NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA

DATE: October 2001 **LETTER NO.:** 01-CU-19

TO: Federally Insured Credit Unions

SUBJ: Managing Share Inflows in Uncertain Times

REF: (1) Letter to Credit Unions 00-CU-13
(2) Letter to Credit Unions 01-CU-08

DEAR BOARD OF DIRECTORS:

In the aftermath of recent tragic events in New York and Washington, D.C., some credit unions may experience increased cash inflows as members move funds to insured credit union accounts.

While Letter No. 01-CU-08 focused on highly rate sensitive and volatile funding sources, a situation now exists where large atypical inflows may potentially flow into traditional “core” share accounts such as share drafts and regular shares. These shares may not necessarily be rate sensitive, however, it is important to understand that this may only be of a temporary nature.

For example, it may be risky to use these potentially volatile shares to purchase long-term investments. Despite the already low interest rate environment, you may also need to consider adjusting share dividends to manage your net interest margin (yield on earning assets less cost of funds) as interest rates and yields on assets continue to decline.

I encourage you to:

- Consider the uncertainty of the share side of the balance sheet when making asset and pricing decisions;

- Consider potential interest rate and maturity mismatches;

- Ensure that your contingency funding plans provide reasonable alternative funding strategies to address the risk these shares may flow out as quickly as they flowed in; and

- Review NCUA Letter to Credit Unions No. 01-CU-08, which discusses liquidity risk management principles including prudent pricing, funds management policies, reasonable control structures, and contingency funding plans.

Summary. This unexpected inflow of funds, coupled with the effects of slower economic growth, may result in the dilution of earnings and capital in the short term. Fortunately, due to extended periods of capital growth, most credit unions have accumulated above average levels of net worth and are well positioned to handle potential financial impacts. Credit unions should exercise diligent management practices as they analyze available options and objectives in managing potential increased inflow of funds.

If you have any questions on liquidity issues, please contact your examiner, NCUA regional office, or, in the case of state-chartered credit unions, your state supervisory authority.

Sincerely,

/s/

Dennis Dollar
Chairman