

Enhancements to Central Liquidity Facility Membership and Borrowing Authority

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: April 2020 **LETTER NO:** 20-CU-08

TO: Federally Insured Credit Unions

SUBJ: Enhancements to Central Liquidity Facility Membership and
Borrowing Authority

Dear Boards of Directors and Chief Executive Officers:

This letter provides vital information about key changes to the NCUA's Central Liquidity Facility (CLF). Credit unions have improved access to the CLF because of the [Coronavirus Aid, Relief, and Economic Security Act](#) (CARES Act) signed into law on March 27, 2020, and regulatory amendments that will be effective upon publication in the *Federal Register*.

The COVID-19 pandemic has created uncertainty for credit unions and their members. Liquidity, like capital, is a pillar of strength upon which the safety and soundness of the credit union system rests. The NCUA is implementing initiatives that will provide greater access to liquidity so credit union operations can remain uninterrupted during this rapidly evolving crisis. While we hope for the best outcome, we must prepare for the possibility that the CLF will be a vital resource to help credit unions address the impact of the COVID-19 pandemic. **The NCUA encourages credit unions that are not members of the CLF to join as soon as possible, either as regular members or through an agent member.**

The CLF enhancements described in this letter provide significant liquidity support to the entire credit union system as it addresses the impact of the COVID-19 pandemic. The CLF was an essential element of the NCUA's work during the last financial crisis, and benefited the credit union system as a whole. A proven solution for stabilizing liquidity throughout the credit union community, the CLF provides an additional liquidity source for the National Credit Union Share Insurance Fund (Share Insurance Fund), which translates to a stronger credit union system. We encourage all credit unions, natural person and corporates alike, to consider this important opportunity to join the CLF and bolster the system's access to liquidity. By working together, credit unions can help ensure the credit union system has access to sufficient liquidity.

Legislative Changes to the CLF

The CARES Act made several temporary, but substantive changes to Title III of the Federal Credit Union Act, Central Liquidity Facility that will sunset on December 31, 2020.

First, the CARES Act considerably increased the CLF's borrowing capacity.¹ Before the CARES Act was enacted into law, the CLF had the authority to borrow provided its obligations do not exceed twelve times the subscribed capital stock and surplus of the CLF (that is, the sum of its retained earnings and capital stock).² The CARES Act temporarily increases the multiplier from twelve to sixteen, meaning that, for every \$1 of capital and surplus, the CLF can now borrow \$16. Since a credit union that joins the CLF pays only half of the capital stock subscription amount, the CLF can now borrow \$32 for each new dollar paid in.³

Second, the CARES Act temporarily relaxes the requirements on agent membership, making such membership more affordable for corporate credit unions.⁴ An agent member is no longer required to buy capital stock for *all* of its member credit unions, but may buy CLF capital stock for a chosen subset of the credit unions it serves.⁵ The NCUA encourages corporate credit unions to consider agent membership as a way to support the liquidity needs of the credit union system.

Third, the CARES Act changed the definition of "liquidity needs" to include the needs of any credit union, not only natural-person credit unions.⁶ This new definition broadens access by allowing the CLF to meet the liquidity needs of corporate credit unions.

Lastly, the CARES Act provides more clarity about the purposes for which the NCUA Board can approve liquidity-need requests by removing the phrase "the Board shall not approve an application for credit the intent of which is to expand credit union portfolios."⁷ The NCUA Board now has more flexibility and discretion to approve applications for CLF members that have made a reasonable effort to first utilize primary sources of funding. This change increases the transparency and efficiency of the loan-approval process by removing doubt about whether a credit union's portfolio may expand if it borrows from the CLF to meet liquidity needs.

Regulatory Changes to the CLF

The NCUA Board approved an interim final rule to make additional enhancements to the NCUA's CLF rule, [Part 725](#). Besides the legislative changes described in this letter, these enhancements add more flexibility and relief for credit unions. It will be easier to join the CLF and access liquidity if the need arises as a regular member or through your corporate credit union as part of an agent relationship. The NCUA's regulatory changes include the following permanent and temporary relief measures:

- **Permanently eliminate the six-month waiting period for a new member to receive a loan.** The prior § 725.3 provided that, with limited exception, any credit union that

became a regular member of the CLF could not receive a CLF loan without approval of the NCUA Board for six months after becoming a member. Under the new rule, new regular and agent members can borrow as soon as they complete the new member documents and pay the required capital stock amount. The NCUA Board believes this is a necessary change to ensure the availability of liquidity assistance to all eligible CLF members at the earliest opportunity.

- **Temporarily amend the waiting period for a credit union to terminate its CLF membership.** Previously, a CLF member could terminate its membership only after 6 to 24 months, based on the size of the credit union's stock subscription in the CLF. This requirement has been temporarily amended by the NCUA Board to encourage eligible credit unions to join the CLF now. A credit union that requests withdrawal of its CLF membership in writing to the NCUA Board between publication of the interim final rule and December 31, 2020, will wait no longer than six months for that withdrawal to take effect.⁸ Any credit union that retains CLF membership after December 31, 2020, may immediately terminate its membership before December 31, 2021, after providing written notice to the NCUA Board. After December 31, 2021, the temporary termination provisions will expire and a credit union could terminate its membership after 6 or 24 months, based on the size of its stock subscription in the CLF. This provision applies to existing members and credit unions that become members before December 31, 2020.

A temporary CLF membership during the COVID-19 pandemic will greatly benefit the credit union system. The more capital subscriptions the CLF has, the higher the borrowing authority the CLF and the NCUA have to provide liquidity assistance to credit unions.

- **Permanently ease collateral requirements.** The prior § 725.19 required each CLF loan and each agent loan be secured by a first-priority security interest in collateral of the credit union with a net book value at least equal to 110 percent of all amounts due under the applicable loan, or by guarantee of the Share Insurance Fund. Under the new rule, the amount of collateral will be determined from the CLF's [collateral margins table](#), published on the NCUA's website. The required collateral percentages vary based on different types of assets, and in some cases, less than 110 percent will be required. This change eases the collateral requirements, allowing a greater amount of borrowing overall.
- **Temporarily permit an agent member to borrow for its own liquidity needs.** Previously, the CLF could only meet the liquidity needs of natural-person credit unions. The interim final rule includes several provisions that align with the CARES Act change that allows an agent member to borrow from the CLF for its own liquidity needs. Specifically, the amendments clarify that an agent member may borrow from the CLF for its own liquidity needs after subscribing to the capital stock of the CLF in an amount equal to one-half of one percent of the agent's own paid-in and unimpaired capital and surplus. Expanding the liquidity resources of corporate credit unions, even temporarily, is an added measure of liquidity strength for the system as

a whole. A loan to an Agent for its own needs would be subject to the same creditworthiness and liquidity-need criteria as for all other member loans.

Credit Unions Are Encouraged To Join the CLF As Soon As Possible

CLF membership provides both individual and systemic benefits by serving as a form of liquidity insurance for individual credit unions (including corporate credit unions temporarily) and the broader credit union system. CLF members may borrow for their own liquidity needs and earn a quarterly dividend on their capital stock. CLF stock subscriptions provide the credit union system and the Share Insurance Fund a vital contingent source of funds to assist with system-wide liquidity events, which may be necessary in addressing the impact of the COVID-19 pandemic on individual credit unions, groups of credit unions, and the Share Insurance Fund.⁹

Membership in the CLF is affordable and relatively easy. A credit union may become a CLF member by completing a membership application and contributing one-half of its stock subscription requirement, which equates to approximately one-fourth of one-percent (0.0025 percent) of a credit union's assets.¹⁰ Visit the [CLF webpage](#) for more information on becoming a member.

The NCUA has confidence that the credit union system will remain safe and sound. The reforms described in this letter are designed to allow credit unions and the NCUA to navigate this extraordinary and unprecedented time, and ensure the availability of sufficient liquidity until the extent of the COVID-19 impact on credit unions has been fully determined. If you have questions about the changes described in this letter or CLF membership, please contact the CLF at clfmail@ncua.gov.

Sincerely,

/s/

Rodney E. Hood
Chairman

¹ The CLF borrows from the U.S. Treasury's Federal Financing Bank to make loans to member credit unions and the Share Insurance Fund.

² See 12 U.S.C. § 1795f(a)(4)(A)

³ Credit unions must subscribe to the CLF capital stock in the amount of one-half of one percent of the credit union's six-month average of paid-in and unimpaired capital and surplus (that is, the total of shares and deposits and undivided earnings). Credit unions only have to remit to the CLF one-half of the subscription amount (one-quarter of one-percent of paid-in and unimpaired capital and surplus), and hold the remaining half (which is callable by the NCUA Board).

⁴ A credit union or group of credit unions that primarily serve other credit unions may become an agent member by meeting certain requirements outlined in 12 U.S.C. § 1795c(b).

⁵ See 12 U.S.C. § 1795c(b)(2)

⁶ See 12 U.S.C. § 1795a(1)

⁷ See 12 U.S.C. § 1795e(a)(1)

⁸ Specifically, a credit union may terminate its membership, regardless of its amount of stock subscription, after notifying the NCUA Board in writing on the sooner of: (A) six months from the date of its written notice to the NCUA Board; or (B) December 31, 2020.

⁹ The CLF can make loans to the Share Insurance Fund under such terms and conditions as may be established by the NCUA Board. 12 U.S.C. § 1783(f). The CLF advanced billions of dollars to the Share Insurance Fund in the early stages of the last financial crisis to help alleviate liquidity disruptions in corporate credit unions. The cooperation of credit unions and their participation in various CLF liquidity programs like the Credit Union System Investment Program was a stabilizing factor for the entire credit union system. At the time, the CLF had a maximum borrowing authority of over \$50 billion. As of December 31, 2019, based on lower membership levels, it was \$7.3 billion.

¹⁰ See 12 U.S.C. § 1795c(a). A credit union primarily serving natural persons may be a regular member of the Facility by subscribing to the capital stock of the facility in an amount not less than one-half of 1 per centum of the credit union's paid-in and unimpaired capital and surplus.

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