



Credit Union National Association

# ***CUNA Issue Summary***

## **CENTRAL LIQUIDITY FACILITY (CLF)**

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**ISSUE:** Congress established the Central Liquidity Facility (CLF) in 1978 and is managed by the National Credit Union Administration (NCUA). The role of the CLF is back-up liquidity provider (whereas the role of the Federal Reserve System's discount window is lender of last resort). In passing the *Monetary Control Act of 1980*, Congress recognized the CLF as a special industry lender – a back-up liquidity provider – distinct from the discount window. Even though approximately 400 natural person credit unions have access to the Fed's discount window, the CLF continues to serve as a key source of back-up liquidity for credit unions.

The CLF's lending activities are funded by its capital, subscriptions from credit unions, and by borrowing from outside sources like the Federal Financing Bank. The *Federal Credit Union Act* imposed a limit on the CLF's borrowing authority – twelve times the CLF's subscribed stock and retained earnings. Congress also determines CLF's operating expenses, even though the funding comes from CLF's earned income. Credit unions that choose to become members of the CLF are required to purchase stock equal to one-half of one percent of their paid-in and unimpaired capital and surplus. One-half of the subscription in stock is transferred to the CLF and the other half remains on call.

Credit unions may obtain a loan from the CLF either as regular, direct members of the CLF or through an agent-member, which is a corporate credit union. A direct natural person credit union member must apply to the CLF and subscribe to stock in the CLF. This process can be initiated by contacting the credit union's NCUA regional office or the CLF directly. Credit unions may also obtain CLF loans through their corporate credit union. Corporate credit unions act as agents of the CLF and facilitate CLF lending for natural person credit unions. Credit unions that work through their corporate to obtain a CLF loan are not required to subscribe to the CLF's stock as the corporate has already done that.

Credit unions by law may not use CLF funds to expand lending programs. Appropriate circumstances for seeking CLF advances may include: an unexpected loss in shares, an unexpected surge of credit demands, or funding needs that are due to circumstances beyond the credit union's control. CLF advances may be obtained for short-term credit adjustments for up to 90 days; seasonal credit advances (that may arise from movement in share and deposit accounts) for up to 270 days; and protracted credit adjustments for periods of longer than 270 days in the "event of national, regional or local difficulties." Each advance must be secured by a first priority security interest in assets of the borrowing credit union that have a net book value of at least 110% of the amounts due under the advance.

There are no specific limits on how much or how often a credit union may borrow from the CLF. However, NCUA scrutinizes all applications carefully and consider credit unions' needs and creditworthiness thoroughly. This includes a review of cash management policies and planning, expense ratios, net worth, history of previous advances, and all other relevant information. Loans over \$10 million or with a maturity of more than 2 years must be approved by the NCUA .

In 1981, Congress imposed a \$600 million cap on CLF. Congress increased the CLF's borrowing authority to more than \$21 billion during Y2K to provide assurance during the millennium date change; however, in FY2001-2008 the cap was been maintained at \$1.5 billion.

**CUNA POSITION:** CUNA has had a long-standing policy of supporting removal of the cap on CLF's borrowing authority. Credit unions operate under a three-tiered approach for their liquidity needs. Credit unions can access the CLF, as a back-up liquidity provider, when corporate credit unions and other correspondent funding is unavailable. Membership is voluntary and open to all credit unions that purchase a prescribed amount of CLF stock. There are two types of membership, regular (natural person credit unions) and agent (corporate credit unions).

The American financial system operates on confidence and credit unions are no different than banks in this regard. The imposition of an unreasonably low borrowing cap severely restricts the CLF and would likely prevent it from functioning as intended in even a moderate liquidity strain.

**STATUS/OUTLOOK:** On July 16, 2009, the House of Representatives passed the *Financial Services and General Government Appropriations Act* for fiscal year 2010. It sets the loan limitation for the CLF to its statutory cap of about \$40 billion. On July 9, 2009, the Senate Appropriations Committee passed S. 1432, its version of the bill, with the same CLF language. The Senate is expected to vote on S. 1432 in mid-September. House Financial Services Committee Chairman Barney Frank (D-MA) has asked Federal Reserve Chairman Ben Bernanke to support permanently lifting the CLF cap.

The CLF has recently been tasked by NCUA to mitigate the effects of the housing crisis on corporate credit unions, natural person credit unions, and individual credit union members. On November 18, 2008, NCUA Chairman Michael Fryzel unveiled an initiative aimed at assisting credit union members who were experiencing mortgage-related financial difficulties to preserve their homeownership. The program, the Credit Union Homeowners Affordability Relief Program (CU HARP), was designed to direct the CLF to work with credit unions and their members in temporarily lowering monthly mortgage payments. The CLF would provide credit unions with \$2 billion borrowed from the Department of Treasury at lower rates than otherwise available through private sources. In turn, credit unions would pass the entire rate reduction to struggling low and moderate- income borrowers. The credit union would also match the rate break, doubling the benefit to distressed mortgagees.

On December 9, 2008, Chairman Fryzel provided additional details on CU HARP, as well as another new NCUA program called the Credit Union System Investment Program (CU SIP). CU SIP was designed to complement CU HARP by enabling the CLF to lend to credit unions to invest in NCUSIF guaranteed notes, the proceeds of which would be used to retire external system debt. The program was designed to free collateral pledged by corporate credit unions and thereby provide increased borrowing capacity. It would be funded through June of 2009.

The NCUA provided a \$1 billion capital injection into US Central on January 28, 2009. In addition, the regulator guaranteed uninsured shares at all corporate credit unions through February of 2009 and established a voluntary guarantee program for uninsured shares of all corporate credit union through December 31, 2010. In order to fund these actions, the federal regulator declared a premium assessment to restore the NCUSIF equity ratio to 1.30 percent, to be collected in 2009.

Corporate credit unions have not been immune to the effects of the global economic conditions. Following their actions, NCUA stated, “the corporate credit union system is now facing unprecedented strains on its liquidity and capital due to credit market disruptions and the current economic climate.” The corporate system is experiencing a strain on liquidity due to approximately \$64 billion held in mortgage and asset-backed securities for which the market is essentially frozen. Nearly 80 percent of the securities held in the corporate credit union system were highly rated, but a portion of the securities were downgraded below investment grade due to the underlying collateral performance. As of November 30, 2008, corporate credit unions reported approximately \$18 billion in unrealized losses on securities. NCUA’s action was intended to add stability to and strengthen corporate credit unions by utilizing a three-pronged approach designed to: maintain liquidity, strengthen capital and restructure the corporate system.

These actions by NCUA were followed by the regulator putting US Central and Western Corporate (WesCorp) into conservatorship on March 20, 2009. This action was taken to protect natural person credit union deposits and the interest of the National Credit Union Share Insurance Fund (NCUSIF). Service will continue uninterrupted at both entities and members may make deposits and access funds. US Central has approximately \$34 billion in assets and 26 natural person corporate credit union members. WesCorp has \$23 billion in assets and approximately 1,100 natural person credit union members. The member accounts of both credit unions are guaranteed under provisions of the previously announced NCUA Share Guarantee Program, through December 31, 2010. Because of the nature of what they do, these corporate credit unions operate in the capital markets and hold highly rated, investment grade securities. But like so many others in those markets, they have seen the value of their investments decline in the current economic downturn, resulting in some actual losses.

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**RELATED DOCUMENTS:**

[May 19, 2009: Letter from CUNA President and CEO Dan Mica to House Financial Services and General Government Subcommittee Chairman Jose Serrano \(D-NY\) and Ranking Member Jo Ann Emerson \(R-MO\) in support of NCUA's Appropriations Request for the Central Liquidity Facility and the Community Development Revolving Loan Program](#)

[February 20, 2009: Letter from CUNA President and CEO Dan Mica to House Appropriations Committee Chairman David Obey \(D-WI\) and Ranking Member Jerry Lewis \(R-CA\) regarding the Central Liquidity Facility](#)

[February 20, 2009: Letter from CUNA President and CEO Dan Mica to House Appropriations Committee Subcommittee on Financial Services Chairman Jose Serrano \(D-NY\) and Ranking Member Jo Ann Emerson \(R-MO\) regarding the Central Liquidity Facility](#)

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