TEXAS DEPARTMENT OF BANKING	Bank Name/City:	
	Charter #:	
	Exam Date:	
	Performed By:	

#4 - Liquidity

Assignment Overview

Liquidity is a financial institution's capacity to readily meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the institution's ability to efficiently meet both expected and unexpected cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the institution. An institution's obligations, and the funding sources used to meet them, depend significantly on its business mix, its balance sheet structure, and the cash flow profiles of its on and off-balance sheet obligations. In managing its cash flows, an institution confronts various situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds (i.e., market liquidity), and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputation risks also can affect an institution's liquidity risk profile and should be considered in the assessment of liquidity and asset or liability management.

Refer to Section 6.1 - *Liquidity and Funds Management* in the FDIC Risk Management Manual of Examination Policies for more information. Refer to the DOB's Reference Material documents for a list of links to regulations, guidance, and other issuances by various regulatory authorities.

Instructions

IMPORTANT! These procedures are designed to promote critical thinking. Your comments should include what you looked at, what you found, and your conclusions. It is your narrative that should tell the story for a reader who may not be familiar with this bank. The reader/reviewer should have a thorough understanding of what was performed and conclusions made.

Examiners must follow the instructions below and the requirements in the Examiner Bulletin addressing Guidelines for Procedures and Work Paper Documentation for Commercial Examinations. If there is a conflict between these Instructions and the Examiner Bulletin, the Instructions prevail. Documentation should support weaknesses and criticisms. All examiners performing these procedures must be listed above in the "Prepared By" section.

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.

Evaluation Factors, Risk Guidance, and Comments

The focus of this procedure is to evaluate and address each of the Evaluation Factors. The Risk Guidance is provided to guide the examiner in developing a full and complete analysis for the Evaluation Factor. Documenting responses in the Risk Guidance section is not required. All conclusions should be documented in the Conclusion box for the Evaluation Factor. **Examiners will use their discretion to determine when to comment on a risk guidance item, considering what data or findings merit emphasis and which are secondary or of little importance.** The examiner is expected to write a comment in the Conclusions box that is complete and supportive of findings, recommendations, and ratings. Do not write a comment to refer to the Risk Guidance.

The examiner may also address areas not included in the Risk Guidance section as it is not intended to be all inclusive.

▸ **Risk Guidance**

To view the Risk Guidance, click on the arrow to the left of the "Risk Guidance" text.
To Hide the Factors, click on the "arrow" again.

Documentation

Supporting documentation should include the standard required documents identified in the Reference Documents section for each Evaluation Factor.

- Embedded documents should be named such that the reviewer will know the contents.
- If a required document will not be included for any reason, DO NOT DELETE the document title, instead, check either :
  - "Not Included" and add a reason why OR
  - "N/A" if a document is not applicable".
- Any other relevant documents may be added to fully support the examiner's findings. These documents may be embedded in the Reference Documents section.
- If a document needs to be reference in more than one Evaluation Factor comment, include a reference in the comment indicating the Evaluation Factor where the document can be found.

Documentation is to be sufficient to allow an audit trail of the examiner's thought process and all significant findings.

Violations of Regulations

Violations of regulations should be addressed under the appropriate Evaluation Factor. Indicate compliance using the drop-down box next to the regulation in the Compliance section. Address non-compliance in the Comment section.

Yes = In compliance

No = Not in compliance

Not Applicable = Requirements in the regulation do not apply. For example, if there were no dividends paid, then the regulation related to approval of dividends would reflect "Not Applicable".

Nonconformance with Policy

Adherence with best practices identified in Department and federal financial regulatory policy/guidance should be addressed under the Comments for the appropriate Evaluation Factor. Indicate if the bank adheres to the best practices using the drop-down box next to the appropriate policy in the Adherence to Policy section. Comments regarding best practices should be summarized in the Summary Comments.

Summary Comments and Conclusions

The Summary Comments and Conclusions should be a high-level summary that highlights the examiner's material findings and conclusions. A description of what to include in the Summary Comments and Conclusions is provided. These comments are not intended to be a report ready comment and will contain comments that may not be report worthy. Summary comments must support the Summary Rating.

The EIC will determine if the use of bullet points is appropriate for completing the Summary Comments and Conclusions. *The SEIC/EIC will have discretion in determining what is included in the Report of Examination.*

Navigating this Procedure

This procedure can be easily navigated by clicking on View from the Word menu bar then selecting Navigation Pane found in the Show section. All headings in this document will appear on the left side of the screen, for easy navigation through the document.

Performing alternate or expanded procedures not listed with these guidelines may be necessary to complete this risk analysis.

Summary of Findings

Liquidity - Summary Comment and Conclusions
Document conclusions regarding the current level, quality, and prospective sources of liquidity compared to funding needs, as well as the adequacy of funds management practices relative to the size and complexity of the institution. Include recommendations for implementing best practices from policies and Management responses to weaknesses identified. *The SEIC/EIC will determine what to include in the report of examination.*
***Summary Rating*: Click Here to Select Rating**

Definitions for Summary Ratings –

CAMELS: 1-Strong; 2-Satisfactory; 3-Less than satisfactory; 4-Deficient; 5-Critically deficient

Ratings Matrix.xlsm

Violations
Prepare a comment for any violation cited. Include management's response.

Preliminary Review

Review the following items:

- Examination Scope Memo
- Prior examination Liquidity comments
- External/Internal audit findings concerning liquidity
- Audit scope
- Last State examination Liquidity workpapers
- Balance sheet
- UBPR
- Liquidity measurement reports
- Asset/Liability Management (ALM) Policy
- Contingency Funding Plan
- Board/ALCO minutes relating to liquidity discussions and ALCO packages
- Independent review of liquidity measurement model/reports

Liquidity Analysis

EVALUATION FACTOR 1
Review the last examination, most recent internal/external audit, and correspondence to identify any recommendations, violations, Matters Requiring Attention, or regulatory enforcement actions to determine Board and Management's efforts to compliance with or correct noted deficiencies or concerns.

Reference Documents	Conclusions – Evaluation Factor 1
Prior Examination Criticisms, and/or Audit Exceptions ☐ N/A ☐ Not Included ☐ Included with Conclusions Copy of management response/corrective action, if applicable ☐ N/A ☐ Not Included ☐ Included with Conclusions Other Supporting Documents:	

EVALUATION FACTOR 2:
Determine the current level and prospective sources of liquidity compared to funding needs.

Risk Guidance

1. **Assess the level, trend, and adequacy of balance sheet liquidity sources. Consider the following:**
   a. Significant trends or changes in the sources of funds including level of cash, Fed funds sold, interest-bearing bank balances and unencumbered, available-for-sale securities.
   b. Liquidity provided by the loan and securities portfolio or other investments (i.e. BOLI, etc.). Consider:
      i. Distribution of securities designated “held-to-maturity” and “available-for-sale” as well as the dollar volume of securities that are pledged.
      ii. Adequacy of cash flows from payments, prepayments, and maturities.
      iii. Impact of unrealized losses in the portfolio.

2. **Evaluate the composition and stability of deposits. In discussions with management, consider the following:**
   a. Customer composition – Individual vs Commercial clients
      i. Current vs average balances for large or uninsured depositors
      ii. Operating vs nonoperating commercial accounts (nonoperating accounts are more likely to leave in a stress event than operating accounts)
      iii. Concentrations of a large individual, relationship, or industry type
      iv. Duration of banking relationships
      v. Proportion of customers using more than one product
      vi. Customer funds flow cycle- i.e. seasonality
      vii. Average rates paid in relation to local market rates
      viii. Out of area deposits
   b. Large depositors and their relationship to the bank.(A large depositor represents 2% of total deposits)

c. Public deposits
    i. Deposits under contract and the terms
    ii. Funds expected to be withdrawn at expiration if under contract
    i. Plans the bank has made to meet any expected payouts
    ii. Stability of public funds not under contract
    iii. Length of the relationship
    iv. General plans for existing and new public funds
    v. Pledging requirements
    vi. Approximate amount of over pledged liquid collateral available to the bank
    vii. Interest rate on public deposits and anticipated rate changes – rates paid at last bid vs. new bid.

d. Uninsured deposits.
    i. Percentage of uninsured deposits to total deposits
        a. Level and the availability of funds to cover the uninsured amount.
        b. Level of public funds over $250,000 that are otherwise secured.
    ii. Utilization of a sweep product to protect against uninsured amounts.
    iii. Relationship with some of these customers, (i.e. insiders, shareholders, length of time at the bank, etc.)

e. Deposits obtained from deposit management programs, such as CD specials, deposit account rate incentives, and internet banking initiatives.

f. Out of areas deposits, including national CDs, internet deposits, money desk operation, and deposit listing services.

g. Volume of deposits outside the normal trade area, seasonality, or high-rate deposit programs.

3. **If Time Deposits of $250,000 or more constitute a sizable portion of deposits, confer with EIC to determine if a review is necessary. Consider the following:**
   a. The aggregate number and volume of these accounts and the degree of reliance on this funding source.
   b. Nature of account holders' relationship with the bank.
   c. Upcoming maturities and anticipated run-offs.
   d. Reasonableness of rates versus market area.

4. **Evaluate the number of available lines of credit, the amount available for each line, and the terms of use.**

   Determine the following:
   a. 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.
   b. If the bank has securities pledged, ensure they are being appropriately reported on Call Report schedule RC-B M1. Confer with the examiner performing the Investments procedure.

   Consider the following:
   c. Has the line has been tested recently, at least within the last year, to ensure availability, if needed?
   d. Does the bank periodically review the financial condition of correspondent banks? Consider the frequency and the most recent review of the correspondent bank. (The line may not actually be available if an industry-wide liquidity event causes the correspondent bank to require their own liquidity and not fund the line as requested).
   e. Does the bank have access to a FHLB line of credit? If the bank's tangible equity capital is negative, a FHLB line will not be available as it is prohibited from making new advances to a bank. (12 CFR 1266.4 (b)(1))
   f. Does the bank have established lines under the FRB's Discount Window or Bank Term Funding Program and anticipate use? Refer to Appendix for more detail on the Discount Window.

5. **Consider the impact to liquidity of potential uses from off-balance sheet items such as letters of credit, unfunded loan commitments, and assets sold with recourse (i.e., mortgages sold on secondary market).**

Reference Documents	Conclusions – Evaluation Factor 2
Written Agreement(s) for Available Lines of Credit ☐ N/A ☐ Not Included Large Depositor List ☐ N/A ☐ Not Included *See Documents under EF 2.2 For Listing of Public Funds* Other Supporting Documents:	

EVALUATION FACTOR 2.1
Determine the use of or reliance on wholesale funding or potentially volatile funding sources.

Risk Guidance

1. **Evaluate the noncore funding dependence ratio and its trend.**
   a. Consider if the dependence ratio should be recalculated to reflect the bank's overall position. For example, consider the volume of internet listing deposits.
2. **If applicable, evaluate the level and trend of borrowings. Consider the following:**
   a. Terms, purpose, and loan covenants/contingencies of outstanding borrowings.

i. Terms include amortization/interest rate, maturity date, prepayment penalty provisions, secured or unsecured, and type of collateral pledged.

b. Purpose of borrowings and management's future plans.

3. If applicable, evaluate the level and trend of brokered deposits (including CDARS), deposits obtained through deposit listing services, and reciprocal deposits. Consider the following:

a. Purpose and volatility of brokered deposits;

b. Service, entity, or person used to obtain these funds;

c. Bank's overall experience and familiarity with this service, entity, or person;

d. Correct reporting of these deposits in Call Report Schedule RC-E;

e. Bank's future plans for brokered deposits;

f. Concentrations by broker;

g. Possibility of legal restrictions due to PCA Capital guidelines;

h. FDIC FIL 42-2016 for Guidance on Identifying, Accepting and Reporting Brokered Deposits;

i. FDIC FIL 113-2020 Combined Final Rule on Brokered Deposits and Interest Rate Restrictions.

4. If applicable, evaluate the use of or reliance on any of the following sources of volatile funding:

a. Due to accounts;

b. Eurodollar or offshore deposits;

c. Pension funds; or

d. Other volatile wholesale funding (excluding federal funds).

5. If applicable, evaluate the impact of high-rate deposits, borrowings, and other potentially volatile funding sources on the bank's earnings and NIM. Consult with examiner performing Earnings procedure if needed.

6. Assess risk management practices for wholesale and potentially volatile funding sources.

Refer to Section 6.1 in the FDIC Risk Management Manual, to assist in evaluating the risks associated with these funding sources. Also refer to Appendix on Brokered Deposits for list of regulations and resources.

Compliance with Regulation	
If not "well-capitalized", complies with Brokered Deposit restrictions per 12 CFR 337.6,	***Select Response***

Reference Documents	Conclusions – Evaluation Factor 2.1
Listing of Brokered Deposits ☐ N/A ☐ Not Included Listing of Borrowings with terms ☐ N/A ☐ Not Included Other Supporting Documents:	

EVALUATION FACTOR 2.2
Determine the presence of public fund deposits, assess their pledging requirements, and determine compliance with state statutes.

Risk Guidance

1. **Assess if public funds are adequately pledged and monitored. Determine compliance with** Texas Finance Code §34.304 and Texas Government Code §2257.

2. **Consider approximate amount of over pledged liquid collateral available to the bank.**

3. **Consider if the institution uses third-party guarantees or letters of credit in lieu of pledging a security.**

Refer to Appendix for Texas Statutes related to Public Funds and FDIC issuances regarding public funds.

Refer to Appendix for information on the Texas Comptroller's Deposit Auction

Refer to Appendix for information on the Texas Pooled Collateral Program.

Refer to Appendix for information on the Texas Finance Code and Securing of Deposits, including public funds pledged to trust accounts.

Compliance with Regulation	
Texas Government Code, Chapter 2257– Collateral for Public Funds	***Select Response***
Texas Finance Code §34.304- Securing Deposits of Public Funds	***Select Response***

Reference Documents	**Conclusions – Evaluation Factor 2.2**
Listing of Public Funds ☐ N/A ☐ Not Included Pledged Asset Report for Secured Liabilities ☐ N/A ☐ Not Included	

Reference Documents	Conclusions – Evaluation Factor 2.2
Other Supporting Documents:	

EVALUATION FACTOR 2.3
Determine if there are funding concentrations and the adequacy of management's oversight and monitoring practices of funding concentrations.

Risk Guidance

1. **Review the liquidity reports, the balance sheet, and the UBPR to identify funding concentrations.**
   a. Funding concentrations are defined as obligations, direct and indirect, from a single source representing 10% of more of total assets.
2. **If funding concentrations are noted, determine if concentrations are prudently managed, measured, and monitored.**

Reference Documents	Conclusions -Evaluation Factor 2.3
Concentration Reports ☐ N/A ☐ Not Included Other Supporting Documents:	

EVALUATION FACTOR 3
Evaluate the effectiveness of liquidity risk management practices.

Risk Guidance

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 17, 2010). Specifically,**

1. **Review and evaluate the appropriateness of the bank's liquidity/borrowed funds policy given the bank's complexity and liquidity risk profile. Consider the following:**
   a. Has the board of directors reviewed and approved a liquidity/borrowed funds policy within the last year to ensure its continued relevance?
   b. Does the policy provide guidelines and conditions for the use of borrowing, brokered funds, or other potentially volatile funding sources?
   c. Does the policy establish a reasonable methodology for determining any specific target liquidity parameters (i.e., volatile liability dependence, loan to deposit ratio, etc.)?
   d. Does the policy employ both quantitative targets and qualitative guidelines which clearly articulate the Board's liquidity risk tolerance? (Risk Limits, Target Liquidity Buffers, etc.)
   e. Does the policy specify the nature and frequency of management reporting?
   f. Does the policy support strategic and/or business plan objectives?

2. **Evaluate the adequacy of the bank's contingency funding plan (CFP) and existing arrangements, given the bank's past, present, and prospective liquidity position, strategic plans and overall financial condition.**
   a. Does the CFP:
      i. Identify stress events that may have significant impacts on the bank's liquidity position.
      ii. Assess the level of severity and timing of potential liquidity stress events.
      iii. Assess funding sources and needs.

iv. Identify potential funding sources.

v. Establish liquidity event management process.

vi. Establish a monitoring framework for contingent events.

b. Does management utilize pro-forma cash flow reports and/or stress test? Are the assumptions used within the reports appropriate? Are the reports adequate given the bank's complexity and liquidity risk profile?

Adherence to Best Practices in Policy	
Conformance with the *Interagency Policy Statement on Funding and Liquidity Risk Management* (March 2010)	***Select Response***

Reference Documents	**Conclusions - Evaluation Factor 3**
ALM / Liquidity Policy ☐ N/A ☐ Not Included Internal Analysis of Liquidity ☐ N/A ☐ Not Included Other Liquidity Reports (Pro-Forma Cashflow, Liquidity Stress Test, Etc.) ☐ N/A ☐ Not Included Other Supporting	

Reference Documents	Conclusions - Evaluation Factor 3
Documents:	

EVALUATION FACTOR 4
Evaluate the effectiveness and the adequacy of Board and management's oversight of the liquidity function.

Risk Guidance

1. **Assess the adequacy of reports used by management and the reports provided to the Board/ALCO/or other assigned responsible party to monitor the bank's liquidity risk.**

   Reports may include but are not limited to:

   a. Sources/Uses liquidity report;

   b. cash flow gaps;

   c. pro-forma cash flow projections;

   d. asset and funding concentrations;

   e. critical assumptions used in cash flow projections; and

   f. levels and trends in uninsured deposit relationships.

2. **Determine if the frequency in which reports are reviewed by management and presented to the Board or other assigned responsible party is adequate.**

3. **Determine if the frequency of reviews of assumptions used in liquidity or cash flow projections is adequate.**

4. **Determine whether reports clearly identify compliance/non-compliance with established policy risk limits**.

5. **Consider the impact of the bank's overall financial condition on liquidity risk as well as management's monitoring of current economic, market, and social trends. Consider the following:**

a. Current asset quality and potential deterioration (which could impact contingency funding plans such as access to brokered deposits and funding lines).

b. Poor earnings performance.

c. Negative media attention from all sources, including news media outlets and other online sources such as social media platforms, community networks, and news aggregators.

d. Rating agency watch or downgrade announcements.

e. Legal restrictions such as those on brokered deposits.

f. Economic conditions in the bank's market or trade area.

g. Deposit movement and trends.

Reference Documents	Conclusions - Evaluation Factor 4
Any Supporting Documents:	

EVALUATION FACTOR 5
Determine the effectiveness of the system of internal controls and the independent review function for liquidity.

Risk Guidance

1. Evaluate the adequacy of the liquidity audit/independent review functions, considering the:

a. scope,

b. auditor qualification,

c. auditor independence, and

d. reporting.

2. **Determine if the scope is commensurate with the risk profile of the institution, which typically includes, but is not limited to the following:**
   a. Proper controls are in place over the posting, reconciliation, and handling of liquidity related accounts such as borrowings, brokered deposits, pledging of securities, etc.
   b. A periodic validation of the liquidity modeling spreadsheet/software, configuration, and assumptions.
   c. Back-testing of the liquidity model.
   d. The adequacy of the Contingency Funding Plan and pro forma cash flow stress modeling.
3. **Determine if there is a process for maintaining model integrity (i.e., models are kept current, sufficient training, controls on data input, etc.)**

Reference Documents	Conclusions – Evaluation Factor 5
Any Supporting Documents:	

Appendix – Texas Statutes and FDIC Issuances

Texas Statutes Governing Public Funds

Education Code, Chapter 45, Subchapter G – *School District 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*

Finance Code §34.304- *Securing Deposits of Public 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

➢ Return to Risk Guidance for Evaluation Factor 2.2

Appendix –Auction Process for State of Texas Investment Dollars

Obtaining Deposits through Auction Process

A bank may obtain deposits through the Texas Comptroller's auction process if the bank is a designated State Depository per Section 404.021 of the Texas Government Code. Banks must apply with the Texas Comptroller to be a state depository.

Once accepted, a state depository can bid on time deposits at the comptroller's monthly BidTX auction. State depositories interactively compete for State of Texas investment dollars monthly in six-month maturities or semi-annually in one-year maturities. The minimum bid is $250,000. Bids may increase in increments of $50,000.00 to a maximum of $7,000,000.00 per parent institution per auction.

A State Depository can also receive funds by direct placement in a time deposit up to $237,500. This direct placement is only for 6-month terms.

➢ Return to Risk Guidance for Evaluation Factor 2.2

Appendix – Texas Pooled Collateral Program

Under Texas law, a depository institution must pledge security to collateralize deposits of public funds by a public entity in excess of federal deposit limits. The Pooled Collateral Program allows a depository institution to pool collateral for public entities and requires the Comptroller to regulate and monitor the Program. Under this Program, the Comptroller ensures that the securities pledged as collateral have a market value greater than the deposits. Refer to Government Code Section 2257.101 for statutes on Pooled Collateral.

Benefits

The Pooled Collateral Program is designed to produce benefits for both depository institutions and local public entities.

Depository institutions will be able to centralize the processing and management of all pledging and maintenance of collateral through the state rather than with each entity. They will be able to better manage fluctuations with an aggregate collateral requirement than with many separate fluctuations among many separate pledge arrangements. They will be able to report to a single state entity instead of multiple entities, as well as report electronically.

Public entities may save time by allowing the Comptroller to manage and, together with the public entity, monitor collateral for their public funds. Under the program, the Comptroller provides daily market pricing of all collateral.

There is no cost to the public entity for participating.

Comptroller's Role

The Pooled Collateral Program operates as an alternative to the individual collateralization of local public funds. The Comptroller assumes the role of ensuring that all public deposits in the Pooled Collateral Program have a pledge of securities from a depository institution, and that this collateral has a market value greater than the public deposits. In this role, the Comptroller establishes guidelines for program participation, acts as a central repository for reporting and information, enforces penalties as needed, and assesses fees to cover the costs of administering the program.

➢ Return to Risk Guidance for Evaluation Factor 2.2

Appendix – Brokered and High Rate Deposits

Regulations

Key regulations that pertain to brokered deposits:

- Section 337.6 — Brokered Deposits
- Federal Register notice of an additional business arrangement that meets the primary purpose exception (without requiring a notice or application)
- Section 337.7 — Interest Rate Restrictions
    - Federal Register notice with Preamble and Text of changes to Sections 337.6 and 337.7 as of April 1, 2021, under the revised Final Rule, Unsafe and Unsound Banking Practices: Brokered Deposits and Interest Rate Restrictions

Resources:

- FDIC's Banker Resources Center: Brokered Deposits
- Questions and Answers Related to the Brokered Deposits Rule
- Instructions for Primary Purpose Exception Submissions (notices, applications, or ongoing reports)
- National Rates and Rate Caps (Applicable to Less Than Well Capitalized Institutions)
- Small Entity Compliance Guide
- Statement of the Federal Deposit Insurance Corporation Regarding Reporting of Sweep Deposits on Call Reports (See also Financial Institution Letter 30-2022 dated July 15, 2022)

- Return to Risk Guidance for Evaluation Factor 2.1
- Return to Risk Guidance for Evaluation Factor 2.2

Appendix – Securing of Deposits

Texas Finance Code and Securing of Deposits

Texas Finance Code Section 34.304 Securing Deposits generally prohibits a state bank from creating a lien on its asset or secure the repayment of a deposit (i.e. pledging of assets) except to secure the deposits of:

1) any state or an agency political subdivision, or instrumentality of any state;
2) the United State or an agency or instrumentality of the United States;
3) any federally recognized Indian tribe; or
4) another entity to the same extent and subject to the same limitations as may be authorized by the law of the state or of the United States for any other depository institution doing business in this state.

Trust Funds Deposited with a State Bank

An example of the fourth category of eligible deposits are trust funds deposited with a state bank.

Texas Property Code (TPC) Section 113.007 *Temporary Deposits of Funds*, in part, permits a trustee to deposit trust funds that are being held pending investment, distribution, or the payment of debt in a bank that is subject to supervision by state or federal authorities. However, corporate trust depositing funds with itself is subject to the requirements of TPC 113.057.

TPC 113.057 *Deposits by Corporates Trustees with Itsel*f states, in part, that any corporate trustee making deposits, as described in TPC 113.007, with itself must:

1) maintain under control of its trust department, as security for the deposit, a separate fund of securities legal for trust investments;
2) the total market value of the security is at all times at least equal to the amount of the deposit; and,
3) the separate fund is marked as such.

Security for a deposit under TPC 113.057 is not required to the extent the deposit is insured or otherwise secured under state or federal law.

➢ Return to Risk Guidance for Evaluation Factor 2.2

Appendix – Federal Reserve Discount Window

Federal Reserve Discount Window

The Federal Reserve Discount Window is an instrument that allows eligible depository institutions to borrow money, usually on a short-term basis, to meet temporary shortages of liquidity caused by internal or external disruptions.

There are four types of credit arrangements available through the Discount Window:

- *Primary credit* is available to generally sound depository institutions on a very short-term basis, typically overnight, at a rate above the Federal Open Market Committee's target rate for federal funds. Because primary credit is the Federal Reserve's main Discount Window program, the Federal Reserve at times uses the term "discount rate" to refer to the primary credit rate.
- *Secondary credit* is available to depository institutions that are not eligible for primary credit. It is extended on a very short-term basis, typically overnight, at a rate that is above the primary credit rate. Secondary credit is available to meet backup liquidity needs when its use is consistent with a timely return to a reliance on market sources of funding or the orderly resolution of a troubled depository institution.
- *Seasonal credit* is designed to assist small depository institutions in managing significant seasonal swings in their loans and deposits. Seasonal credit is available to depository institutions that can demonstrate a clear pattern of recurring intra-yearly swings in funding needs.
- *Emergency credit* may be available in unusual and exigent circumstances. The Board of Governors may authorize a Reserve Bank to provide emergency credit to a participant in a program or facility with broad-based eligibility.

All loans must be secured by acceptable collateral, generally securities and loans. Typically, assets securing lines of credit are considered “encumbered” and are not readily available sources of liquidity.

➢ Return to Risk Guidance for Evaluation Factor 2