



A Perspective on Recent Events in Banking

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Banking Basics

Basic Overview & Key Attributes

Model

- Loans: Assets
- Deposits: Liabilities
- Treasury Management Services
- Consumer/Business
- Private Wealth/Trust



A Risk Business

- Credit Risk
- Rate Risk
- Asset Liability Management
- Net Interest Margin = 3 - 4%
- Capitalization



Many Competitors

- Roughly 4,400 banks in the U.S.
- Large National/International
- Regional
- Mid-Size/Community



Highly Regulated

- OCC
- FDIC
- Federal Reserve
- Other





The Melt Down

March 2023: Silicon Valley Bank

- Founded in 1983
- Based in California
- A focus on tech & venture capital
- The second largest bank failure in U.S. history
- A textbook case of mismanagement

Warning Signs: a/k/a “Red Flags”

- Very rapid growth
 - Assets from \$70 billion to \$209 billion from 2019 to 2022 (+198%)
 - Deposits from \$63 billion to \$191 billion from 2019 to 2022 (+204%)
- Industry concentration/lack of diversification
 - Primary focus: Tech sector, start-ups & venture capital
- Hot money
 - Uninsured deposits roughly 90% of total deposit base
- Risk management deficiencies
 - Asset/Liability issue: 60% of assets in longer term securities (bonds)
 - No Chief Risk Officer for 8 months

10 Year Price vs. Yield



Asset/Liability Management

- In addition to credit risk, a key risk factor for banks
- For SVB, a material mismatch
 - Long-term securities (assets) funded with short-term deposits (liabilities)
 - Stretching for yield?
 - Paying up for deposits?
- Rising rates reduced value of its long-term bond holdings
- Mark-to-market impact of \$(15 billion)
- A run on the bank, at the speed of light
 - \$42 billion in deposits withdrawn in one day



Common Sense & Key Ratios

Common Sense: Know Your Customer (KYC)

“Guidelines and regulations in financial services that require professionals to verify the identity, suitability, and risks involved with maintaining a business relationship with a customer.”

Common Sense: Know Your Bank (KYB)

- What markets & industries are served? Concentrations?
- What about credit/loan quality measures?
- How do you approach asset/liability management?
- What is happening to net interest margin?
- How is the bank funded?
- How well capitalized is the bank?
- Do you offer extended FDIC insurance?
- Client satisfaction/references?

Key Ratios

- Uninsured Deposits to Total Deposits (defined as Deposits >\$250,000 by Total Deposits): For this ratio we recommend using bank-level call report data. Go to <https://cdr.ffiec.gov/public>, enter type – Call Report, enter Institution Name, and Search Banks, then follow the line item instructions.
- Tangible Common Equity to Tangible Assets Ratio, adjusted for Held-To-Maturity Securities Fair Value Mark: For this ratio we recommend using holding company-level data. Go to <https://ffiec.gov/npw>, enter Holding Company Name and Search, then select Consolidated Financial Statements for BHCs
- Texas Ratio: Non-performing assets divided by tangible common equity

$$\text{Modified Texas Ratio Formula} = \frac{\text{Non-Performing Assets} - \text{Government-Sponsored Non-Performing Loans} + \text{Real Estate Owned}}{\text{Tangible Common Equity} + \text{Loan Loss Reserves}}$$



FDIC Coverage

FDIC Coverage For Businesses

- The deposit accounts of a corporation, partnership, or unincorporated association are insured for up to \$250,000 or \$250,000 per entity Tax ID
- Multiple accounts owned by one company are insured up to \$250,000.

Account Title	Owner	Tax ID	Account Balance	Insured Amount	Uninsured Amount
EFG Company, Operating Account	EFG, Inc.	123456789	\$250,000	\$250,000	\$300,000
EFG Company, Money Market	EFG, Inc.	123456789	\$300,000		
Total			\$550,000	\$250,000	\$300,000

FDIC Coverage For Businesses

One client can have multiple entities they manage accounts for; each entity has coverage of \$250,000.

Account Title	Owner	Tax ID	Account Balance	Insured Amount	Uninsured Amount
EFG Company, Operating Account	EFG, Inc.	123456789	\$250,000	\$250,000	\$300,000
EFG Company, Money Market	EFG, Inc.	123456789	\$300,000		
EFG Real Estate	EFG, LLC	987654321	\$300,000	\$250,000	\$50,000
Total			\$850,000	\$500,000	\$350,000

Municipalities receive the same FDIC Coverage as businesses. Some Munis recognize additional coverage depending on state statutes.

FDIC Insured Solutions – Extended Coverage Sweep

Whether you are responsible for ensuring the financial future of your family, business, or nonprofit organization, you need peace of mind and protection with FDIC insurance. The Extended Coverage Sweep is designed to provide millions of dollars in FDIC protection through a fully automated cash management account, providing you with what you need to stay financially strong in today's ever-changing economy.

Benefits To Your Business

- **Protection** – Receive millions of dollars in FDIC protection* through a single account; several times more insurance than traditional deposit accounts.
- **Growth** – All account types, including business and public funds, earn a competitive interest rate so your money constantly works for you.
- **Access** – Enjoy daily access to your funds.
- **Convenience** – Consolidate multiple bank relationships into one convenient account to cut down on paperwork and the coordinating of multiple monthly statements and confirmations.

FDIC Insured Solutions - CDARS

With CDARS, you can access millions in FDIC insurance—all through a single bank relationship with us, a bank you know and trust. No one has ever lost a penny of an FDIC-insured deposit. No more managing multiple bank relationships, tracking collateral, or having uninsured deposits to footnote in financial statements.

How it Works

Funds are placed at other FDIC-insured institutions in increments below the FDIC insurance maximum of \$250,000. This way both principal and interest may be eligible for FDIC insurance. We will ask you to select a CD maturity and whether interest proceeds should be paid directly to you or placed into your account with our bank. You will receive a notification from our bank confirming the issuance of your CDs.

Transparency

Stay confidently in control with statements that show balances, interest, and other important details associated with your CD deposit accounts.

