

BEST PRACTICES IN ASSET/LIABILITY MANAGEMENT

This annual program will focus on the critical issues bank ALCOs are facing in the 4th quarter 2024, and what we anticipate for 2025. Economic data was positive entering 2024, although there was a mild recession forecasted. We have seen a slowdown in the economy in 2024 but no recession. Commercial loan demand has been better than expected, especially in metro areas of the northeast. We will discuss the forecast for 2025 and look at the implications for asset/liability management.

Also important for bank ALCOs in 2024 is the trend in market interest rates. The yield curve changed significantly in March 2022 as the fed began to raise short-term interest rates and inflation pushed up intermediate and long-term interest rates. We experienced a 525-basis point increase in the fed funds over eighteen months. This has made deposit management very difficult, but it appears we are on the verge of the fed reversing policy and lowering interest rates. Let's review an interest rate forecast and assess the impact on our balance sheet decisions making in the 4th quarter 2024 into 2025.

Given the interest rate and economic forecasts, we will create an ALCO committee and consider decision making on both sides of the balance sheet based on all we know entering the 4th quarter of 2024.

SCHEDULE

9:00 a.m. – 10:30 a.m.

Current Environment

- Economic Forecast & the Impact on Pennsylvania Community Banks – focus on commercial loan demand. Review of the Pennsylvania economy.
- Interest Rate Forecast and Implications for Balance Sheet Management – focus on the cost of funds and managing NIM.
- Liquidity Management – Liquidity risk has become a major focus for regulators. The trends in liquidity in the past eighteen months and the impact on our balance sheet and income statement. Liquidity management in a declining rate environment.
- Regulatory focus on financial risk on bank balance sheets in the 4th quarter 2024. Capital, liquidity, credit and interest rate risk.

10:30 a.m. – 10:45 a.m.

Break

10:45 a.m. – 12:30 p.m.

Hold a Mock ALCO

Managing Assets in the Current Environment

- Liquidity Management – Choices on both sides of the Balance Sheet.
- Interest Rate Risk Management – have the key assumptions changed
- Investment Options: Duration Risk is lower in 2024, but still an issue at some banks.
- Loan Portfolio Management:
 - Commercial Pipeline and Credit Risk as we approach a possible recession.
 - The Residential Mortgage Market – Origination volume remains low, but if long-term rates fall as forecasted volume should increase.

12:30 – 1:30 pm - Lunch

1:30 - 3:00 pm

Managing Liabilities in the Current Environment

- FHLB Advance Line and options for managing liquidity. Building a ladder in anticipation of declining rates.
- Deposit Strategies:
 - Impact of a decline in non-maturity deposits.
 - Certificates remain the best option for managing deposits and controlling the cost of funds. But consider CD strategies based on interest rate forecast.

3:00 p.m.

Adjourn

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, the Pennsylvania Advanced School of Banking and the Connecticut School of Banking. He conducts ALM seminars for several state associations, and for the Risk Management Association (RMA) and Financial Managers Society (FMS). Jim also conducts board education programs on ALM for several state associations. Dr. Clarke has been on the Board of five community banks and was a director of an investment company headquartered in Connecticut. Jim is also on the Editorial Board of the RMA Journal.

