



Informal Funding Checklist

FUNDING RISKS TO CONSIDER

According to the NCUA, Credit Unions may purchase otherwise impermissible investments such as life insurance, annuities or mutual funds to offset the costs associated with providing benefit plans and other employee benefits. This checklist will ensure that management and the Board of Directors follow the specific guidelines and do what is in the best interest of the Credit Union.

BOARD OVERSIGHT

Date Completed:

One of the responsibilities of the Board of Directors is to ensure that the purchase remains consistent with the investment guidelines adopted by the Credit Union.

- » Effective senior management and Board oversight.
 - The Board remains ultimately responsible for purchases, even though decision-making authority may be delegated to senior management.
- » Comprehensive policies and procedures including appropriate limits.
- » A compliance manual that will contain the analysis and documentation of the decisions made.
- » An ongoing system of risk management.

RISK ANALYSIS

Date Completed:

There are seven risks commonly associated with the purchase. The Credit Union in conjunction with its plan administrator and consultant should analyze and assess the plan impact of these risks on an annual basis.

LIQUIDITY RISK

Risk to earnings or capital from a financial institution's inability to meet obligations without incurring unacceptable losses.

- » The Credit Union recognizes the illiquid nature of the product and ensures it has the long-term financial flexibility to hold the asset in accordance with expected use.

TRANSACTION RISK

Risk to earnings or capital caused by the Credit Union's failure to fully understand and properly implement an informal funding investment transaction.

- » Credit Union management should have a thorough understanding of how the products work and how the interest crediting rate, mortality costs and other expenses affect product performance.
- » Management must thoroughly understand the accounting.



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RISK ANALYSIS *(continued)*

<input type="checkbox"/>	<p>REPUTATION RISK</p> <p>Risk to earnings and capital arising from negative publicity regarding the Credit Union's business practices.</p> <ul style="list-style-type: none">» Document informed consent from insured employees.» Avoid the perception that the Credit Union acquired material gains from the death benefits of employees.» Avoid insuring lower-level employees with high death benefits.
<input type="checkbox"/>	<p>CREDIT RISK</p> <p>Risk to earnings and capital if the product fails to perform as expected.</p> <ul style="list-style-type: none">» Evaluate carriers' overall financial condition annually including:<ul style="list-style-type: none">• Carriers' ability to pay death benefits as promised.• Carriers' ability to return the value reflected on the Credit Union's balance sheet.» The Credit Union should review the guidelines on concentration.» Diversification – choosing several carriers.
<input type="checkbox"/>	<p>INTEREST RATE RISK</p> <p>Risk to earnings and capital from movement in interest rates.</p> <ul style="list-style-type: none">» Credit Union management understands the interest rate crediting methodology of each product purchased.» Establish a system that allows Credit Union management to respond to interest rate fluctuations.
<input type="checkbox"/>	<p>COMPLIANCE RISK</p> <p>Risk to earnings and capital due to violations of laws, rules, regulations, prescribed practices or ethical standards.</p> <ul style="list-style-type: none">» Failure to comply could result in fines and penalties.» Must comply with:<ul style="list-style-type: none">• State insurable interest laws.• Standards for safety and soundness.• Legal authority to purchase the investment.• State and federal concentration limits.
<input type="checkbox"/>	<p>STRATEGIC RISK</p> <p>Risk to earnings or capital arising from adverse business decisions, improper implementation of decision or lack of responsiveness to industry changes.</p> <ul style="list-style-type: none">» Compatibility of the Credit Union's strategic goals.» Resources to carry out the goals – communication channels, operating systems, delivery networks and monitoring systems.