Liquidity Management Program

EXAMINATION OBJECTIVES

To determine the adequacy and effectiveness of the association's liquidity policies, liquidity management strategies, and contingency funding plans.

To determine management's ability to measure, monitor, and control the association's liquidity position.

To determine if the association's officers and employees are in compliance with established policies and procedures regarding liquidity management.

To determine the adequacy of the association's liquidity.

To determine the availability of assets readily convertible to cash without undue loss.

To determine access to money markets and other sources of funding.

To determine diversification of funding sources.

To determine reliance on short-term, volatile sources of funds, including borrowings and brokered deposits.

To determine the trend and stability of deposits.

To summarize findings and to initiate corrective action as needed.

EXAMINATION PROCEDURES

LEVEL I

WKP. REF.

1. Review scoping materials applicable to this program. Review liquidity and funding reports, cash flow forecasts, and new borrowing contracts and indentures. Review liquidity ratios.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

WKP. REF.

2. Determine if the savings association corrected previously identified liquidity-related problems or weaknesses. Review:

- Prior examination report comments and exceptions.
- Independent audit exceptions.
- Any enforcement or supervisory actions and directives.

3. Obtain and review the adequacy of written policies, procedures, business strategies, and contingency plans governing liquidity management.

4. Determine if the association's officers and employees are operating in compliance with established policies and procedures regarding liquidity management.

5. Review the association's internal reports applicable to liquidity management. Determine whether the reports provide the information needed to effectively measure and control the association's liquidity position.

6. Determine the adequacy of liquidity in relation to current and expected cash flow needs:

- Measure the availability of assets readily convertible to cash without undue loss.
- Determine the level of access to, and diversification of, funding sources.
- Determine the degree of reliance on short-term, volatile sources of funds, including wholesale borrowings and brokered deposits.
- Determine the ability of the association to fund outstanding commitments.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

WKP. REF.

- Determine the degree of reliance on securitizations.

7. Review the level of the association's dependence on Federal Home Loan Bank (FHLB) borrowings and determine the amount of its unused borrowing capacity with the FHLB. Determine the amount of unpledged, eligible collateral that is available to secure FHLB borrowing.

8. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

LEVEL II

1. Review the contractual terms of borrowing contracts and indentures to assess any liquidity implications. Determine whether the contracts and indentures contain options and other option-like features that could have adverse liquidity implications.

2. Determine the trend and stability of deposits.

3. Determine the ability of the association to securitize and sell certain pools of assets.

4. Review the adequacy of the association's pipeline report for fixed-rate commitments and assess the adequacy of liquidity.

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	

WKP. REF.

5. Determine the association's contingency plans for short-, intermediate-, and long-term liquidity needs. Review wehther the association has adequate diversification in its potential sources of funds it may use.

6. Ensure that your review meets the Objectives of this Handbook Section. Present on the appropriate work papers and report pages your findings, conclusions, and recommendations for corrective measures.

LEVEL III

1. Discuss with the EIC additional procedures that you are to do when work in Level II is insufficient to draw conclusions on the adequacy of liquidity management performance.

2. Estimate the amount of cash that the association could raise by selling unpledged marketable securities. Estimate the unrealized gain or loss on those securities as a percentage of earnings and capital.

3. Review cash budget projections for the next year under assumptions of stable, declining, and increasing interest rates.

4. Estimate the effect of a ten percent deposit run on the association. Estimate the effect of the loss of access to the repurchase and dollar roll markets.

EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

Exam Date:	
Prepared By:	
Reviewed By:	
Docket #:	