5300. LIQUIDITY & CONTINGENCY FUNDING POLICY

Revised: **July 2015**
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Liquidity and Contingency Funding Plan (CFP)

Policy Objectives

The primary goal of this Policy is to provide a framework which will allow the credit union to maintain normal operations and service to its members in the event of a prolonged liquidity crisis.

Management Structure for Funding and Liquidity Risk

The Board of Directors delegates the oversight authority with respect to this policy to the ALM Committee. The Board and ALM Committee delegates the decision-making authority with respect to the operational aspects of liquidity management to the Chief Financial Officer (CFO). With the oversight of the ALM Committee, the CFO will actively manage the composition of the Credit Union's assets and liabilities in order to maintain adequate levels of highly liquid assets free of legal, regulatory, or operational impediments to meet liquidity needs in stressful situations.

Board of Directors:

The Board of Directors retains the final authority and responsibility for Funding and Liquidity Risk management.

1. At least Semi-annually, the Board will

    a. receive and review summary analyses on Funding and Liquidity Risk;

    b. review the designated static liquidity ratios;

    c. review the forecasted cash-flow analyses;

    d. review the stress testing of the credit union's Funding and Liquidity Risk position.

2. At least annually, the Board will:

    a. review this Funding and Liquidity Risk Policy, make adjustments as determined necessary.

Chief Financial Officer (CFO):

Has responsibility for implementing this Policy and overall Funding and Liquidity Risk management;

1. Implements decisions and directives issued by the Board of Directors and ALM Committee with respect to Funding and Liquidity Risk;

ALM Committee:

With respect to funding and liquidity risk, the purpose of the ALM Committee is to provide a resource to the credit union's Board of Directors and assist them in making management decisions. The responsibilities of the ALM Committee with respect to Funding and Liquidity Risk are as follows:

1. Be aware of local, regional, and national economic conditions, which might affect the credit union's Funding and Liquidity Risk exposure;

2. Review and measure the credit union's Funding and Liquidity Risk exposure; and

3. Provide and recommend Funding and Liquidity Risk strategies to management and Board of Directors.

Monitoring Liquidity and Funding Risk

The following relationships should be periodically reviewed by the ALM Committee to determine the adequacy of current liquidity

Static Balance Sheet Liquidity Analyses:
The credit union will estimate Funding and Liquidity Risk utilizing the static balance sheet ratios

1. Loans to Deposits Ratio~~.~~
2. Liquid Assets* to Assets Ratio
3. Contingent Liabilities / Cash and Investments.
4. Volatile Liabilities / Cash and ST investments

* Liquid Assets include cash, overnight funds, and other cash equivalents.

Forecasted Cash Flow Analyses and Stress Testing:

The credit union will perform forecasted cash flow analyses and stress testing in the following scenarios:

1. Base Forecast - Likely 12-month liquidity projection.
2. Moderate stress test - only the credit union is under stress, but capital markets remain functioning. The moderate stress test assumes an instantaneous 5.0% run off of deposits, a 2.5% reduction in loan repayments and a 5.0% reduction in unfunded commitments.
3. Severe stress test - where the capital markets do not function and the credit union relies solely on its own internal resources. The severe stress test assumes an instantaneous 15.0% run off of deposits, a 5.0% reduction in loan repayments and a 10.0% reduction in unfunded commitments.

The assumptions, estimates, and projections used in the forecasted cash flow analyses and stress-testing will be documented and reviewed annually.

Frequency of Testing:
The credit union will perform liquidity analyses at least quarterly. More frequent testing may occur as circumstances warrant.

Funding and Liquidity Risk Guidelines

The following Risk guidelines are established by the Board of Directors in order to optimize and manage the credit union's exposure to Funding and Liquidity Risk. They are intended to be guidelines and from time to time may be exceeded on a temporary basis. Ongoing testing resulting in forecasted exposures outside the established guidelines should be considered serious by the Board of Directors and curative action should be taken.
Should the liquidity levels fall outside the specified limits, the ALM Committee should immediately invoke plans to increase the Credit Union's liquidity position.

Static Balance Sheet Liquidity Analyses:

Measurement	Acceptable Limit
Loans to Deposits Ratio	< 110%
Liquid Assets to Assets Ratio	≥5%
Contingent Liabilities / Cash and Investments	< 200%
Volatile Liabilities / Cash and ST investments	< 600%

Forecasted Cash Flow Analyses and Stress Testing

Measurement	Policy Limit
Likely Scenario	Liquidity Ratio ≥5%
Moderate Stress Scenario *	Liquidity Ratio ≥5%
Severe Stress Scenario*	Liquidity Ratio ≥5%

***** After mitigating actions

Funding and Liquidity Risk Management Activities

Should the liquidity levels fall outside the specified limits, management should immediately invoke plans to increase the Credit Union's liquidity position. The following sources and/or actions used to increase liquidity may be incorporated within the ALM Committee's plan.

Primary Sources of Additional Liquidity

Cash and Overnight Funds

1. Cash on hand in excess of funds required for normal operations.
2. Funds on deposit at Catalyst Corporate Federal Credit Union and other financial institutions.

Deposit Product Pricing Strategies

1. Increase deposit rates to increase deposit in-flows.
2. Increase marketing efforts of deposit products.
3. Solicit Non-Member CD sales.
4. Increase rate concessions.
5. Develop and implement new product lines.

Loan Product Pricing Strategies

1. Increase loan rates to curb lending growth.
2. Decrease marketing efforts of loan products.
3. Increase credit quality requirements.

4. Eliminate rate concessions.

<u>Secondary Sources of Liquidity</u>

1. Sell loan participations from existing portions of the loan portfolio.

2. Enact existing lines of credit.

   a. Catalyst Corporate Credit Union (Primary Borrowing Source).
   b. NCUA Central Liquidity Facility (Secondary Borrowing Source)

3. Sell portions of the available for sale investment portfolio.

4. Selling portions of loan portfolio (100% or participation's).

5. Establish and enact FHLB Notes.

6. Disposition of branches and other fixed assets.

7. Collateralize and pledge additional assets to secure new borrowing and credit.

Each of the strategies and actions listed above may cause pronounced effects on the Credit Union's earnings and capital levels. Careful consideration should be taken before employing any of these actions. In most cases, cost benefit analysis and income simulations should be performed prior to implementation. In addition, funding of rate sensitive assets with rate sensitive liabilities will adhere, to the extent possible, with the matching principle, in which maturities and repricing periods of assets correlate to those of the underlying funding source.

Historical Record of Policy Changes

Date Revised: December 2014
Date Approved: December 2014

New Policy

While attempting to draft language into the Liquidity section of the Asset Liability Management Policy, the committee concluded that the Liquidity & Contingency Funding Plan (CFP) should be a stand-alone policy.

Date Revised: July 2015
Date Approved: August 2015

Funding and Liquidity Risk Guidelines

Static Balance Sheet Liquidity Analyses:

Measurement	Acceptable Limit
Liquid Assets to Assets Ratio	~~>~~ ≥5%

Forecasted Cash Flow Analyses and Stress Testing

Measurement	Policy Limit
Likely Scenario	Liquidity Ratio ~~>3~~≥5%
Moderate Stress Scenario *	Liquidity Ratio ~~>3~~≥5%
Severe Stress Scenario*	Liquidity Ratio ~~>3~~≥5%