# Creating a Contingency Funding Plan: Common Problems and How to Avoid Them

*by Debbie Walker, Director of Regulatory and Compliance, QwickRate*

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QwickRate has led multiple training sessions on the subject of creating a proper contingency funding plan (CFP). Due to our work in this area, financial institutions sometimes ask us to review their CFPs and offer suggestions for improving their plans. During our evaluations, we often find several common problems that minimize the effectiveness of a CFP. Because these issues occur so consistently, we have compiled them in this QwickViews article, along with our comments and recommendations, to serve as a best practice guide for other institutions.

## Problem #1: The risk analysis is not specific enough — the CFP should address different types of crisis events that could affect the credit union's market and members.

A contingency funding plan should be designed to include available funding that the credit union can access in a crisis situation. You should always plan for two types of crisis events to properly analyze potential risk. The first is typically a short-term event that doesn't affect the credit union's level of capitalization, but does require the institution to resort to unused funding resources. The second type of crisis event is usually a worst-case scenario in which the credit union can't tap its normal funding options because of credit or capital constraints. It's important for you to document procedures and resources for addressing milder, short-term events and also major, longer-term crises.

Using a template to create a contingency funding plan may be appropriate for some credit unions. But for the larger, and/or more complex institutions, it's unlikely that a template will be sufficient to meet their needs. Many QwickRate subscribers that we talked with had used generalized contingency funding plans or templates that did not properly address both short-term and worst-case crisis situations. In addition, the plans/templates did not speak to specific risks in the credit unions' local area. Often the resulting CFPs defined general indicators that could preview an adverse event, but failed to describe specific examples or scenarios of crisis events that could potentially affect the credit union's market area and membership. A much better strategy is to review your credit union's potential vulnerabilities, pinpoint any member- or market- specific risk exposure, and detail those vulnerabilities in your CFP.

## Problem #2: The CFP is too "static" — it needs to be reevaluated on a regular basis.

We must stress that a best practice CFP should be dynamic in nature. It's important for your credit union to have an ongoing process for monitoring and measuring the actual funding capacity available from each of your resources at any point in time.

However, in our reviews we find that most plans do not describe the actual availability specific to each funding source. Your credit union should continually evaluate your funding capacity by considering policy limitations, current amounts


### About *the Author:*

Debbie Walker has been with QwickRate since 1988 and leads its ongoing regulatory and compliance efforts. She meets regularly with regulatory agencies and conducts conferences with various state and national field examiners. Debbie's product and market knowledge, combined with her ongoing regulatory research, provides credit unions with a valuable resource to help them successfully implement a national market CD funding plan. Debbie is a graduate of Kennesaw State University and holds a B.B.A. in Finance degree.

outstanding, and the credit union's ability, if necessary, to secure additional funding with available collateral. These steps require you to revisit your CFP frequently. That will mean a little more work, but it will provide a much clearer understanding of your actual contingent funding capacity.

### Problem #3: The funding sources mentioned in the CFP are not readily available — you should only include sources that you know you can access without delay.

The purpose of a contingency funding plan is to ensure that you have available funding sources that have been checked, tested and confirmed to be ready when needed.

In a crisis situation, your time and resources will be strapped. It's extremely unlikely that you'll be in a position to invest the necessary capital to establish a relationship with a corporate credit union, or to directly borrow funds that require extensive evaluation and review before they're available (i.e., Central Liquidity Facility). If not already established, these types of sources probably won't be available to you in a crisis event, and shouldn't be considered a contingent source of funding. Ask yourself, "In a worst-case crisis scenario, will I actually be able to allocate the time, money and staff to establish this funding resource?" If in doubt, omit it from your CFP.

One of the biggest concerns we hear from examiners is about credit unions that reference the Central Liquidity Facility (CLF) without being established with the program. Understand that an approval process is required before obtaining a CLF advance. If you want to tap this source of funding, your credit union must either be a direct member of the CLF or have access to the program through a membership with a corporate credit union. You don't want to attempt to establish these memberships in a crisis situation. Be proactive. The CLF program is less credit sensitive than other resources, and can be a good funding option during crisis situations. Setting up this borrowing capacity doesn't obligate you to use it, but it will be available if needed.

### Problem #4: The CFP ignores reliable sources of funding — consider listing service deposits as a potential funding strategy.

A listing service can provide a reliable source of supplemental funding that may be utilized in a crisis environment. According to NCUA Regulations, Section 701.32, a credit union may take in nonmember deposits from other credit unions in an amount up to 20% of its total shares. A listing service such as QwickRate can provide inherent controls to help federally insured credit unions comply with this regulation, since QwickRate ensures that only its investing credit union subscribers will have access to view your posted rates.

QwickRate provides you with an abundance of opportunities to establish relationships with other credit unions. You'll find that QwickRate investors are less rate sensitive than most, due to the fact that they're primarily motivated by insurance coverage. Also, you should note that in a crisis situation, your credit union's ability to raise funds locally may be hindered. Because the QwickRate

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***QwickRate:***

QwickRate is the premier, online marketplace for non-brokered funds. We provide credit unions with a cost-effective approach for gaining access to a nationwide CD market for investing and funding. Our automated tools put credit unions in control to get the best rates for their institutions and more efficiently manage their portfolios. With no transaction fees and unlimited support and regulatory guidance, our subscribers rely on QwickRate as a fast and efficient source to better manage liquidity. For more information, contact us at 800.285.8626 or www.qwickrate.com.

marketplace extends beyond your local market, potentially negative local press should not affect your ability to successfully attract deposits.

Your QwickRate subscription allows you to utilize both the issuing and investing components of the non-brokered CD marketplace. It's important to note that if you plan to incorporate QwickRate deposits into your contingency funding plan, you'll need to contact us for additional training on the issuing side of the marketplace. And, as with any source, you'll also want to perform operational testing – so you'll be ready to go if, or when, a funding need occurs. Regulators will look for proof that you have a current subscription agreement, and that you've properly tested your access to the marketplace. If you're not already a QwickRate subscriber, it's easy to get started. Just contact us to establish a relationship.

### Problem #5: The CFP relies too heavily on Corporate credit union funding — think about additional funding resources beyond the Corporate framework.

Relying solely on a Corporate credit union for supplemental funding minimizes your organization's options and increases risk of becoming too dependent on one source. What happens if your Corporate credit union becomes stressed? It's not unthinkable, as the US Central meltdown has proved. Guard against concentrating a large portion of your contingency funding with one correspondent. Diversify your sources, as well as your funding types.

### Problem #6: The credit union makes vague and general assumptions that can't be quantified — prepare for atypical events and back up your plan with hard facts.

Our review of contingency funding plans uncovers many examples of institutions incorporating ambiguous, unsubstantiated statements such as, "We believe we will always have enough collateral available," and "We typically have an additional $XXX,XXX in securities available if needed." A crisis is never typical. It generally places the credit union in a situation that people "never believed would happen". Your quantifications regarding available funding, and the security to support that funding, should be as close to absolute as possible. It's never a good idea to assume the best when planning for a potential crisis.

### In summary…

The financial world has changed — a dynamic and proactive contingency funding plan is now essential for assuring ongoing liquidity and risk management. Putting a customized plan in place can help you better manage your institution and its funding and protect the credit union moving forward. Furthermore, it enables you to uncover potential issues early and provides examiners with confidence that your institution is prepared for any unforeseen event. Your credit union should continually evaluate the capacity and availability of its funding sources to meet future requirements. QwickRate's marketplace is a valuable primary and contingent liquidity source for financial institutions. If we can help your credit union in any way, just give us a call.

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*Need additional contingency funding sources? QwickRate can help. Just give us a call at* ***800.285.8626****.*