



Mark H. Smith
I N C O R P O R A T E D

LIQUIDITY TRAINING FOR CREDIT UNION LEADERS, BOARDS, AND ALCO

PRESENTED BY:
CYNTHIA R. WALKER
CEO

(Webinar will begin on the hour)

WEBINAR OBJECTIVES



Define liquidity risk



Identify where this risk originates



Discuss causes of liquidity insufficiencies.



Explore funding resources



Liquidity forecasting

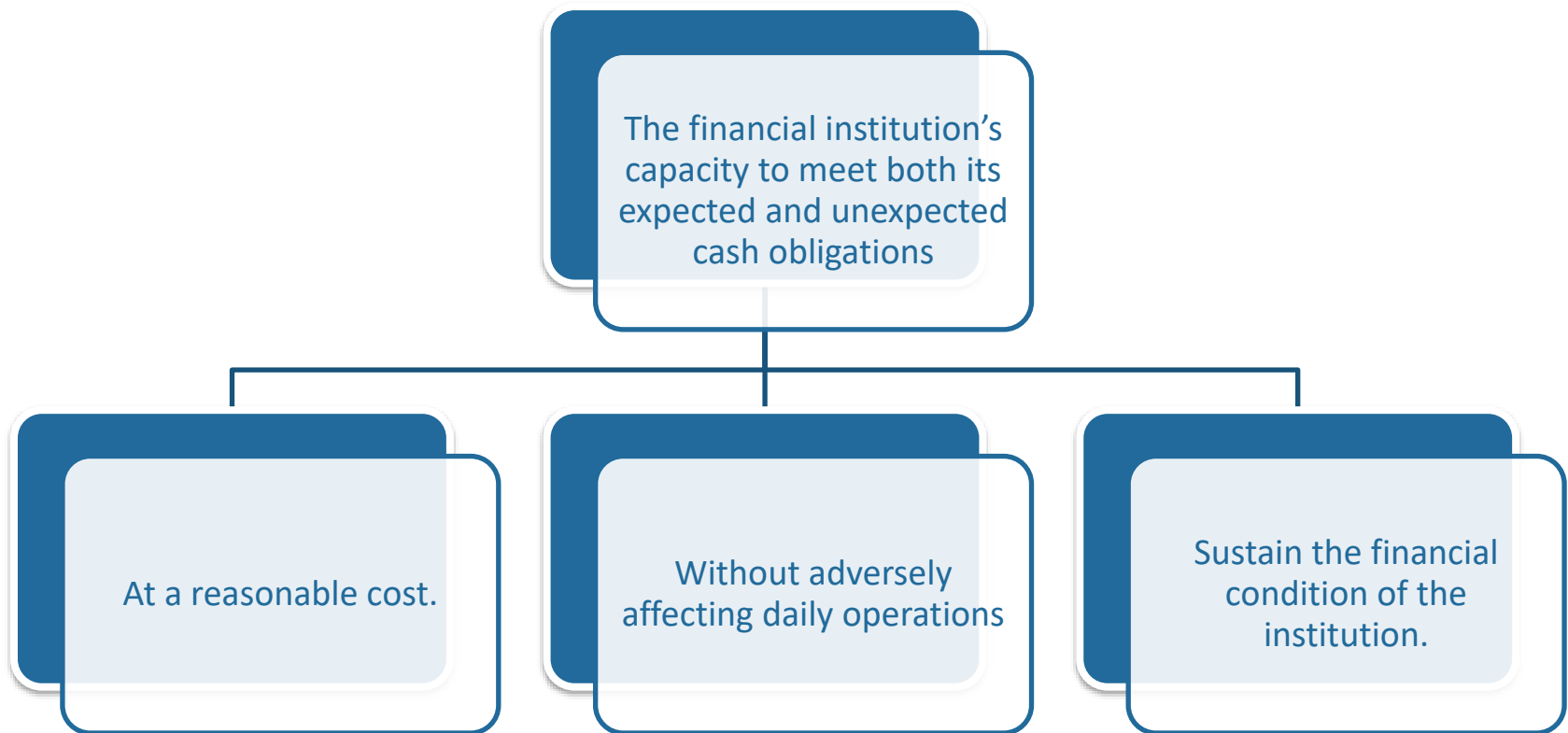


Liquidity and contingency funding policies



Review regulatory expectations

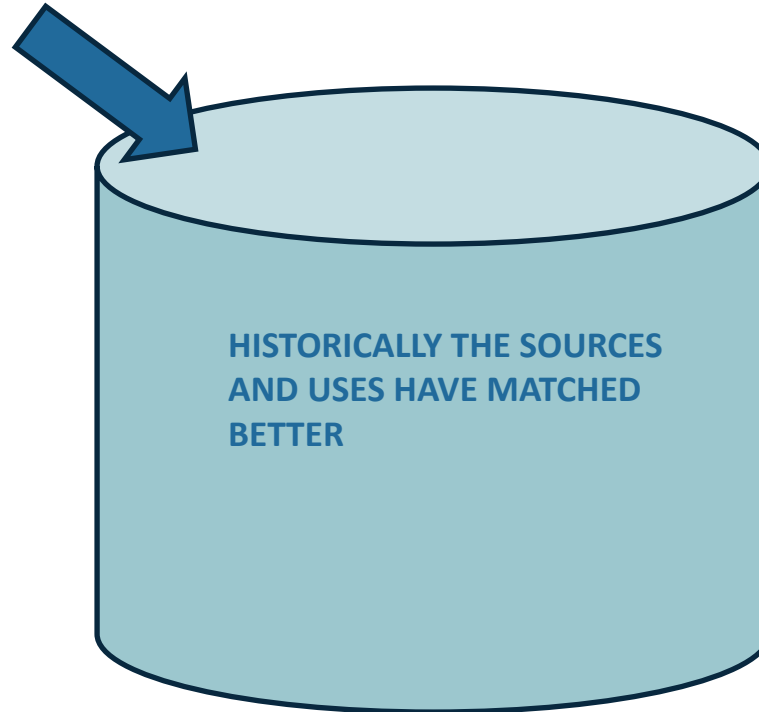
LIQUIDITY DEFINITION



SOURCES AND USES

SOURCES

Core deposit growth (share insurance a factor)
CD specials
Wholesale borrowing
Maturing investments
Sell investments
Loan payments
Income



USES

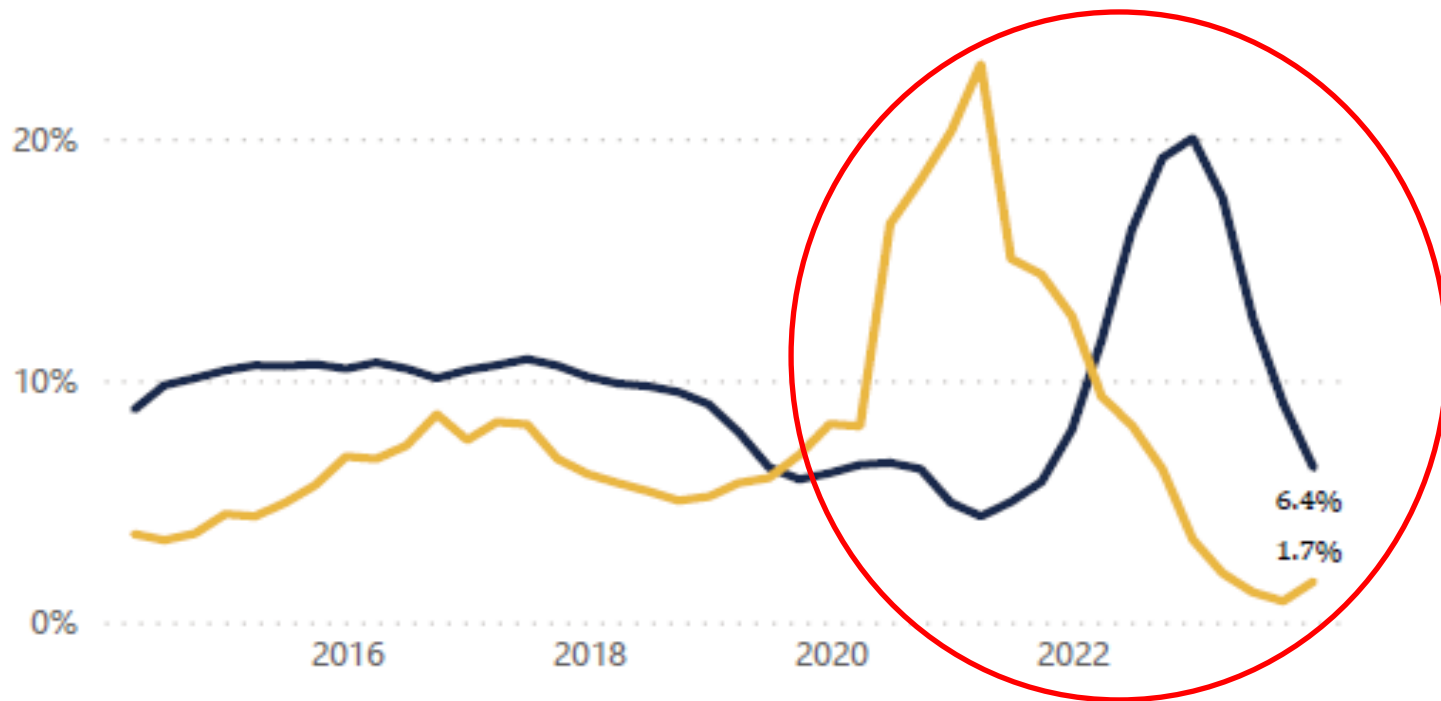
New loans
New investments
Share withdrawal
Negative income
Loan losses

CREDIT UNION FINANCIAL TRENDS

2023 Q4

Loan Growth vs. Share Growth (YoY)

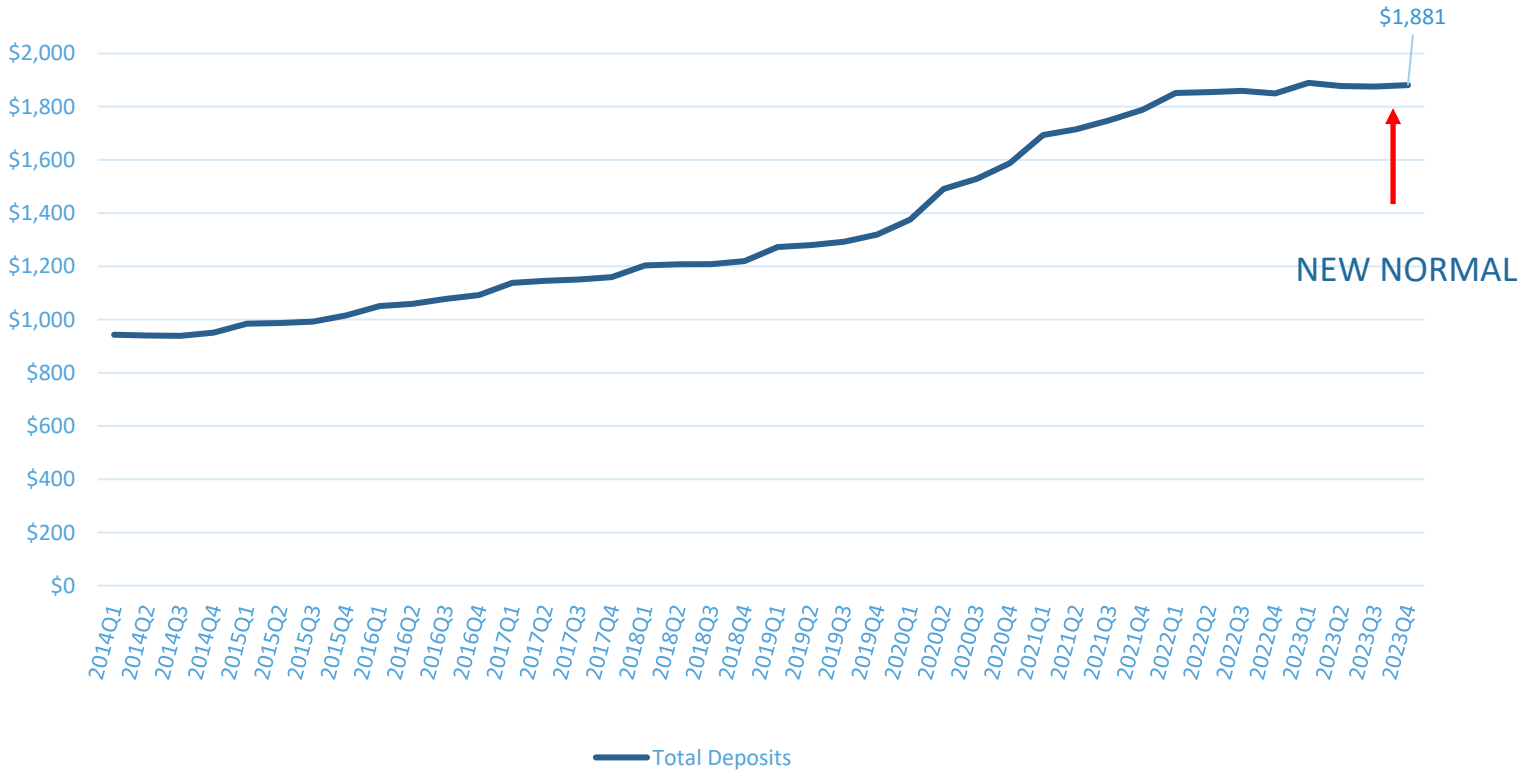
● Loan ● Share



<https://ncua.gov/analysis/credit-union-corporate-call-report-data/financial-trends-federally-insured-credit-unions>

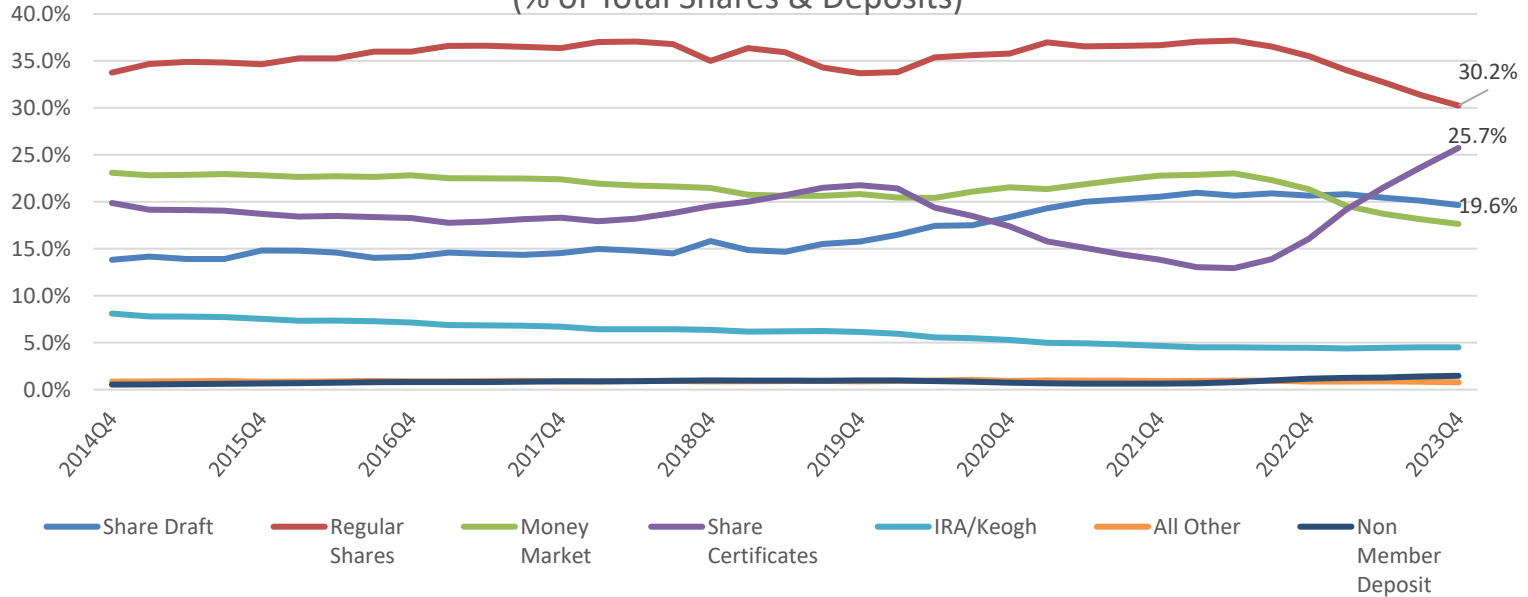
TRENDS

Deposits in All Credit Unions (Billions)



TRENDS

Share Distribution
(% of Total Shares & Deposits)



2004 to 2023

Average of Credit Unions Nationally

	Share Drafts	Regular Shares	Money Market	Share Certs	IRA	Other	Non-Member
as of 12/31/23	15.64%	54.45%	8.12%	16.18%	3.32%	0.88%	1.40%
Historical High	15.99%	59.70%	10.99%	24.97%	7.11%	1.54%	1.40%
Historical Low	8.41%	49.53%	7.13%	9.93%	3.25%	0.88%	0.30%
Change (High-Low)	7.58%	10.17%	3.86%	15.04%	3.86%	0.66%	1.10%

Historical data goes back to 2nd quarter of 2004

This analysis shows historical changes in deposits from one category to another. When rates rise, credit unions typically see an increase in certificates and a decrease in non-maturity shares (primarily regular shares). This analysis aids credit unions in estimating potential changes in deposit allocation. Peer averages allow the credit union to compare their sensitivity to peers. The graphs can aid in understanding how quickly the changes happen.

TRENDS

Share Growth (YoY)

	Draft	Regular	Money Market	Certificate	IRA / KEOGH	All Other	Non Memeber
2014 12	10.4%	7.8%	3.4%	-1.4%	-2.0%	-0.5%	69.3%
2015 12	14.5%	9.7%	5.6%	0.6%	-0.4%	3.6%	31.9%
2016 12	2.6%	11.7%	7.5%	4.9%	2.0%	14.4%	31.2%
2017 12	9.1%	7.3%	4.2%	6.4%	-0.6%	0.7%	17.2%
2018 12	14.4%	1.3%	0.9%	12.3%	-0.1%	8.2%	15.9%
2019 12	7.9%	4.1%	4.9%	20.6%	4.4%	8.5%	8.3%
2020 12	40.2%	27.8%	24.4%	-3.9%	3.6%	27.8%	-9.4%
2021 12	26.0%	15.5%	19.2%	-10.3%	-0.8%	10.6%	-3.3%
2022 12	4.1%	0.1%	-3.1%	19.9%	-1.0%	-2.6%	90.6%
2023 12	-3.3%	-13.4%	-15.9%	63.1%	2.9%	-7.4%	28.4%

<https://ncua.gov/analysis/credit-union-corporate-call-report-data/financial-trends-federally-insured-credit-unions>

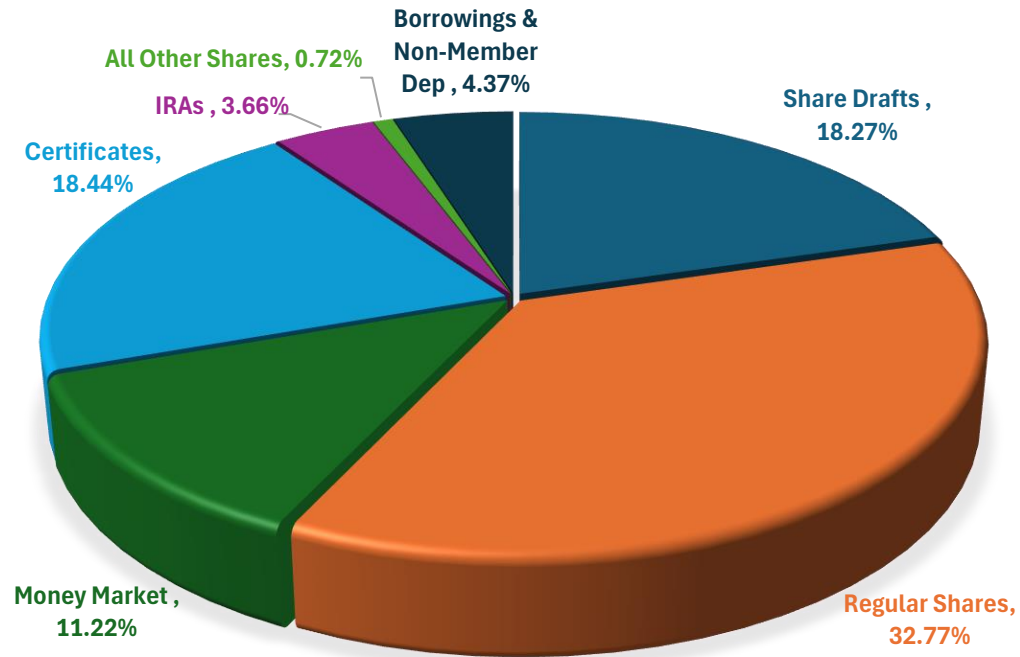
Key Ratios as of December 31, 2023

Sample	1403 CUs	826 CUs	647 CUs	707 CUs	387 CUs	287 CUs	438 CUs	
	\$0 - 19M	\$20 - 49M	\$50 - 99M	\$100 - 249M	\$250 - 499M	\$500 - 999M	\$1B +	
Asset Composition								
Cash and Cash on Deposit / Assets	5.93%	15.15%	7.92%	7.65%	7.38%	6.73%	7.02%	7.16%
Loans / Assets	69.62%	51.38%	53.05%	56.72%	62.98%	67.78%	70.70%	72.74%
ALLL / Assets	0.45%	0.80%	0.47%	0.46%	0.49%	0.55%	0.64%	0.73%
Net Loans / Assets	69.16%	50.58%	52.58%	56.26%	62.49%	67.23%	70.07%	72.01%
Investments / Assets	20.86%	31.97%	35.89%	31.35%	24.51%	20.05%	16.92%	15.60%
Fixed Assets / Assets	1.16%	0.77%	1.57%	2.11%	2.33%	2.34%	2.31%	1.86%
Other Assets / Assets	2.89%	1.53%	2.05%	2.63%	3.29%	3.65%	3.68%	3.38%
Liability Composition								
Share Drafts	20.24%	5.57%	15.14%	16.73%	17.50%	18.27%	18.54%	16.86%
Regular Shares	43.24%	63.46%	48.31%	43.75%	37.18%	32.77%	28.27%	24.31%
Money Market	11.27%	1.40%	5.49%	7.41%	10.18%	11.22%	12.00%	14.64%
Certificates	11.31%	8.52%	12.20%	13.19%	16.41%	18.44%	20.64%	21.56%
IRAs	3.63%	1.15%	3.16%	3.55%	3.92%	3.66%	3.54%	3.56%
All Other Shares	0.72%	0.72%	1.10%	0.71%	0.62%	0.72%	0.62%	0.60%
Borrowings & Non-Member Dep	0.00%	1.24%	1.45%	1.95%	2.73%	4.37%	6.16%	8.03%
Equity / Liab & Equity	9.04%	17.23%	12.35%	11.84%	10.46%	9.44%	9.00%	9.02%
Other Liab / Liab & Equity	1.26%	0.71%	0.79%	0.87%	1.00%	1.11%	1.23%	1.42%
Spread Analysis								
Interest Income / Avg Assets	4.43%	4.48%	4.21%	4.20%	4.39%	4.44%	4.56%	4.63%
Fee Income / Avg Assets	0.57%	0.40%	0.56%	0.63%	0.65%	0.62%	0.60%	0.47%
Other Income / Avg Assets	0.14%	0.38%	0.40%	0.52%	0.61%	0.60%	0.70%	0.71%
Gross Income / Avg Assets	5.14%	5.25%	5.18%	5.35%	5.64%	5.66%	5.87%	5.81%
Interest Expense / Avg Assets	0.54%	0.83%	0.80%	0.90%	1.10%	1.28%	1.48%	1.79%
Non-Interest Expense / Avg Assets	3.61%	3.56%	3.67%	3.60%	3.62%	3.55%	3.48%	3.04%
Provision for Loan Loss / Avg Assets	0.28%	0.46%	0.32%	0.28%	0.34%	0.36%	0.47%	0.50%
Net Income / Avg Assets	0.70%	0.40%	0.38%	0.58%	0.59%	0.47%	0.44%	0.48%
Pre-Provision Net Income / Avg Assets	0.99%	0.86%	0.70%	0.86%	0.92%	0.83%	0.91%	0.98%

If you would like a copy of this Key Ratio Report with your credit union information in the sample column, please email michellem@marksmith.com

ASSET SIZE \$250-\$499M

SHARE TYPE / LIABILITIES & EQUITY



LIABILITY-BASED LIQUIDITY

The graphic below illustrates the relative stability of various funding sources dimensioned from most stable to least stable.



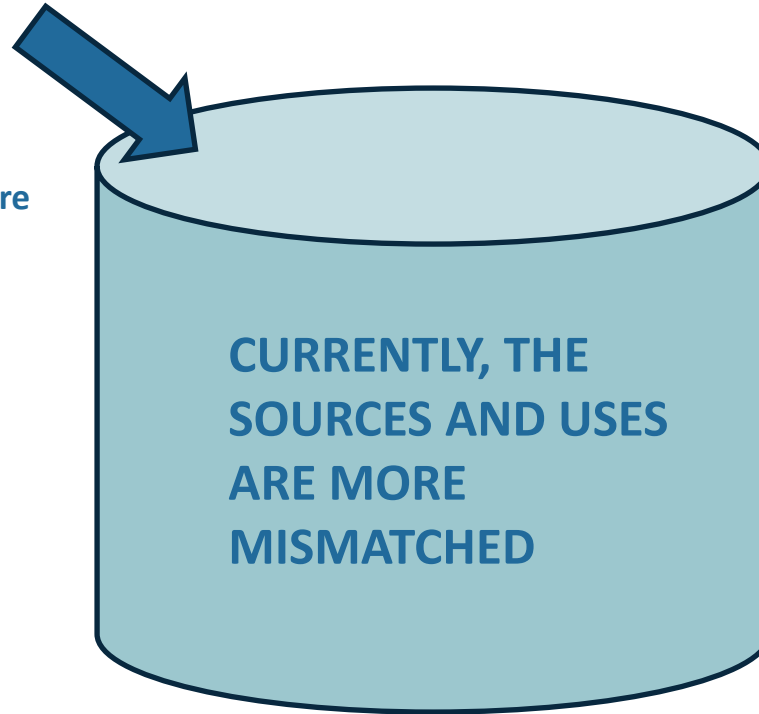
Do you know how and why your deposits are shifting?

<https://publishedguides.ncua.gov/examiner/#ExaminersGuide/Liquidity/Liquidity.htm?TocPath=Liquidity%257C>

SOURCES AND USES

SOURCES

Core deposit growth (share insurance a factor)
CD specials
Wholesale borrowing
Maturing investments
Sell investments
Loan payments
Income



New loans
New investments
Share withdrawal
Negative income
Loan losses

POLL QUESTION #1

QUICK LIQUIDITY RATIOS

ALMPRO REPORT PAGE 7

When overnight ratio is low and the one-year liquidity ratio is low, it could be a warning

When loans-to-assets and loans-to-shares are high could be a warning

High unfunded LOC could be a possible exposure

Borrowing and non-member deposits could be an exposure

Loan turnover extension could be a liquidity risk

PANEL 3

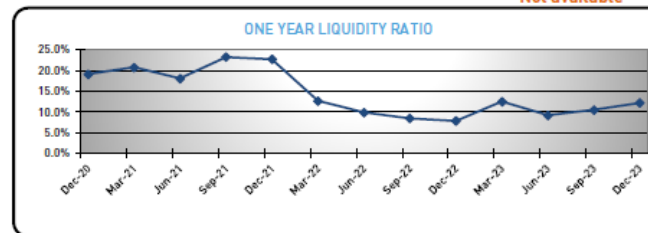
LIQUIDITY RISK ANALYSIS

Expanded Analysis Begins at Page 37

PART I - STATIC LIQUIDITY INDICATORS

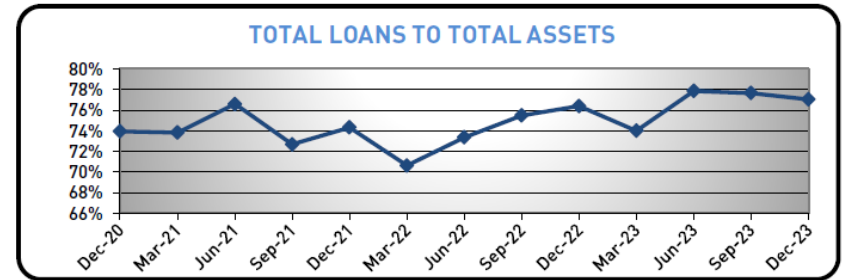
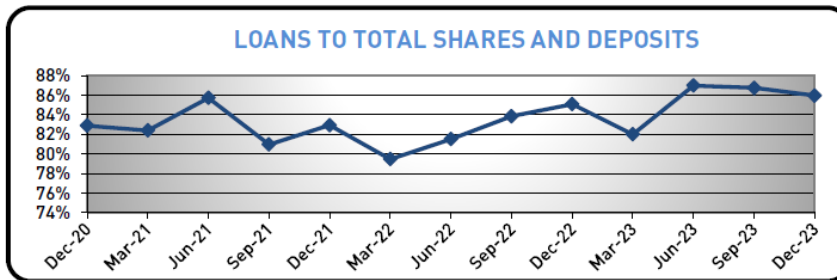
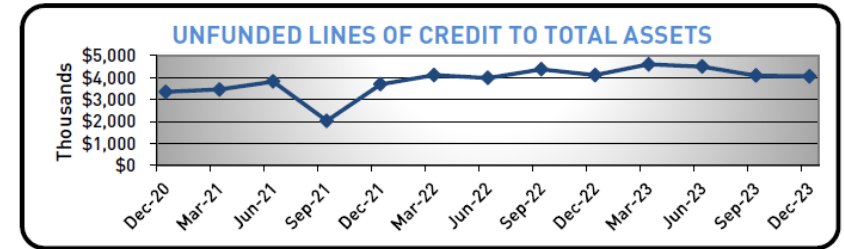
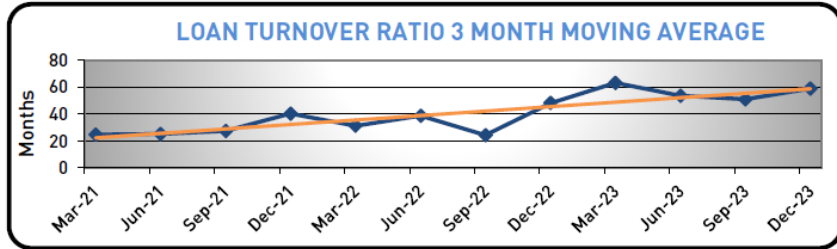
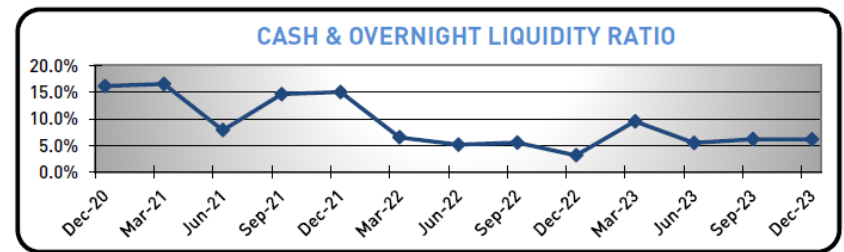
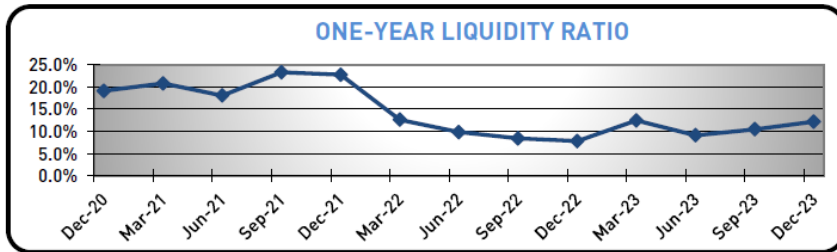
	Actual	Guidelines	Variance
Cash & Overnight Liquidity to Total Assets	6.2%	3.0%	3.2%
Three Month Liquidity to Total Assets	8.9%	*	*
One Year Liquidity to Total Assets	12.2%	5.0%	7.2%
Max Allowed Avg. Loan Turnover (months)	57	48	-9
Max Allowed Unfunded LOC to Tot. Assets	6.8%	10.0%	3.2%
Max Allowed Loans to Total Assets	77.1%	*	*
Max Allowed Loans to Total Shares	85.9%	95.0%	9.1%
Borrowings+Non-Member Deposits to Total Deposits	0.0%	*	*

*Not available



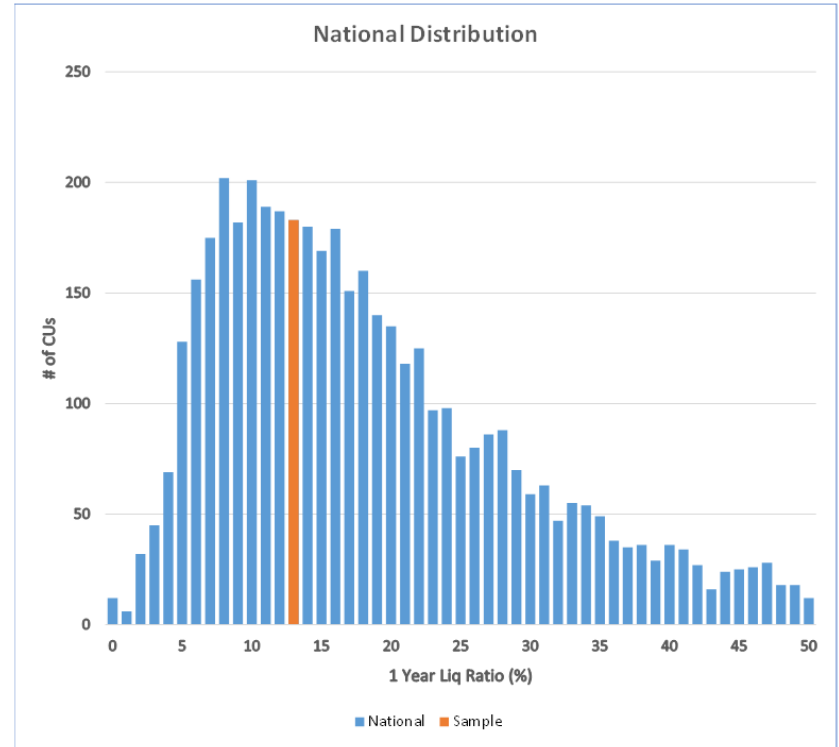
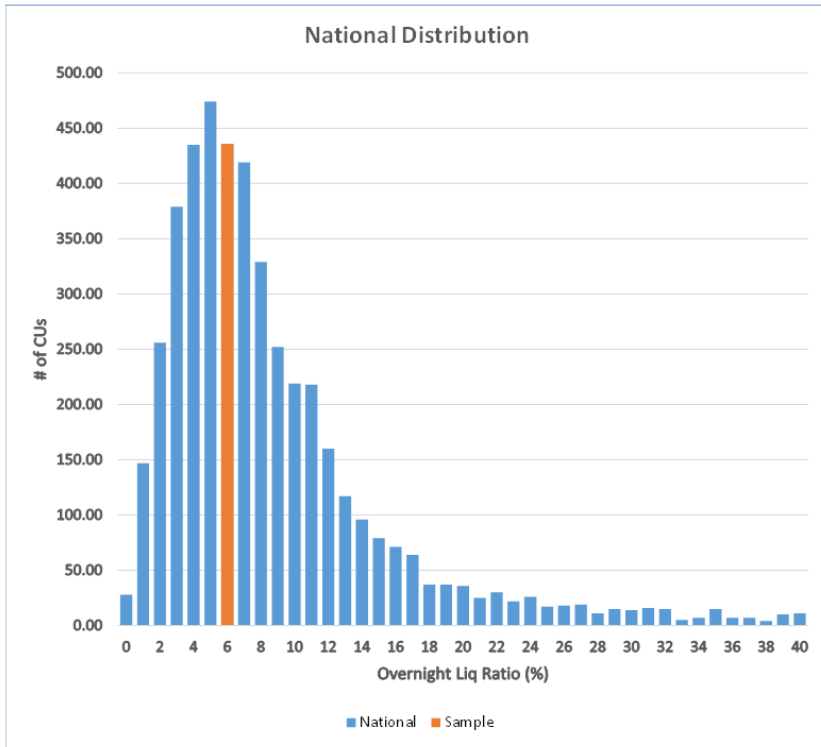
LIQUIDITY TREND GRAPHS

ALMPRO REPORT PAGE 37



LIQUIDITY TREND GRAPHS

FROM LIQUIDITY FUNDING ANALYSIS



If you would like a copy of this Liquidity Funding Analysis with your credit union information in the sample column, please email michellem@marksmith.com

LIQUIDITY RISK ESTIMATES

CASH FLOW FORECAST



	LIKELY SCENARIO		MODERATE SCENARIO		SEVERE SCENARIO		SYSTEMIC SCENARIO	
	12-month cash flow totals (000)	Average growth factor	12-month cash flow totals (000)	Average Growth Factor	12-month cash flow totals (000)	Average Growth Factor	12-month cash flow totals (000)	Average Growth Factor
Cash flow from loans	\$123	-0.3%	(\$2,291)	5.0%	(\$4,581)	10.0%	\$0	0.0%
Cash flow from deposits and borrowings	\$2,332	4.4%	(\$2,665)	-5.0%	(\$5,330)	-10.0%	(\$5,330)	-10.0%
Off balance sheet source (uses)	\$0		\$0		\$0		\$0	
Net cash flow from loans, deposits, borrowings and off-balance sheet	\$2,455		(\$4,956)		(\$9,912)		(\$5,330)	
Investment Maturities	\$3,313		\$3,313		\$3,313		\$3,313	
Net Income (before PLL)	\$505		\$495		\$463		\$454	
Available cash and overnight investments	\$3,932		\$3,932		\$3,932		\$3,932	
Net Cumulative Cash Flow	\$10,205		\$2,784		(\$2,204)		\$2,368	
Operational Guidelines (000)	\$2,500		\$2,500		\$2,500		\$2,500	
Variance (000)	\$7,705		\$284		(\$4,704)		(\$132)	

12-MONTH CASH FLOW FORECAST DEPOSITS

Notes payable	0
Regular shares \$0 to \$25,000	8,344
Regular shares greater than \$25,000	13,145
Share drafts rate 0% - 2021	9,107
Share drafts - non-Interest earnings	0
IRA shares	226
IRA shares - high rate	0
Member certificates	17,552
Money market - tier 1	56
Money market - tier 2	191
Money market - tier 3	481
Money market - tier 4	746
Money market - tier 5	946
Money market - tier 6	2,508
Totals	53,303

-7%
-22%
1%
0%
-29%
0%
30%
53%
25%
22%
45%
-17%
12%

Cash Flow from Deposits & Borrowings:												
(0)	0	0	0	0	0	0	0	0	0	0	0	(0)
(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(49)	(593)
(245)	(245)	(245)	(245)	(245)	(245)	(245)	(245)	(245)	(245)	(245)	(245)	(2,934)
7	7	7	7	7	7	7	7	7	7	7	7	86
0	0	0	0	0	0	0	0	0	0	0	0	0
(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(66)
0	0	0	0	0	0	0	0	0	0	0	0	0
432	432	432	432	432	432	432	432	432	432	432	432	5,183
2	2	2	2	2	2	2	2	2	2	2	2	30
4	4	4	4	4	4	4	4	4	4	4	4	48
9	9	9	9	9	9	9	9	9	9	9	9	107
28	28	28	28	28	28	28	28	28	28	28	28	336
(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(164)
25	25	25	25	25	25	25	25	25	25	25	25	300
194	194	194	194	194	194	194	194	194	194	194	194	2,332

12-MONTH CASH FLOW FORECAST NET

OFF BALANCE SHEET CASH SOURCE (NEEDS)

0	0	0	0	0	0	0	0	0	0	0	0	0
---	---	---	---	---	---	---	---	---	---	---	---	---

NET CASH FLOW FROM LOANS, DEPOSITS & BORROWINGS

205	205	205	205	205	205	205	205	205	205	205	205	2,455
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-------

12-MONTH CASH FLOW FORECAST INVESTMENTS AND NET INCOME AND CASH ON HAND

Daily accounts	***
Settlement and clearings accounts	(245)
Investment CDs - non callable	4,464
Investment CDs - callable	0
Investment CDs - step/callable	0
Securities - non callable	3,920
Securities - callable	0
Securities - step/callable	0
	0
	0
Membership shares	139
Totals	8,278

Net Income (excluding PLL)	
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Net Periodic Cash Flow	
Net Cumulative Cash Flow	

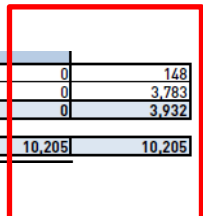
Cash on Deposit
Scheduled
Scheduled
Scheduled
Scheduled
Scheduled
Scheduled
Scheduled
Scheduled
Scheduled
Not Available

Cash Flow from Investments:													
0	0	0	0	0	0	0	0	0	0	0	0	0	0
(245)	0	0	0	0	0	0	0	0	0	0	0	0	(245)
248	248	496	0	0	0	0	0	0	0	0	0	0	992
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
303	151	151	301	301	150	152	302	151	151	301	151	2,566	
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0
306	399	647	301	301	150	152	302	151	151	301	151	3,313	
34	34	34	40	40	40	45	45	45	50	50	50	505	
545	638	886	546	546	395	401	552	400	405	555	405	6,273	
545	1,182	2,068	2,614	3,159	3,554	3,955	4,507	4,907	5,313	5,868	6,273	6,273	

Cash on hand	148
Cash on deposit ***	3,783
Total Cash Coverage	3,932

Net Cumulative Cash Flow with Cash Coverage	
---	--

Cash Available for Coverage:													
148	0	0	0	0	0	0	0	0	0	0	0	0	148
3,783	0	0	0	0	0	0	0	0	0	0	0	0	3,783
3,932	0	0	0	0	0	0	0	0	0	0	0	0	3,932
4,476	5,114	5,999	6,545	7,091	7,486	7,887	8,439	8,839	9,244	9,800	10,205	10,205	



LIQUIDITY RISK ESTIMATES

CASH FLOW FORECAST



	LIKELY SCENARIO		MODERATE SCENARIO		SEVERE SCENARIO		SYSTEMIC SCENARIO	
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Operational Guidelines (000)	\$2,500		\$2,500		\$2,500		\$2,500	
Variance (000)	\$7,705		\$284		(\$4,704)		(\$132)	

CASH FLOW FORECAST – STRESS TEST

Net Periodic Cash Flow	
Net Cumulative Cash Flow	

Cash on hand	148
Cash on deposit ***	3,783
Total Cash Coverage	3,932

Net Cumulative Cash Flow with Cash Coverage	
---	--

Alloya Corporate CU	5,500
Other Lines of Credit	0
Sell transferrable certificates of deposit	0
Sell Government Agency Bonds	0
Total Wholesale Funding	5,500
NET FORECASTED CASH FLOW	

(486)	(394)	(146)	(487)	(488)	(639)	(633)	(483)	(635)	(631)	(481)	(632)	(6,135)
(486)	(880)	(1,026)	(1,513)	(2,000)	(2,639)	(3,272)	(3,756)	(4,391)	(5,022)	(5,503)	(6,135)	(6,135)
Cash Available for Coverage:												
148	0	0	0	0	0	0	0	0	0	0	0	148
3,783	0	0	0	0	0	0	0	0	0	0	0	3,783
3,932	0	0	0	0	0	0	0	0	0	0	0	3,932
3,446	3,052	2,906	2,419	1,931	1,292	659	176	(459)	(1,090)	(1,571)	(2,204)	(2,204)
Wholesale Funding Preferences to be designated by Client:												Total
												0
												0
												0
												0
												0
0	0	0	0	0	0	0	0	0	0	0	0	0
3,446	3,052	2,906	2,419	1,931	1,292	659	176	(459)	(1,090)	(1,571)	(2,204)	(2,204)

1. Discuss when cash flows are inadequate
2. Use a contingency funding plan as a guide
3. Review options and advantages/disadvantages

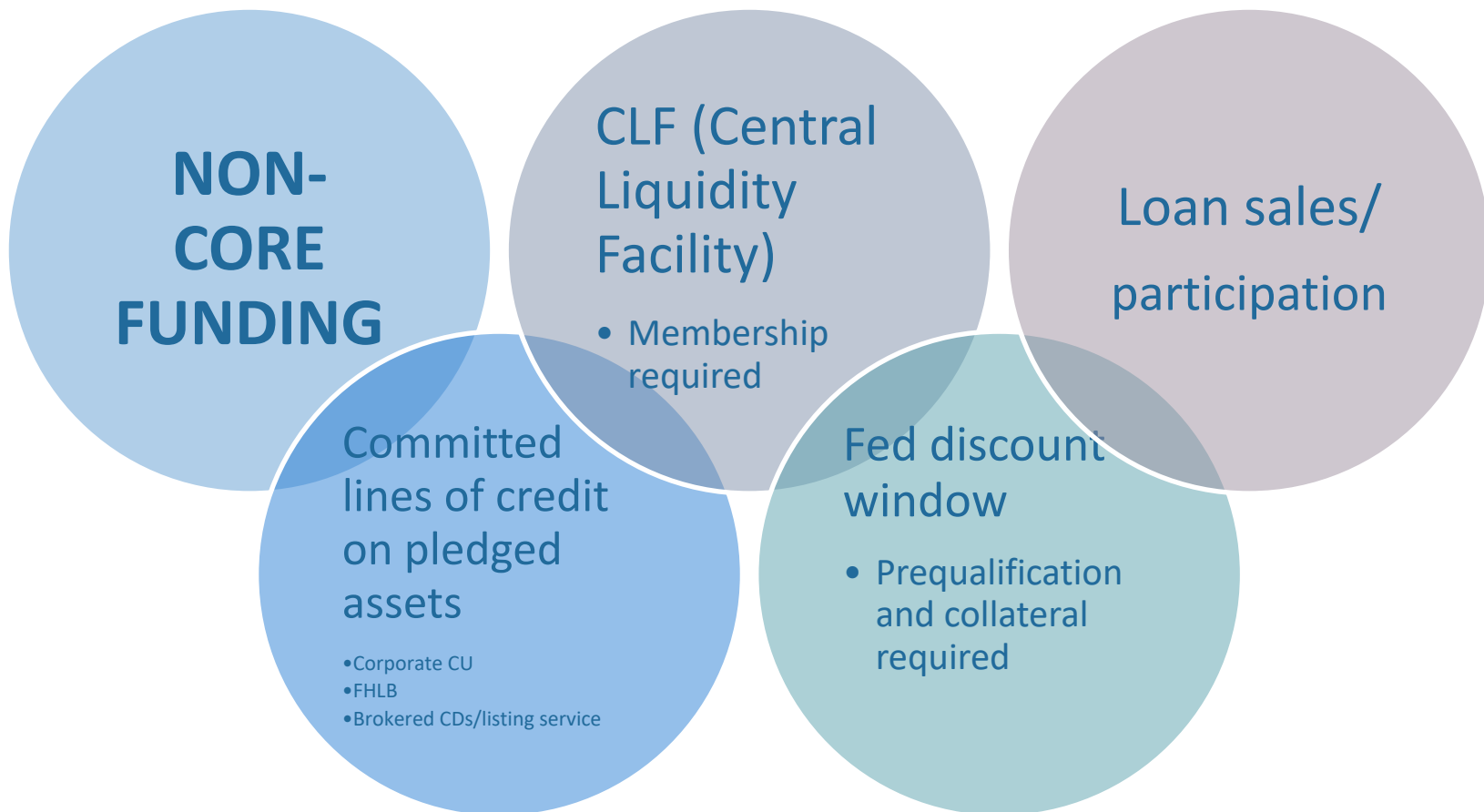
Borrowing
 Promote new deposits
 Non-member CDs
 Sell investments
 Slow lending

STRESS TESTING

- Provides forward-looking assessments of risk
- Supports planning
- Aids in setting risk limits
- Facilitates Contingency Funding Plan (CFP)

POLL QUESTION #2

CONTINGENCY FUNDING RESOURCES



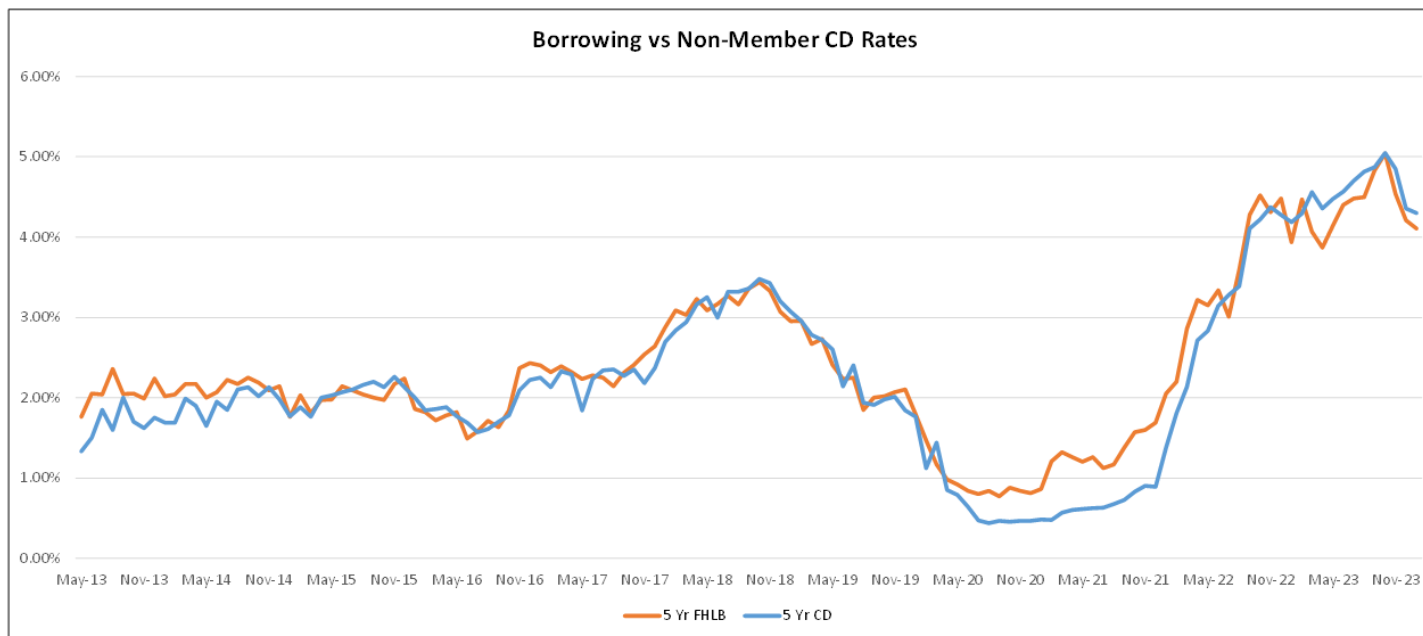
CONTINGENCY FUNDING RESOURCES

Borrowing vs Non-Member CD Rates

as of 12/31/23

	<u>3 Mo</u>	<u>6 Mo</u>	<u>9 Mo</u>	<u>1 Yr</u>	<u>2 Yr</u>	<u>3 Yr</u>	<u>4 Yr</u>	<u>5 Yr</u>
FHLB Advance	5.72%	5.57%	5.31%	5.08%	4.62%	4.38%	4.30%	4.21%
Non-Member CD	5.48%	5.46%	5.30%	5.36%	4.77%	4.65%	4.36%	4.30%
Variance	0.24%	0.11%	0.01%	-0.28%	-0.15%	-0.27%	-0.06%	-0.09%

Current Non-Member CD Rates are Average 25 Best from QwickRate. Historical Non-Member CD Rates may include SimpliCD and Fidelity.



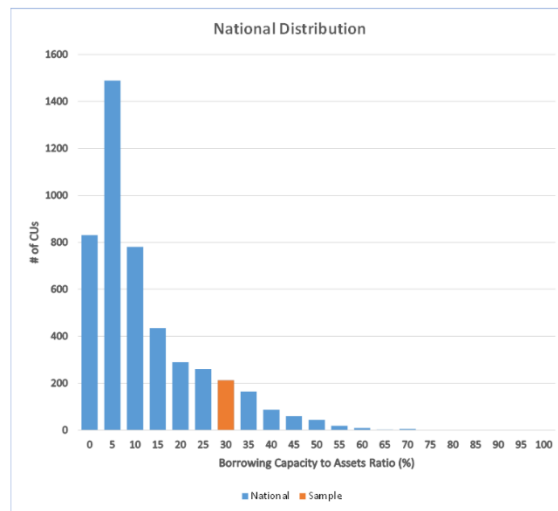
If you would like a copy of this Liquidity Funding Analysis with your credit union information in the sample column, please email michellem@marksmith.com

CONTINGENCY FUNDING RESOURCES

BORROWING CAPACITY PERCENTAGES BY CATEGORY

Average of Credit Unions Nationally						
	<u>Corporate</u>	<u>Natural Person</u>	<u>Federal Home</u>	<u>Central Liquidity</u>	<u>Federal Reserve</u>	
	<u>Credit Unions</u>	<u>Credit Unions</u>	<u>Loan Bank</u>	<u>Facility</u>	<u>Bank</u>	<u>Other</u>
as of 12/31/23	66.99%	0.39%	22.24%	0.72%	5.40%	4.26%

BORROWING CAPACITY TO ASSETS RATIO (%)



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LIQUIDITY RISK FACTORS

INTERRELATED RISKS MAY INCREASE LIQUIDITY RISK

Mismatch in sources and uses of funds

Market constraints on the ability to convert assets into cash

Unable to access sources of funds

Unanticipated share withdrawals

Unbalanced growth

Field of membership issues

Changes in economic conditions

LIQUIDITY RISK

Overall safety and soundness is adversely affected by the credit union's inability (or perceived inability) to meet its contractual obligations.

Lending

Having the necessary cash flows to meet current and future lending

Shares

Having the necessary cash flow to meet share demands

Cash

To meet financial obligations like operating expenses and interest payments

INTEREST RATE RISK – INTERRELATED RISK

Rate changes drive share and loan cash flows

Change in market conditions are often unpredictable and severe

Greater interest rate risk cause greater exposure to earnings

Rate changes can make it difficult to maintain existing funding sources

CONCENTRATION – INTERRELATED RISK

INTERNAL FUNDING SOURCES

- LARGE SINGLE DEPOSITOR
- AGING MEMBERSHIP
- RESTRICTED FIELD OF MEMBERSHIP
- UNINSURED DEPOSITS

EXTERNAL FUNDING SOURCES

- WHOLESALE BORROWING
- MAINTAIN AND TEST CREDIT LINES
- NON-MEMBER DEPOSITS – BROKERED CDS
- PUBLIC FUNDS

CONSUMER BASED

- LIMITED COMMERCIAL RELATIONSHIPS

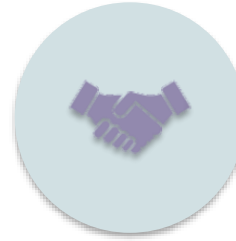
STRATEGIC – INTERRELATED RISK



NEW PRODUCTS OR
SERVICES



CONSIDER THE IMPACT
ON CASH FLOWS



OFF BALANCE SHEET
COMMITMENTS



INVESTMENTS
STRATEGIES

POLL QUESTION #3

NCUA LETTER NO. 10-CU-14

Established a process and system

Well documented

Cash flow projections-plans for changes in liquidity under a variety of conditions and economic scenarios

Maintain an adequate cushion

Stress testing

Diversified funding sources-tested

Failure to maintain an adequate liquidity risk management process is considered an unsafe and unsound practice

NCUA LIQUIDITY RISK REGULATION

All Credit Unions per NCUA reg 741.12(a)

Must have a board-approved liquidity policy

Credit unions over \$50 million total assets per NCUA regulation 741.12(b)

Must have a Contingency Funding Plan (CFP), but suggested as sound practice for all credit unions

NCUA LIQUIDITY RISK REGULATION

**Credit unions over \$250 million total assets per
NCUA reg 741.12(c)**

Written liquidity policy & written CFP

Demonstrate access to a “contingent federal liquidity
source”

- Maintaining membership in the CLF (Central Liquidity Facility)
- Establish borrowing access at the Federal Reserve Discount Window

LIQUIDITY POLICY COMPONENTS

Well-defined levels of responsibility to identify, measure, monitor, control, and report liquidity risk

Governs how the CU manages daily operating cash needs

Defines how the CU may meet forecasted liquidity shortfalls

Identifies possible responses to unforeseen liquidity events

Correlated to other credit union policies

Tailored to size, complexity and risk profile

LIQUIDITY POLICY (CONTINUED)

Describes testing and methodologies

Establishes frequency or reporting

Thresholds or limits for liquidity measures

Board approved and periodic reviews and revisions as needed

Contingency Funding Plan (CFP)

LIQUIDITY RATINGS –CAMELS-ARE BASED ON:

- The adequacy of liquidity sources and the ability to meet liquidity needs without adversely affecting operations or conditions; ?
- The availability of assets readily convertible to cash without undue loss; ?
- Access to sources of funding; ?
- The level of diversification of funding sources, both on- and off-balance sheet; ?
- The degree of reliance on short-term, volatile sources of funds to fund longer-term assets; ?
- The trend and stability of deposits; and ?
- The capability of management to properly identify, measure, monitor, and control the credit union's liquidity position,
 - including the effectiveness of funds management strategies,
 - liquidity policies, and contingency funding plans

ELEMENTS OF A CONTINGENCY FUNDING PLAN (CFP)

Identification and sufficiency of liquidity sources

Plans to manage stressful environments

Lines of responsibility

Clear implementation and escalation procedures

The frequency of testing and updating the plan

<https://publishedguides.nca.gov/examiner/#ExaminersGuide/Liquidity/Liquidity.htm?TocPath=Liquidity%257C>

BENEFITS OF USING MHSI SOLUTIONS

- Easy
- Saves time
- Delegate to the experts
- Extensive experience
- Regulator responses
- Reliable
- Reputable





Mark H. Smith
I N C O R P O R A T E D

THANK YOU

MARK H. SMITH, INC.

marksmith.com

Cynthia@marksmith.com

800.268.7795