

**STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**

Bulletin 2005-05-CU

In the matter of:

Liquidity Policy
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**Issued and entered
this 10th day of June 2005
by Linda A. Watters
Commissioner**

This bulletin supersedes Bulletin No. 79-1.

The purpose of this bulletin is to explain the requirement for a liquidity policy and what the policy must contain for safe and sound credit union operation in accordance with Section 342(3)(n) of the Michigan Credit Union Act, 2003 PA 215 as amended, MCL 490.342(3)(n).

To avoid serious threats to liquidity, earnings, and overall safety and soundness, a credit union must carefully plan its cash flow, thoroughly assess the maturity structure of its assets and liabilities, and closely monitor interest rate movements.

The Board of Directors of each state-chartered credit union shall adopt a written liquidity policy that serves member needs without undue reliance on borrowed funds or high-cost deposit or share programs.

The liquidity policy must, at a minimum, address the following issues:

Maturity structure of assets and liabilities

Cash flow projections must anticipate cash needs by estimating loan demand and repayments, share and deposit inflows and withdrawals, operating expenses, and earnings. The maturities of liabilities should be considered in establishing the maturity structure of assets.

Volatility of shares, deposits and liabilities

In determining liquidity needs, the credit union should consider the sources and flow of funds, e.g., shares, deposits, borrowings, promissory notes, and the volatility of these accounts. Local economic and employment conditions will also affect the volatility of liabilities, e.g., strikes, layoffs, etc.

Interest rate spread

Establish a desirable relationship between the interest rates paid on members' deposits and on borrowings (notes payable) and the interest rate earned on loans. Sufficient earnings must be generated to meet operating expenses and to provide a reasonable return to members.

Extent of and purpose for which the credit union will use borrowed funds

State a permissible level of borrowings, in aggregate and by individual lenders, and the purposes for which borrowings will be used. Reverse repurchase agreements shall be considered as borrowings for purposes of this item.

Level and type of liquid reserves necessary to meet credit union needs

Establish liquidity reserves to meet the particular liquidity needs of the credit union. Consider the extent to which the credit union offers revolving or line-of-credit loans, ATMs, share drafts, service centers, Christmas and vacation club accounts, and other products or services which may impact cash flow patterns.

The maximum allowable ratio of loans to member shares and deposits

Establish the maximum allowable ratio of loans to member shares and deposits and an appropriate business plan and controls to define and monitor liquidity risk.

Any questions regarding this bulletin should be directed to:

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/s/

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