SOUTH DAKOTA
DIVISION OF BANKING

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Date: NOVEMBER 19, 2008

TO: CHIEF EXECUTIVE OFFICER
ALL STATE CHARTERED BANKS

FROM: ROGER NOVOTNY
DIRECTOR OF BANKING

RE: LIQUIDITY GUIDANCE 2008

Liquidity Risk has garnered more attention with the recent national economic turmoil centered in the financial industry. Due to the increased use of potentially volatile non-core funding options such as the FHLB advances, Brokered Deposits, and Quick Rate (internet based) Certificates of Deposit, it is imperative that Boards of Directors and management teams become more involved in understanding their potential liquidity risk. In response, the Division is requesting that bank management at a minimum review their institutions identification, measurement, and monitoring of liquidity risk. At a minimum, management should develop a ***Liquidity Risk Management Framework*** with the following considerations:

- Clearly articulate a liquidity risk tolerance that is appropriate for its business strategy.
- A dynamic liquidity analysis, which provides a view of an institutions sources and uses beyond a single point-in-time. It should analysis daily, weekly, 30 day, 60 day, and 90 day periods.
- Maturity distribution of certificates of deposits – both brokered and retail
- Rate analysis and retention estimates – CD's, MMDA, Savings
- Securities portfolio composition and volume of unpledged securities
- Term and nature of FHLB lines of credit
- Federal Reserve line of credit
- Term and nature of other borrowing lines
- Unfunded loan commitments – discretionary vs. contractual
- Large corporate / public deposit relationships
- Excess deposit insurance (private) coverage
- Daily cash letter commitment
- Loan payment cash flows

In addition, Boards of Directors should establish a ***Contingency Funding Plan (CFP)*** that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. A CFP should outline procedures to manage a range of stress environments (such as deteriorating credit quality or partial deposit runoffs), establish clear lines of responsibility, include clear invocation and escalation procedures and be regularly tested and updated to ensure that it is operationally robust.

Any questions regarding this *Guidance* may be directed to your institution's Contact Examiner at the Division of Banking (605-773-3421).