DCU BULLETIN

Division of Credit Unions

Washington State Department of Financial Institutions

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Year 2000 (Y2K) Liquidity/Currency and Communication Plans

DCU's Y2K Update #9

Credit unions must consider Y2K contingencies and plan to have adequate liquidity and currency through the first quarter of 2000. Your liquidity/currency demands during this time period will also be affected by your communication with your members on Y2K. Credit unions should consider each of these three elements (liquidity, currency, and communication) in their written Y2K-related plans.

This Bulletin is intended to provide guidance as you develop your liquidity/currency and communication plans. The Board of Directors of your credit union should approve your plans and any revisions to them. The Board should review your plans on a regular basis through the first quarter of 2000.

Background Information

While the Federal Reserve (Fed) believes that there will be no serious problems with financial institutions or ATMs being able to dispense currency in connection with Y2K, the Fed is planning to have additional currency available as a precautionary measure. The Fed has informally estimated that each of the 70 million households in the U.S. may withdraw an average of $462 in currency to purchase such necessities as gas and food.

There is approximately $460 billion of currency in circulation at the present time. The Fed has announced that it will increase its $150 billion currency reserve by $50 billion by the fourth quarter of 1999.

In addition, the Fed has the option to implement the following procedures:

- Speed up the turnaround time for returning currency to the banking system by adding additional workers and shifts at the twelve Federal Reserve Banks.
- Order the Bureau of Engraving to print $20 and $50 bills instead of $1, $5, and $10 bills.
- Allow worn currency to remain in circulation longer than normal.

This process is not new for the Fed. It has increased currency reserves in the past on a regional or local basis, such as when a natural disaster has forced citizens to temporarily conduct personal business with currency.

Communication

Member confidence is important to your credit union. We expect each credit union to promote member confidence through on-going communication regarding the Y2K issue.

Credit Union Action

By March 1, 1999, each credit union should (if it has not already):

1. Adopt a communication plan which addresses, at a minimum: on-going communication with members regarding Y2K, and identification and training of staff to handle member and media inquiries on Y2K. You should consider the potential for litigation based upon your representations.
2. Adopt a liquidity/currency plan. Your credit union should develop and document a variety of Y2K withdrawal estimates (at least a high, low, and most likely) based upon assumptions that are reasonable for your credit union. You should adjust your liquidity/currency plan as appropriate if 1999 withdrawals are significantly different than your Y2K estimate. (The frequency of ATM servicing in late 1999 should also be re-assessed, as necessary.)
3. Arrange adequate liquid assets and borrowing capacity to meet the anticipated withdrawals. At the least, each credit union should arrange an adequate collateralized or guaranteed line of borrowing through a corporate, the Federal Reserve Bank, or the Federal Home Loan Bank.
4. Arrange for access to adequate amounts of currency under your Y2K withdrawal estimate.

Failure to take these actions may be considered an unsafe and unsound practice.

Credit unions should keep the Division informed should media attention or member withdrawals exert unreasonable pressures on the credit union.

We will be reviewing each credit union’s liquidity/currency and communication plans as part of our exam process. Our review will include the items noted above.

Estimating Liquidity/Currency Needs

Unfortunately, no one really knows how much currency will be needed to cover withdrawals because of the Y2K issue. The currency demand will depend on how the public reacts to Y2K.

However, we expect each credit union to evaluate the potential impact of Y2K-related withdrawals on the operation of the credit union. The basis for this evaluation is an estimate of the aggregate level of withdrawals related to Y2K, over and above normal liquidity/currency levels.

One approach to develop an aggregate is to multiply the estimated number of members who will withdraw cash because of Y2K by the estimated average amount per withdrawal. For example, what would your liquidity/currency needs be if 75% of your membership withdrew an extra $500 in December 1999? Another approach is to ball-park the needed cash as a multiple of typical liquidity/currency levels.

Your analysis may need to be a good deal more complex than the above approaches. It should also estimate the timeframe over which you believe the withdrawals may occur. Depending upon the Y2K disruption, withdrawals may continue into 2000.

Some observers have suggested the following theories in regard to withdrawal behavior:

- The lower the level of member confidence, the higher the level of withdrawals.
- The lower the level of member loyalty, the higher the level of withdrawals. For example, larger community FOM credit unions may experience higher levels of withdrawal than smaller occupational or associational credit unions.
- Credit unions with proportionally higher average deposit balances may experience lower levels of cash withdrawals.
- Credit unions with proportionally higher levels of IRA and CD balances may experience lower levels of cash withdrawals.
- Credit unions with a higher share draft mix may experience higher levels of withdrawals.
- Members that do not keep excess balances in share draft accounts will look to savings or borrowings to fulfill their cash needs.

Each credit union must determine for itself how it believes withdrawal behavior will occur based on its membership and share mix.

Resources

The following contacts may assist you in establishing borrowing lines at the respective institutions:

Washington Corporate:	1-800-562-1012	Melody Muncy	Chief Operations Officer
Federal Reserve Bank:	(415) 974-2973	Ken Parker	Discount Window
	(206) 343-3682	Jeff Lewis	Account Manager
Federal Home Loan Bank:	1-800 340-3452		Credit Department