7535-01-U

NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Part 741

RIN 3133-AD96

Maintaining Access to Emergency Liquidity

AGENCY: National Credit Union Administration (NCUA).

ACTION: Advance notice of proposed rulemaking with request for comment (ANPR).

SUMMARY: The NCUA Board (Board) requests public comment on the scope and requirements of a regulation to require federally insured credit unions (FICUs) to have access to backup federal liquidity sources for use in times of financial emergency and distressed economic circumstances. The Board also seeks comment on how such a regulation could be implemented to maximize economic benefit while minimizing regulatory burden on credit unions.

DATES: Send your comments to reach us on or before [INSERT DATE 60 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER]. We may not consider comments received after the above date in making our decision on the ANPR.

ADDRESSES: You may submit comments by any one of the following methods (**Please send comments by one method only**):

- Federal eRulemaking Portal: http://www.regulations.gov. Follow the instructions for submitting comments.
- E-mail: Address to regcomments@ncua.gov. Include "[Your name]--Comments on Advance Notice of Proposed Rulemaking for Part 741, Maintaining Access to Emergency Liquidity" in the e-mail subject line.
- Fax: (703) 518-6319. Use the subject line described above for e-mail.
- Mail: Address to Mary Rupp, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428.

- Hand Delivery/Courier: Same as mail address.

PUBLIC INSPECTION: You can view all public comments on NCUA's website at http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx as submitted, except for those we cannot post for technical reasons. NCUA will not edit or remove any identifying or contact information from the public comments submitted. You may inspect paper copies of comments in NCUA's law library at 1775 Duke Street, Alexandria, Virginia 22314, by appointment weekdays between 9 a.m. and 3 p.m. To make an appointment, call (703) 518-6546 or send an e-mail to OGCMail@ncua.gov.

FOR FURTHER INFORMATION CONTACT: Lisa Henderson, Staff Attorney, Office of General Counsel, at the address above or telephone (703) 518-6540; or J. Owen Cole, Jr., Director, Division of Capital Markets, Office of Examination and Insurance, at the address above or telephone (703) 518-6620.

SUPPLEMENTARY INFORMATION:

I. Background
II. General Discussion
III. Potential Regulatory Requirement
IV. Request for Comment

I. Background

a. Why may a rule be necessary?

The recent financial crisis and lingering economic uncertainties require NCUA and credit unions to closely examine the adequacy of risk management programs and practices in FICUs, including liquidity. One of the vital lessons learned from recent events is that institutions, both financial and otherwise, need to have an inviolable liquidity backstop that is over and above primary sources of funding such as tapping market sources of credit or selling highly liquid assets. Absent a reliable backstop, institutions can suddenly be affected by unforeseen systemic liquidity events that render them incapable of funding normal daily operations and facing a rapidly accelerating risk of operational disruption and even failure. With the advent of corporate credit union (corporate) system reforms resulting from the crisis, the Board sees the changing role of corporates as a major impetus to revisit the manner in which emergency liquidity for the credit union system is maintained and accessed.

Currently, virtually all FICUs have access to the Central Liquidity Facility (CLF or facility) by belonging to a corporate credit union that is in turn part of the agent group headed by U.S. Central Bridge Corporate Federal Credit Union (USC Bridge).[1] USC Bridge temporarily holds CLF stock on behalf of the whole agent group, but USC Bridge will soon be winding down and closing.[2] In the absence of an alternative arrangement, when USC Bridge redeems the CLF stock as part of its closure process, the majority of credit unions that enjoyed access to CLF through this agent relationship will no longer have the CLF as a source of backup liquidity. The corresponding reduction in the CLF's borrowing capacity would also reduce the credit union system's capacity to address a systemic liquidity event.

Based on June 30, 2011, Call Report data, most FICUs have no emergency liquidity source beyond indirect CLF membership by virtue of being a member of a corporate and USC Bridge holding the CLF capital stock. Only 1.3 percent of FICUs have direct membership in CLF, and only 4.5 percent of FICUs are set up to access the Federal Reserve Discount Window (Discount Window). While 14.6 percent of FICUs report being members of a Federal Home Loan Bank (FHLB), 27 percent do not hold any mortgage assets and would be unlikely to be able to rely upon the FHLB for wholesale funding or liquidity needs. More troubling, over 90 percent of FICUs do not currently

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[1] NCUA established USC Bridge to provide an orderly transition in resolving the failure of U.S. Central Corporate Federal Credit Union, which had historically held the CLF capital stock on behalf of the majority of the credit union system.

[2] The closure of USC Bridge and corresponding redemption of CLF stock is expected to occur sometime in 2012. Though member institutions did contemplate creating a successor to USC Bridge, the plans for a potential successor never included holding the CLF stock and these plans are no longer being pursued.

hold any U.S. Treasury obligations. Shorter duration Treasury obligations are a key alternative source of contingent liquidity as they are readily marketable, even in times of widespread economic distress. For these reasons, the Board believes it is important to explore avenues for preserving credit unions' access to the CLF when USC Bridge can no longer serve as the primary agent, credit unions choose providers other than agent corporates of correspondent services, or continuing corporates do not take up CLF capital stock subscriptions on behalf of their members.

The following information on FICUs relates to sources of contingent liquidity, other than CLF access, as of June 30, 2011.

CREDIT UNION COHORT	Number	Percent of All FICUs	Average Assets	Median Assets	Percent of Total FICU Assets	Average, U.S. Government Obligations/ Total Assets	Average, Investments < 1 Year Maturity/ Total Assets
All FICUs	7,239	100.0%	$130.2M	$18.6M	100.0%	0.3%	13.7%
No Federal Reserve (Fed) Relationship	6,916	95.5%	$86.4M	$17.0M	63.4%	0.3%	14.0%
Neither Fed nor FHLBank Relationship	6,109	84.4%	$44.4M	$13.1M	28.8%	0.3%	14.9%
No U.S. Government Investments	6,622	91.5%	$90.1M	$16.2M	63.3%	0.0%	14.0%
Application Filed to Borrow from Fed	323	4.5%	$1,068.8M	$393.3M	36.6%	0.7%	7.6%
Collateral Pre-pledged with Fed	238	3.3%	$1,224.0M	$387.7M	30.9%	0.6%	7.2%
FHLBank Member	1,060	14.6%	$607.9M	$238.2M	68.4%	0.5%	7.1%
No Real Estate Loans	1,990	27.5%	$4.8M	$2.6M	1.0%	0.3%	17.8%
No Investments < 1 Year in Maturity	658	9.1%	$21.9M	$2.1M	1.5%	0.1%	0.0%
Direct CLF Member*	95	1.3%	$333.6M	$86.3M	3.4%.	0.6%	12.2%

*As of December 9, 2011, the Central Liquidity Facility (CLF) had 98 direct members; 95 of these were federally insured. For consistency, non federally insured credit unions were excluded from this analysis.

b. How has NCUA addressed liquidity risk in the past?

In March 2010, NCUA and the federal banking regulators (agencies), in conjunction with the Conference of State Bank Supervisors, issued a Federal Financial Institutions Examination Council Interagency Policy Statement on Funding and Liquidity Risk Management (Policy Statement).[3] The Policy Statement summarized the principles of sound liquidity risk management. It emphasized the importance of cash flow projections, diversified funding sources, stress testing, cushions of liquid assets, and formal, well-developed contingency funding plans as primary tools for measuring and managing liquidity risk. The agencies, including NCUA, expect each financial institution to manage funding and liquidity risk using processes and systems commensurate with the institution's complexity, risk profile, and scope of operations.

In August 2010, the Board issued Letter to Credit Unions No. 10-CU-14 disseminating the Policy Statement and re-emphasizing NCUA's expectation that FICUs manage liquidity risk using processes and systems commensurate with their own credit union's complexity, risk profile, and scope of operations. This new guidance supplements existing guidance the Board provided in an earlier Letter to Credit Unions No. 02-CU-05, Examination Program Liquidity Questionnaire, issued in March 2002.

II. General Discussion

a. What is liquidity?

Liquidity is a credit union's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the credit union's ability to efficiently meet both expected and unexpected cash flow and collateral needs without adversely affecting either daily operations or the financial condition of the credit union.

b. What is liquidity risk?

[3] 75 FR 13656 (Mar. 22, 2010).

Liquidity risk is the risk that a credit union's financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet its obligations. A credit union's obligations, and the funding sources used to meet them, depend significantly on its business mix, balance sheet structure, and the cash flow profiles of its on- and off-balance sheet obligations. In managing their cash flows, credit unions confront various situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds (i.e., market liquidity), and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operation, legal, and reputation risks also can affect an institution's liquidity risk profile and should be considered in the assessment of liquidity and asset/liability management.

c. How can liquidity risk be managed?

Credit unions can manage liquidity risk by maintaining:

- Adequate levels of highly liquid marketable securities that can be used to meet liquidity needs in stressful situations;
- An appropriately diverse mix of existing and potential future funding sources; and
- Access to a contingent liquidity provider (i.e., a specialized liquidity provider that serves as a backup to market sources).

Failure in any of these factors may result in an unsafe and unsound liquidity condition. As noted in the Policy Statement:

> Recent events illustrate that liquidity risk management at many financial institutions is in need of improvement. Deficiencies include insufficient holdings of liquid assets, funding risky or illiquid asset portfolios with potentially volatile short-term liabilities, and a lack of meaningful cash flow projections and <u>liquidity contingency plans</u>.

75 FR 13656, 13660 (Mar. 22, 2010) (emphasis added).

d. Why should a credit union have a liquidity contingency plan?

Credit unions need to have access to sources of emergency liquidity from both their own balance sheets and through credit facilities. The recent financial crisis has underscored the paramount importance of liquidity access during times of extreme financial instability. It has also emphasized the essential role played by specialized liquidity facilities like CLF and the Discount Window when those facilities may be the only entities willing and capable of providing liquidity loans to destabilized institutions, that is, when no other market sources of funds are available. When a depository institution exhibits liquidity problems and its credit providers have uncertainty about its true financial condition, that institution's ability to obtain credit can rapidly diminish or cease altogether. The inability of a depository institution to fund its business-as-usual operations by borrowing can, in turn, cause its ultimate insolvency and failure if, for example, it were forced to sell assets at distressed prices to raise necessary funds. In the recent financial crisis, even institutions that were healthy used emergency liquidity facilities when risk aversion reduced the availability of even short-term liquidity and funding costs became prohibitively high. Without access to governmental liquidity facilities, it is clear that the scope of the financial crisis and damage to the economy would have been much more severe.

Governmental liquidity facilities were created by Congress to provide a stability mechanism and thereby preempt illiquidity situations before they lead to unnecessary insolvencies or cause systemic disruptions to the depository industry. This is because depository institutions are a key element of financial services and the overall economy. Federal entities that exist to provide liquidity assistance are unique in their capacity to obtain funding in times of crisis and this is based on their backing by the full faith and credit of the U.S. government. These liquidity facilities are viewed as the ultimate backstop for institutions seeking emergency liquidity in time of need and have proven to be a critical component of the U.S. government's contingency management during times of widespread instability.

By way of example, CLF figured prominently in NCUA's contingency plans during the recent financial crisis. Through various contingency programs, such as the Credit Union System Investment Program, the Credit Union Homeowners Affordability Relief Program, and loans to the National Credit Union Share Insurance Fund (NCUSIF), CLF facilitated access to billions of dollars of external liquidity through its borrowing arrangements with the Federal Financing Bank. These programs totaled approximately $18.4 billion and were orchestrated during the period between December 2008 and March 2009. Total CLF activity during the height of the crisis reached as much as $20.5 billion, including approximately $2.1 billion in liquidity-need loans outstanding. By having ready access to contingent liquidity through CLF, NCUA was in a position to inject a critical amount of emergency liquidity into the credit union system. These liquidity injections helped stabilize confidence and gave NCUA time to work through the financial difficulties arising from the failure of the system's largest corporate credit unions. They, combined with other actions taken by the Board, were instrumental in maintaining the continuity of vital credit union services and helped avert higher potential losses to the system.

The level of CLF membership (subscribed capital stock) has a major impact on the facility's capacity to meet systemic liquidity demands. CLF's legal maximum borrowing amount, and in turn the maximum amount it can lend to its members or NCUSIF, is based on the amount of its total subscribed capital stock and surplus. By statute, the facility can borrow $12 for every $1 dollar of subscribed capital stock and surplus; so, any declines in capital stock have a corresponding 12-1 deleveraging effect on CLF's ability to borrow. Throughout the recent crisis, CLF was essentially fully subscribed because the agent group arrangement covers almost all natural person credit unions that are not direct members.

The table below shows the calculation of CLF's current maximum legal borrowing authority based on October 31, 2011, financial data. It compares that amount to the borrowing authority without the agent stock currently held by USC Bridge.

CLF borrowing is limited to a total face value of twelve times the subscribed capital stock and surplus of the facility. 12 U.S.C. 1795f(a)(4)(A).	Current legal borrowing authority based on total subscribed capital stock and surplus As of 10/31/2011	Estimated legal borrowing authority with no agent member stock (all else constant)
Regular member Paid-In Capital	76,052,908.00	76,052,908.00
Agent member* Paid-In Capital	1,995,670,340.00	-
Total Paid-In Capital	2,071,723,248.00	76,052,908.00
Regular member On-Call Capital	76,052,908.00	76,052,908.00
Agent member On-Call Capital	1,995,670,340.00	-
Total On-Call Capital	2,071,723,248.00	76,052,908.00
Total subscribed capital stock (Paid-In plus On-Call)	4,143,446,496.00	152,105,816.00
Retained earnings prior year	22,005,970.47	22,005,970.47
Appropriated RE current year	4,345,089.36	4,345,089.36
Total Retained Earnings (surplus)	26,351,059.83	26,351,059.83
Total subscribed capital stock and surplus	4,169,797,555.83	178,456,875.83
Limit: 12 times total subscribed stock and surplus	50,037,570,669.96	2,141,482,509.96

*USC Bridge agent group covers 6,981 natural person credit unions

III. Potential Regulatory Requirement

a. How would a rule work?

The Board is intending to issue a regulation that would require federally insured credit unions, as part of their contingency funding plans, to have access to backup federal liquidity sources for use in times of financial emergency and distressed economic circumstances. The Board is contemplating requiring this access be demonstrated by a credit union in one of four ways: (1) becoming a member in good standing of CLF directly; (2) becoming a member in good standing of CLF through a corporate credit union; (3) obtaining and maintaining demonstrated access to the Discount Window; or (4) maintaining a certain percentage of assets in highly liquid Treasury securities. If promulgated, the regulation would be added to NCUA's regulation on Requirements for Insurance in 12 CFR part 741 so as to apply uniformly to both federal and state-chartered credit unions.

b. What does the CLF do and how does it operate?

CLF is available to help credit unions meet their liquidity needs. CLF has served as the credit union system's backup liquidity source since its creation in 1979.[4] Essentially, CLF provides a form of liquidity insurance to its member credit unions through its ability to make liquidity advances to member credit unions funded with matched borrowings from the Federal Financing Bank.[5] As of October 31, 2011, CLF is permitted to lend up to its statutory limit, currently approximately $50 billion.[6]

Nearly all federally insured and some non-federally insured credit unions currently qualify as members of CLF indirectly through USC Bridge, as agent group representative. A credit union must belong to CLF and primarily serve natural persons (i.e., not a corporate) to be eligible for a liquidity-need advance. A credit union primarily serving natural persons may become a "regular" member of the facility by subscribing to the capital stock of the facility. The stock subscription amount for a regular member is equal to one-half of one percent of the credit union's paid-in and unimpaired capital and surplus. 12 U.S.C. 1795c(a); 12 CFR §725.3. There are 96 regular members of CLF. A credit union or group of credit unions primarily serving other credit unions may become an agent member of the facility by obtaining approval from the Board and subscribing to the capital stock of the facility on behalf of credit unions in its

[4] National Credit Union Central Liquidity Facility Act, subchapter III of the Federal Credit Union Act, 12 U.S.C. 1795—1795k. The regulations implementing the CLF Act appear at 12 CFR part 725.

[5] The Federal Financing Bank (FFB) is a government corporation, created by Congress in 1973 under the general supervision of the Secretary of the Treasury. The FFB was established to centralize and reduce the cost of federal borrowing, as well as federally-assisted borrowing from the public. 87 STAT. 937, 12 U.S.C. 2281.

[6] CLF may borrow from any source, provided that the total face value of these obligations shall not exceed twelve times the subscribed capital stock and surplus of the facility ($4,169,797,555.83 as of October 31, 2011). 12 U.S.C. 1795(a)(4)(A).

membership that are not regular members.[7] Currently, there is one agent group representative and 23 agent members within that group. The agent stock amount is adjusted no less often than annually to reflect changes in the underlying balance sheets of member natural person credit unions.[8]

Historically, the vast majority of natural person credit unions have not elected to become regular members. Instead, they have qualified for membership in CLF by joining a corporate credit union that was in turn a CLF agent and part of the agent group headed by USC Bridge. As the agent group representative, USC Bridge subscribed to, and absorbed the costs of, capital stock on behalf of all underlying natural person credit unions represented by the respective corporates in USC Bridge's agent group. While there is not an explicit charge to natural person credit unions that are covered by the agent group, credit unions have supported the cost of the stock through ownership of corporate credit unions, which in turn own USC Bridge. The cost of supporting CLF ownership is embedded in the investment returns and services extended by USC Bridge to the corporates, which provide returns and services to the very natural person credit unions that are conferred CLF access by this arrangement.

The credit unions that join CLF directly (regular members) subscribe to capital stock in an amount of one half of the required capital subscription (which equals one half of one percent of the credit union's unimpaired capital and surplus) to CLF. The CLF capital stock is held as an asset on the subscribing credit union's books and receives quarterly dividend distributions at rates determined by the Board.[9] When circumstances require that all or a portion of a member's stock be redeemed by the facility, the Board is required by statute to return an amount equal to what the subscribing credit union originally paid for the stock less any amount owed by the member to the facility.[10] A member of the facility whose capital stock subscription constitutes less than 5 percent of

[7] The stock subscription amount for agent members is equal to one-half of one per cent of the paid-in and unimpaired capital and surplus of all those credit unions primarily serving natural persons, which are members of the corporates within the agent group, but which are not regular members of CLF. 12 U.S.C. 1795c(b)(2); 12 CFR §725.4.
[8] 12 U.S.C. 1795c(c); 12 CFR §725.5(b).
[9] *See* 12 CFR §725.5(e).
[10] 12 U.S.C. 1795d(c).

stock outstanding may withdraw from membership six months after notifying the Board of its intention to do so.[11]

In order to obtain a liquidity advance, a member must meet two conditions: (1) it must have a valid liquidity need; and (2) it must meet minimum creditworthiness standards at the time of its request.[12] "Liquidity needs" means the needs of a credit union primarily serving natural persons for:

(1) Short-term adjustment credit available to assist in meeting temporary requirements for funds or to cushion more persistent outflows of funds pending an orderly adjustment of credit union assets and liabilities;

(2) Seasonal credit available for longer periods to assist in meeting seasonal needs for funds arising from a combination of expected patterns of movement in share and deposit accounts and loans; and

(3) Protracted adjustment credit available in the event of unusual or emergency circumstances of a longer term nature resulting from national, regional, or local difficulties.[13]

By law, credit unions cannot use CLF loans to expand their portfolio of loans or investments.[14]

c. Why is credit union access to the CLF changing?

The operating status of USC Bridge is temporary and as part of its orderly resolution, it will soon discontinue its role as CLF agent group representative in conjunction with the

[11] 12 U.S.C. 1795c(e)(1); 12 CFR §725.6(a),
[12] A credit union generally is creditworthy if the credit union is viable and not in danger of failing. 12 CFR §725.18. The regulations also require that each advance must be secured by a first priority security interest in assets of the borrowing credit union. Such assets must have a net book value of at least 110% of all amounts due under the applicable CLF advance. 12 CFR §725.19.
[13] 12 U.S.C. 1795a(1); 12 CFR §725.2(i). CLF Operating Circulars 99-1 and 99-2 provide information on lending procedures and the application forms.
[14] 12 U.S.C. 1795e(a)(1).

wind down of its operations. Accordingly, the existing agent group arrangement will also terminate. When that occurs, the vast majority of natural person credit unions that are not regular members of CLF will need to take the necessary steps to establish new membership arrangements, as either a regular member or with a new agent, such as another corporate, if they intend to utilize CLF as their contingent liquidity source.

NCUA is working with CLF agents (corporates) to allow for the orderly transfer of the corresponding portion of CLF capital stock now held by USC Bridge to any retail corporates that elect to buy stock as agents on behalf of their natural person credit union members. A credit union continues to have a choice of obtaining access to CLF by either becoming a regular (direct) member or by belonging to an agent member that has purchased CLF stock on its members' behalf.

d. Can credit unions use the Discount Window?

The Discount Window is an alternative source for meeting credit unions' contingent liquidity needs. Only depository institutions that maintain reservable transaction accounts (share draft accounts for credit unions) or nonpersonal time deposits (share certificates or money market share accounts held by a depositor other than an individual) may establish borrowing privileges at the Discount Window. Eligibility to borrow is not dependent on or related to the use of Federal Reserve priced services.

The Discount Window helps to relieve liquidity strains for individual depository institutions and for the banking system as a whole by providing a source of funding in time of need. There are three credit programs: (1) primary, (2) secondary, both discussed below, and (3) seasonal.[15] Discount Window loans must be secured by collateral acceptable to the lending Federal Reserve Bank. Much of the statutory framework that governs Discount Window lending is contained in section 10B of the Federal Reserve Act, as amended, 12 U.S.C. 461. The program and policies that implement the statutory framework are set forth in Regulation A, 12 CFR part 201.

[15] Seasonal credit is available to depository institutions that can demonstrate a clear pattern of recurring intra-yearly swings in funding needs.

The primary credit program is the principal safety valve for ensuring adequate liquidity in the banking system and a backup source of short-term funds for generally sound depository institutions. Primary credit is available on a very short-term basis, typically overnight, at a rate above the Federal Open Market Committee's target rate for federal funds. Normally, primary credit will be granted on a "no-questions-asked," minimally administered basis. There is no restriction on a borrower's use of primary credit.

Priced slightly higher, secondary credit is available to meet backup funding needs of depository institutions that do not qualify for primary credit. It may be used as a backup source of funding on a very short-term basis, usually overnight, or to facilitate an orderly resolution of serious financial difficulties. It entails a higher level of administration. Regulation A publishes a table of the interest rates for primary and secondary credit available from each Federal Reserve District Bank. 12 CFR §201.51.

While the CLF is a special liquidity facility for the credit union industry, the Discount Window serves all depository institutions that meet eligibility requirements established by Federal Reserve regulations. To gain access to the discount window, the Federal Reserve requires specific agreements to be executed. Information regarding these agreements, as set forth in Operating Circular No. 10, and Discount Window operation can be found at www.frbdiscountwindow.org. These agreements include arrangements for the pledging of collateral to secure advances. All extensions of credit must be secured to the satisfaction of the lending Federal Reserve Bank by collateral that is acceptable for that purpose. Depository institutions that do not envision using the Discount Window in the ordinary course of events are encouraged to execute the necessary documents because a need for Discount Window credit could arise suddenly and unexpectedly.

IV. Request for Comment

This is a crucial time for depository institutions, including credit unions, to reflect on the recent financial crisis and ongoing economic events and address potential deficiencies in their funding and liquidity risk management capabilities. Access to a contingent liquidity provider that can back up market sources of liquidity is an essential component of these capabilities that must be met. Credit unions can use membership in CLF or access with a Discount Window facility (and/or a combination of the two) to meet this need. Since USC Bridge will need to discontinue its role as a CLF agent member intermediary, a credit union currently covered under an agent membership (i.e, by belonging to a retail corporate credit union) will lose access to CLF unless it takes action to become a regular member or join a new agent member that acquires CLF membership stock on the credit union's behalf.

The Board invites comment on the issues raised in this ANPR. To facilitate consideration of the public's views, please address your comments to the questions set forth below on each issue, and organize and identify them by corresponding question number so that each question is addressed separately. To maximize the value of public input on each issue, it is also important that commenters provide and explain the reasons that support each of their opinions. There will be a further opportunity to comment on these issues should the Board issue a proposed rule.

(1) What are the standards and provisions, along with associated considerations, that should accompany a requirement for federally insured credit unions to maintain access to backup federal liquidity sources for use in times of financial emergency and distressed economic circumstances? Should an NCUA requirement to maintain access to backup federal liquidity sources contain an exemption for credit unions under a certain asset threshold, and if so, what should that threshold be?

(2) Are there other sources of credit beyond the CLF and Discount Window the Board should consider as acceptable to satisfy the need for a backup federal liquidity source? For example, would a credit union's maintenance of a certain percentage of its assets in highly liquid (maturity of 90 days or less) Treasury securities satisfy the need? If so,

what is the appropriate percentage? Also, how should NCUA ensure that these securities are available to be pledged or sold?

(3) How can CLF best play a role in the immediate term upon USC Bridge's wind down and over the long term in satisfying a credit union's need for a contingency liquidity source? How should that role be executed? Are changes to the CLF statute to modernize the way the CLF functions over the long term warranted, and if so what changes should be pursued? For example, should the CLF function more like the Discount Window?

(4) What is the best way for credit unions to access CLF (e.g., either directly or through an agent)? Should corporate credit unions continue to play a role and, if so, to what extent should they be encouraged to purchase CLF stock as agents for natural person credit unions?

The Board also seeks comment on how a proposed rule could be implemented to maximize economic benefit while minimizing regulatory burden on credit unions. Please comment on any other relevant issues the Board has not considered.

By the National Credit Union Administration Board on December 15, 2011.

Mary F. Rupp

Secretary of the Board