

Contingent Funding Plans (CFP)

The leading document on CFP is currently the FDIC's FIL-84-2008. The guidance was issued to highlight the importance of liquidity risk management at banks, especially during crisis situations. It says management must anticipate stress situations, model those stress events, define actionable plans and assign responsibility.

For a good CFP you actually need three documents: policy/plan document; contingent funding schedule; and pro-forma modeling. Within those three documents, be sure to cover all these areas to comply with the CFP examination:

1. Identify types of stress events

- Change in credit rating
- Deterioration in asset quality
- Becoming less than Well Capitalized
- Unplanned asset growth
- Loss of funding sources
- Operating losses
- Negative press

2. Define responsibility and authority so that all personnel understand their role during normal and crisis situations?

- What responsibilities are the Board's?
- What responsibilities are the CEO's?
- What responsibilities are the CFO's?

3. Have plans in place that incorporate practical solutions that can be adopted quickly to address contingencies

- Ongoing action plans
- Crisis action plans

4. Detail how management will monitor and respond to liquidity events.

- Liquidity Triggers
- Pro-forma cash flow analysis
- Pro-forma balance sheet analysis

5. Assess the potential of falling below "well capitalized"

- Affect on using brokered deposits
- Affect on accessing borrowings
- Other restrictions that might apply

6. Identify contingency funding sources, to include back-up facilities, lines of credit, and conditions.

- Prepare schedule of sources
- Identify type, rate, collateral requirement, and use.