4 ‘Glass Half Full’ Ways to Manage Liquidity

Rather than emptying the glass to create liquidity from asset sales, create liquidity by filling it from additional funding sources.

By **Jeremy Colvin** | May 21, 2018

Traditionally, credit union liquidity management has relied upon selling assets and shrinking the balance sheet. Recently, a well-known consulting firm published an article that recommended this strategy, which caught my eye.

This conventional wisdom begs a simple question: Why reduce the earnings these assets produce? After all, considerable time and effort was spent to create a robust pipeline of loans or securities. Why shut it down? Member loans have obvious benefits when kept on the balance sheet.

Think about it. Why would you sell fixed income assets in a rising rate environment?

Another way to manage liquidity is by looking to the liability side of the balance sheet. Think of liquidity management as a glass that is half full. Rather than emptying the glass to create liquidity from asset sales (thus reducing interest income), you should create liquidity by filling the glass from additional funding sources. Instead of shrinking the balance sheet, expand it and continue to grow.

Low Income Designated Credit Unions have the most options available to increase liquidity. However, all credit unions have better options than defensively reacting like shrinking violets.

So, what are these liquidity sources on the funding side?

1. Non-Member Deposits

Available for LICUs, these deposits come in the form of DTC CDs (share certificates) and the Non-Member Funding Program.

DTC CD issuance creates liquidity with durations ranging from six months to 15 years, or any maturity in between. It does not require collateral, and rates are competitive or better than other sources of liquidity. Also, there is only one interest payment to DTC, not hundreds of interest payments to make.

The Non-Member Funding Program is a source of short-term funding in the form of non-member deposits, which provides access to the $3 trillion institutional cash market. This short-term funding is aggregated through a single custodian and uses the credit union’s documents to set up the account. There is no collateral requirement. You control the amount you need or do not need, with no penalty assessed on the amounts you return.

There are no set-up fees or ongoing maintenance fees for either of these liquidity options.

2. Secondary Capital

Another option for LICUs, secondary capital provides the fuel that allows credit unions to maintain and grow liquidity and assets.

3. Federal Home Loan Bank Advances

The FHLB is a fantastic place for any credit union, regardless of LICU status, to generate liquidity. The FHLB offers advances designed to help facilitate your balance sheet strategies and satisfy liquidity needs. They can be customized by size, term, settlement date, amortization schedule and more. Advances are only available to FHLB members, but FHLB membership is well worth this option. Contact your FHLB representative for full details.

4. Credit Union CD Networks

Because credit unions are cooperatives, you have a unique opportunity to connect with other credit unions to assist each other with your liquidity needs.

Any of these options, used alone or in combination, will allow you to maintain and grow your interest income. So, before you give away that hard-earned revenue, fill that glass! Keep your momentum moving forward, not backward.

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