

**Virtual Seminar**

**Best Practices in Asset/Liability Management**

**October 7, 2020**

This annual program will focus on the critical issues bank ALCOs are facing in 2020, and what we anticipate for 2021. Economic data was positive entering 2020. The U.S. was in the longest business cycle expansion in history, 127 months in January. But that ended in February with the spread of the coronavirus. 2019 GDP growth was 2.3%, and forecasters expect continued good growth in 2020, but the collapsed in the 1st quarter. We will review economic forecasts for the rest of 2020 and for 2021. The central issue for most ALCOs is when is commercial loan demand going to return to the level of 2019?

The second most important variable for the ALCOs in 2020 is market interest rates. The yield curve collapsed in March 2020 with the Fed dropping short-term rates 150 basis points. Simultaneously the bond market collapsed. As bankers we have experienced a Fed Funds rate at 25 basis points from 2008 through 2015, but no one has experienced capital market at the level seen in the second and third quarters of 2020. The 10-year Treasury had never been below 1%. It would appear we need to get use to a Fed Funds rate at 0.25% through 2021 and capital market rates at current levels or slightly higher. The yield curve is also impacting the residential mortgage market through historically low rates which is having implications across the industry.

The seminar will initially focus on liquidity management in 2020. Liquidity risk was anticipated to be an issue in the 1st quarter, but the opposite has happened – banks are awash with liquidity at the worst possible time, low short-term rates, and weak loan demand. Interest rate risk management is not an issue in the environment of 2020 and 2021. Let’s turn the session into a mock ALCO meeting and management the balance sheet given the economic and interest rate forecasts. We will spend a good bit of time on excess liquidity and strategies for both asset (investment and loans) and liability (wholesale strategies and retail deposits) management.

**AGENDA**

**8:30 a.m. – 10:15 a.m.   The Current Environment**

* Economic Forecast & the Impact on Pennsylvania Banks
* Interest Rate Forecast and Implications for Balance Sheet Management.
* Liquidity Management – Liquidity is increasing on bank balance sheets at an unprecedented rate – Why?

**10:15 a.m. – 10:30 a.m.    Break**

**10:30 a.m. – 12:30 p.m.     Mock ALCO**

***Managing Assets in the Current Environment***

* Liquidity Management – Choices on both sides of Balance Sheet
* Investment Options: Yield options versus Duration Risk Lending
* Commercial Pipeline and Credit Risk in a Pandemic
* Residential Mortgage Lending – Rationalizing holding 15-and 30-year loans in portfolio

***Managing Liabilities in the Current Environment***

* FHLB Advance Line and Options
* Deposit Strategies:
* Liquidity management – Shrink deposits
* Non-maturity deposits
* Certificates may be best option for reducing liquidity and lowering the cost of funds

**12:30 p.m.         *Adjourn***

**ABOUT OUR SPEAKER**

Dr. James Clarke is the Principal of Clarke Consulting, a Villanova, Pennsylvania firm specializing in ALCO issues and strategic planning for community banks.  Jim has lectured on asset/liability management at the Stonier National School of Banking sponsored by ABA, the Southwest Graduate School of Banking, the New England School of Banking and Connecticut School of Banking. He conducts ALM seminars for many state associations, and for Risk Management Association (RMA) and Financial Managers Society (FMS).  Jim also conducts board education programs on ALM for a number of state associations.  In 2018 through 2020, Jim spoke at the Connecticut, and Pennsylvania Association of Community Bankers conventions and number of director conferences. Dr. Clarke is on the Board of a community bank and is a Director of an investment company. Jim is also on the Editorial Board of the RMA.

**CPE:** This program qualifies for four (4) hours of CPE credit.  PACB is designated as an approved provider by the State Board of Accountancy for this study program.