What is different this time:

1. **Online/Mobile/Payments:** 84% of American have on-line banking/mobile payment apps. This electronic access has increased the velocity of money, reduced switching costs and has lowered transactional expenses. In the past it took personal branch visits and more than two to four hours to close and then open an account at another institution. In 2023, this can be done in less than fifteen minutes from the comfort of your home.

2. **Specialized Banks:** General purpose banks and credit unions now have to compete with deposit-hungry specialty banks and non-bank finance companies such as Goldman Sachs, Discover, American Express and Apple. These organizations financed their assets through non-deposit methods during the previous rate cycle. Now, they are competing for insured deposits.

3. **Liquidity Regulation:** Large banks are subject to meeting the minimum Liquidity Coverage Ratio specified by BASEL 3. Retail deposits are "more valuable" for large banks in that calculation. That means that large national banks will increase competition for retail deposits and reduce reliance on brokered deposits and borrowings. This will likely cause retail deposit rates to go up faster and likely increase the deposit beta of the industry.

Other Considerations:

- **Classify your securities as Available-for Sale under ASC320.**

- **If your CU is not a member of the Federal Home Loan Bank already… go join.**
  - The FHLB is the "lender of choice" for the industry with 90% of all borrowings from the FHLB.

- **If your CU is not a member of the Federal Reserve already… go join.**
  - Once a member immediately obtain access to the new Bank Term Lending Program.

- **Establish a Loan Participation Policy as a means of expanding available contingent liquidity.**
  Two advantages of selling loan participations compared to other sources of contingent liquidity:
  - The "borrowing" is a perfectly matched transaction with zero interest rate risk.
  - The CU never has to pay back the borrowing (your member does it for you as they pay down their loan).

- If you are large enough **explore issuing an Asset-backed Security**. So far there have been 5 Auto ABS issued by credit unions. Much more efficient liquidity than a loan participation.

- **Make sure your Liquidity Policy and Contingency Funding Plan allow for <u>all</u> of the available sources of funds, and that Policy Limits match the legal allowable limits.**

- **If you belong to the FHLB: Have the FHLB analyze your mortgage loan portfolio as collateral for borrowings/advances.** This will then "free up" your marketable securities to be sold if need be).

- **Consider underwriting Negotiable CDs to other CUs and/or public funds as a source of liquidity.**

Nine Ideas:

1. Target market to your members with large balances in their accounts with "CD specials" and other incentives. For example, if they refer a family member who joins the CU you will give them a bonus on their ________________ account.
2. Offer rate bonuses for members that meet certain criteria such as: If you have direct deposit into your checking account, <u>and</u> are signed up for on-line bill pay, <u>and</u> have a debit card and credit card, <u>and</u> you agree to e-statements, then we will give this bonus rate on their _________ account.
3. **Do not raise existing money market rates.** Instead introduce a "new and improved money market account"… and introduce the higher dividend rates on that new tier structure.
4. If you run a CD special, run it at an odd term"(eg: 13-mo, 25-mo, 37-mo).
5. Run a really aggressive rate special… but for new money only!
6. Run an IRA CD special.
7. Track "cannibalization" when you run a CD special. (eg. How much of the total brought in was new money. How much came from maturing certificates. How much moved from non-maturity shares.)
8. Make sure you have a robust mobile banking app and on-line banking platform.
9. **As you increase dividends you must proactively manage your investment portfolio and also raise loan rates.** If cost of funds is going to go up 60+ basis points we need yield on earning assets to also increase.

Summary:

Effective March 2014, NCUA required every credit union to have a Liquidity Policy and to measure, monitor, and manage its liquidity and liquidity risk.

Credit unions over $50 million in assets must have a formal written Contingency Funding Plan. Credit unions over $250 million in assets must also have an established line of credit with the Federal Reserve or the Central Liquidity Facility.

The examiners expect each credit union to have liquidity management processes and procedures in place commensurate with the size and complexity of its balance sheet.

In particular, the examiners expect credit unions to measure and manage liquidity risk:

1. Using cashflow projections
2. Having diversified funding sources
3. Stress testing cashflow forecasts
4. Maintaining a cushion of liquid assets
5. Adopting a formal well-developed Contingency Funding Plan (CFP)

Historical analysis of member behavior will provide the credit union unique, institution-specific metrics for developing reasonable and supportable assumptions.