
Funds Management Policy Guidelines

A comprehensive Funds Management Policy should:

1. Establish a Funds Management Committee to meet at least monthly. The policy should define the responsibilities of the committee, how the committee will obtain input from the Board and how the committee results will be reported back to the Board. The responsibilities of the Board should include the determination of how to best allocate the bank's available funding sources among various asset categories after reviewing:
 - (a) the bank's liquidity position;
 - (b) outstanding commitments (loan commitments and letters of credit); and
 - (c) the bank's rate-sensitivity position and net interest margin.
2. Define and establish record keeping systems on deposits to review:
 - (a) the volume of stable or core deposits and volatile deposits;
 - (b) the maturity distribution of time deposits;
 - (c) the rates being paid on each type of deposit; and
 - (d) caps on large deposits, public funds, and out-of-area deposits.
3. Provide a method of computing the bank's cost of funds.
4. Provide a method of loan pricing, which would include cost of funds, overhead and administrative costs, and desired profits. Determine when to use fixed rates and when to use floating rates.
5. In conjunction with the bank's Investment Policy, determine which types of investments are permitted, determine the desired mix among those investments, determine the maturity distribution and what amount of funds will be available, and review pledging requirements.
6. In conjunction with the bank's Loan Policy, determine which type of loans are permitted and desirable, the desired mix among different types of loans, the volume of loans compared to total deposits and total loans, upcoming loan maturities, and loan commitments outstanding.
7. Recognize the need to offset a substantial portion of the bank's volatile deposits and borrowings with liquid, short-term assets.
8. State how funds derived from negotiable rate CD's and borrowings may be invested. Along these lines, a maximum large liability dependency ratio (the percentage of loans plus other long term earning assets that may be funded by negotiable rate CD's and borrowings) should be established.
9. Include contingency plans for meeting large, unexpected withdrawals, such as:
 - (a) curtailing lending activity with priority given to specific types of credit; and
 - (b) establishing lines of credit with other financial institutions which will advance funds on short notice

Funds Management Policy Guidelines (Continued)

10. Define and establish record keeping systems to track the volume of rate-sensitive assets and rate-sensitive liabilities. Rate-sensitive assets and liabilities are generally defined as those that either mature or can be repriced during a specified time period (90 days, 180 days, 1 year).
11. Recognize the need to offset volumes and maturities of rate-sensitive liabilities with equal or similar amounts of quality assets, which mature or can be rate-adjusted at about the same time. Along these lines, a range of acceptable ratios for rate-sensitive assets to rate-sensitive liabilities should be made a part of the policy to protect the bank against excessive interest rate risk and ensure that an adequate net interest margin is maintained.
12. Incorporate a Borrowing Policy that addresses:
 - (a) when or under what conditions the bank may borrow;
 - (b) maximum amounts that may be borrowed;
 - (c) a list of acceptable creditors; and
 - (d) which officers are authorized to borrow.
13. Provide for tax planning.

The bank's Funds Management Policy needs to be closely linked to its Loan and Investment Policies and, of course, needs to be supported by balance sheet projections, income budgets, and adequate record keeping systems to track liquidity and rate sensitivity relationships.