



Understanding Dry Powder: A Clear Look at Liquidity Readiness

MEMBER STRATEGIES

“Dry powder” is a term frequently used across the financial services industry, yet it is often defined inconsistently and, at times, imprecisely. In some contexts, it refers broadly to excess liquidity, in others, to unused borrowing capacity or balance sheet flexibility. For depository institutions that rely on contingent funding sources, particularly advances from the Federal Home Loan Bank of Des Moines (FHLB Des Moines), a clearer and more practical definition is essential.

This paper provides a consistent framework for understanding dry powder specifically as it relates to FHLB Des Moines collateral and borrowing capacity, explains its role in liquidity management and highlights why establishing pledged collateral before liquidity is needed is a critical component of a resilient funding strategy.

WHAT DRY POWDER REALLY MEANS IN THE FHLB DES MOINES CONTEXT

From an FHLB Des Moines perspective, dry powder is best defined as:

The amount of immediately accessible borrowing capacity available at FHLB Des Moines, supported by pledged eligible collateral.

This definition intentionally shifts the focus away from theoretical liquidity and toward operationally available funding. Dry powder is not simply the volume of assets that may be eligible to pledge under FHLB Des Moines guidelines; rather, it is the borrowing capacity that can be drawn without delay, documentation hurdles or operational friction.

An institution may have a strong balance sheet and ample eligible collateral on paper, but if that collateral is unpledged or if necessary documents are incomplete, the institution’s true dry powder may be significantly overstated. In periods of market stress, this distinction becomes critical.

DRY POWDER AS A LIQUIDITY MANAGEMENT TOOL

Effective liquidity management is not solely about holding cash or liquid securities; it is about ensuring reliable access to funding across market environments. FHLB Des Moines advances play a central role in that strategy by providing a stable, predictable source of wholesale funding.

Viewed through this lens, dry powder represents:

-  **Immediate funding optionality**
-  **Balance sheet stability**
-  **Insurance against market and deposit volatility**

Importantly, dry powder complements, but does not replace, other liquidity sources.




On-balance sheet liquidity, core deposits, and market funding all play roles in a diversified funding structure. Unlike other counterparties, FHLB Des Moines is stable, secure and a dependable provider during periods of stress.



THE COST OF WAITING TO PLEDGE COLLATERAL

Despite the importance of dry powder, many institutions delay pledging collateral until a liquidity need arises. While understandable from an efficiency or administrative standpoint, this approach introduces unnecessary risk.

When collateral is pledged reactively rather than proactively, institutions may encounter:






-  **Delays related to collateral reviews or verification**
-  **Documentation gaps or outdated loan data**
-  **Operational bottlenecks during periods of heightened demand**

Additional collateral capacity may be limited due to timing constraints. These issues tend to surface precisely when speed matters most during deposit outflows, market dislocations or systemic stress events. In such moments, institutions that have not established their collateral position may find that theoretical borrowing capacity is not readily accessible.

THE VALUE OF ESTABLISHING YOUR COLLATERAL PLEDGE

Pledging collateral fundamentally changes the nature of liquidity preparedness. Institutions that maintain pledged, eligible collateral in advance can convert balance sheet strength into funding quickly and confidently.

The benefits of establishing your collateral pledge include:

-  **Faster access to advances during stress events**
-  **Reduced operational and documentation risk**
-  **Clear visibility into true borrowing capacity**
-  **Greater confidence in contingency funding plans**
-  **Enhanced flexibility to respond to unexpected liquidity needs**

From a governance standpoint, pledged and ready collateral also supports more accurate liquidity stress testing and contingency planning. When dry powder is defined as the amount of immediately accessible borrowing capacity available at FHLB Des Moines, management and boards gain a more realistic understanding of funding readiness.

LESSONS FROM PAST STRESS EVENTS

Periods of financial stress, whether systemic or idiosyncratic, have consistently demonstrated the value of advance preparedness. During times of rapid deposit migration or market disruption, institutions that entered stress events with collateral pledged to FHLB Des Moines were better positioned to access the amount of funding needed smoothly and avoid reactive balance sheet decisions.

By contrast, institutions that attempted to pledge collateral during times of stress often faced delays due to resource constraints at their institution at precisely the wrong time. These experiences underscore a critical lesson: liquidity is most valuable when it is already available.



THE VALUE OF ESTABLISHING YOUR COLLATERAL PLEDGE

In a modern funding strategy, dry powder should be viewed as an active asset rather than a passive concept.

Institutions should regularly evaluate:

- 1 The amount of collateral currently pledged
- 2 The resulting available borrowing eligibility
- 3 How that capacity aligns with stress scenarios and contingency plans
- 4 Opportunities to increase pledged collateral

Maintaining dry powder is not about maximizing borrowing or signaling funding weakness. Instead, it reflects disciplined risk management and prudent preparation, an approach that supports stability, flexibility, and confidence in uncertain environments.

CONCLUSION

Dry powder, properly defined, is not an abstract notion. For FHLB Des Moines members, it represents ready-to-use borrowing capacity backed by pledged collateral. Institutions that clearly define, measure and manage dry powder are better equipped to navigate liquidity challenges and capitalize on funding opportunities.

As a best practice, financial institutions should be evaluating their funding needs on an annual basis through their ALCO committee, making sure policies align with the balance sheet. By establishing pledged collateral well before liquidity is needed, members can reduce operational friction, enhance funding certainty and strengthen their overall resilience. In an environment where market conditions can change rapidly, proactive collateral management is not merely a best practice; it is a strategic advantage.

QUESTIONS | CONTACT

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