities has been pledged for other purposes?

- ***Loans***
  - What is the composition mix of loans?
  - What is the level of current loans, loans over 30 days past due, 90 days past due and on nonaccrual?
  - What is the level of liquidity provided by the loan portfolio?
  - Does the institution securitize assets as a source of liquidity?

- Has the institution assessed the impact on liquidity of assets sales that have resource provisions?
- Does the bank have assets that cannot be securitized? If so, what has been the impact to the liquidity of the institution?

**Identify Other Sources**

- ***Borrowing Lines***

  - Does the institution use borrowing lines as a source of funds?
  - What are the terms, costs and stability of the borrowing lines?
  - Are the borrowing lines secured or unsecured lines?
  - Have the borrowing lines been fully utilized?
  - Does the institution have the ability to utilize the Federal Reserve discount window?

- ***Brokered Deposits***
  - 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 deposits. These limits are set forth in Part 337.6 of the FDIC Rules and Regulations and should be incorporated into the contingency funding plans.

  - What amount of deposits are brokered deposits?
    - Brokered Deposits with maturity of less than one year?
    - Brokered Deposits with maturity of more than one year?
    - What percentage of Net Loan & Leases is covered by core deposits?
    - What percentage of Net Loan & Leases is covered by total deposits?
    - What is the cost to the bank to utilize funding sources?

- ***High Rate Deposits***
  - In addition to brokered deposit restrictions, Section 29 of the FDI Act also places certain restrictions on deposit interest rates for banks that are less than well capitalized. Deposit rate restrictions prevent a bank that is not well capitalized from circumventing the prohibition on brokered deposits by offering rates significantly above market in order to attract a large volume of deposits quickly. Under Section 337.6 of the FDIC's Rules and Regulations, a bank that is not well capitalized may not offer deposit rates more than 75 basis points above average national rates for deposits of similar size and maturity (referred to as the national rate cap).
  - Consider the following:
    - Does the institution pay rates higher than the peer group average?
    - Is the high deposit rates a funding strategy of the bank?
    - Is this a temporary or permanent funding strategy of the bank?
    - Are there local market pressures for deposit rates to be high?
    - Is management aware of the deposit rate restrictions if they fall below well capitalized?

## Uses

**Identify Uses of Liquidity**

Uses include unfunded loan commitments, off-balance sheet items, maturity of deposits or borrowed funds, the level of uninsured deposits, and growth initiatives.

Utilize the Federal Reserve's reserve requirement letter to determine the amount of cash and due from bank account balances which must be maintained based upon the current level of bank deposits.

Determine the amount of pledged assets.

If the bank has any securities sold under an agreement to repurchase ("repos"), determine whether the activity complies with the FFIEC Supervisory Policy on Repurchase Agreements of Depository Institutions with Securities Dealers and Others.

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# APPENDIX II

## Brokered Deposit Guidance

See **FIL42-2016** for Guidance on Identifying, Accepting and Reporting Brokered Deposits

**Definitions (**Per **12 CFR 337.6)**

12 CFR 337.6(a) (2) defines a **brokered deposit** as any deposit that is obtained, directly or indirectly, from or through the mediation or assistance of a **deposit broker**.

12 CFR 337.6(a)(5)(i) defines a **deposit broker** as:

(A) Any person engaged in the business of placing deposits, or facilitating the placement of deposits, of third parties with insured depository institutions, or the business of placing deposits with insured depository institutions for the purpose of selling interests in those deposits to third parties; and

(B) An agent or trustee who establishes a deposit account to facilitate a business arrangement with an insured depository institution to use the proceeds of the account to fund a prearranged loan.

12 CFR 337.6(a)(5)(iii) states that the term **deposit broker** includes any insured depository institution that is **not well-capitalized**, and any employee of any such insured depository institution, which engages, directly or indirectly, in the solicitation of deposits by offering rates of interest (with respect to such deposits) which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions in such depository institution's normal market area.

## Limits on Brokered and High Rate Deposits

**ADEQUATELY CAPITALIZED** institutions (per 12 CFR 337.6(b)(2):

When a bank is not well capitalized, **any** interest-bearing deposit would fall under the umbrella of "brokered deposit" as per 12 CFR 337.6(a)(5)(iii). Restrictions and rate caps become applicable to all interest-bearing deposits, not just those under the traditional definition of "brokered deposits."

FDIC approval is required prior to accepting, renewing, or rolling over a brokered deposit.

Provided an FDIC waiver has been obtained to accept, renew, or roll over a brokered deposit, the yield cannot be more than 75 basis points higher than:

a. The effective yield paid on deposits of comparable size and maturity in such institution's normal market area for deposits accepted from within its normal market area; or

b. The national rate paid on deposits of comparable size and maturity for deposits accepted outside the institution's normal market area. The national rate shall be a simple average of rates paid by all insured depository institutions and branches for which data are available. This rate shall be determined by the FDIC.

On a weekly basis, the FDIC posts the national rates and rate caps. If a bank believes that the posted national rates do not represent the actual rates in the bank's local market area, the bank may seek a determination from the FDIC that the bank is operating in a high-rate area. Assuming that the FDIC makes such a determination, the bank may offer the prevailing market rates instead of the national rates within the local market area. In accepting deposits from outside the local market area, however, the bank must use the national rates.

**UNDERCAPITALIZED** institutions (per 12 CFR 337.6(b)(3):

When a bank is not well capitalized, **any** interest-bearing deposit would fall under the umbrella of "brokered deposit" as per 12 CFR 337.6(a)(5)(iii). Restrictions and rate caps become applicable to all interest-bearing deposits, not just those under the traditional definition of "brokered deposits."

An undercapitalized insured depository institution may not accept, renew or roll over any brokered deposit.

An undercapitalized insured depository institution may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in such institution's normal market area or in the market area in which such deposits are being solicited.

### Effect of the Prompt Corrective Action (PCA) Capital Category on the Bank's Ability to Hold Brokered Deposits

Chart: Effect of the PCA.pdf

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# APPENDIX III

## Public Funds Guidance

FDIC Insurance coverage of public fund (unit) accounts is as follows:

Section 330.15 of the FDIC's regulations (12 C.F.R. 330.15) governs the insurance coverage of public unit accounts. For deposit insurance purposes, the term "public unit" includes a state, county, municipality, or "political subdivision" thereof. Under section 330.15, the "official custodian" of the funds belonging to the public unit – rather than the public unit itself – is insured as the depositor.

**Permanent Rule**:
The insurance coverage of public unit accounts depends upon the type of deposit and the location of the insured depository institution. All time and savings deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. Separately, all demand deposits owned by a public unit and held by the same official custodian in an insured depository institution within the State in which the public unit is located are added together and insured up to $250,000. For the purpose of these rules, the term 'savings deposits' includes NOW accounts and money market deposit accounts but does not include interest-bearing demand deposit accounts (which will be permitted after July 21, 2011).

**In-state accounts:**
An official custodian will receive coverage up to $250,000 for the combined amount of all time and savings accounts; coverage up to $250,000 for the combined amount of all interest-bearing demand deposit accounts (which are not permitted prior to July 21, 2011); and unlimited coverage for noninterest-bearing demand deposit accounts.

Beginning on January 1, 2013, accounts held by government depositors will be insured in accordance with the 'Permanent Rule'.

Banks are allowed to pledge assets to secure public fund deposits that are in excess of FDIC insured limits. This is to prevent a public entity from suffering a loss in the event that the bank fails. Examiners should verify that public fund deposits held in excess of the FDIC insured limit are well secured.

## Texas Statutes Governing Public Funds

*Local Government Code, Chapter 105– Depositories for Municipal Funds*

*Government Code, Chapter 2256 – Public Funds Investment Act*

*Government Code, Chapter 2257– Collateral for Public Funds*

*Education Code, Chapter 45 – School District Funds*

## FDIC Issuances Regarding Public Funds

FDIC Deposit Insurance Regulation for Government Depositors: 12 C.F.R. §330.15

FDIC Guide on Deposit Insurance for Accounts Held by Government Depositors

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# APPENDIX IV

## Liquidity/Borrowed Funds Policy Guidance

Regardless of the method or combination of methods chosen to manage a bank's liquidity position, it is of key importance that management formulates a policy and develops a monitoring system to ensure that liquidity needs are met on an ongoing basis. A good policy should generally provide for forward planning which takes into account the unique characteristics of the bank, management goals regarding asset and liability mix, desired earnings, and margins necessary to achieve desired earnings. Forward planning should also take into account anticipated funding needs and the means available to meet those needs. The policy should establish responsibility for liquidity and funds management decisions and provide a mechanism for necessary coordination between the different departments of the bank. This responsibility may be assigned to a committee. Whether the responsibility for liquidity and funds management rests with a committee or an individual, strategies should be based on sound, well-deliberated projections. The board of directors and the examiner should be satisfied that the assumptions used in the projections are valid and the strategies employed are consistent with projections.

Consider the following:

**1**. Has the board of directors formally review/revised the written policies regarding (a) borrowed funds/ (b) liquidity guidelines within the last year to ensure their continued relevance?

**2**. Does the Policy include the following important points?

- A reasonable methodology for determining any specific target liquidity parameters (i.e., volatile liability dependence, loan to deposit ratio, etc.)?
- Alternative funding sources (i.e., federal funds lines), if appropriate?
- Guidelines and conditions for borrowing (i.e., authorizations, approvals, limits), if borrowing is employed or contemplated?
- Provide a method for computing the bank's cost of funds?
- Guidelines and conditions for the use of brokered funds, if appropriate?
- Guidelines and conditions for periodic review of the bank's deposit structure?
- Are the policy guidelines reasonable based on the bank's overall condition, size, and location?
- Does the policy support strategic and/or business plan objectives?

**3.** Does the board of directors have approved and written borrowed funds guidelines that:

- Outlines the bank's objectives?
- Limits borrowings by amount outstanding, specific type, or total interest expense?
- Identifies the source and timing of repayments?
- Provides a system of reporting requirements?

**4.** Are these policies appropriate relative to the complexity and risk profile of the bank's overall borrowed funds/liquidity program?

**5**. Is management complying with policy guidelines?

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