National Credit Union Administration

Anthony Cappetta, President, CLF

Central Liquidity Facility

October 20, 2022

The Central Liquidity Facility

- The Central Liquidity Facility, or CLF, is an NCUA-operated, mixed-ownership U.S. government corporation, which:
  - improves the general financial stability of the credit union system by meeting the liquidity needs of individual credit unions;
  - serves as a back-up source of liquidity for both federal and state-chartered credit unions;
  - is authorized to make loans to the National Credit Union Share Insurance Fund (NCUSIF), state credit union share insurance corporations, guaranty credit unions and guaranty associations; and
  - is financially self-supporting.

The Central Liquidity Facility

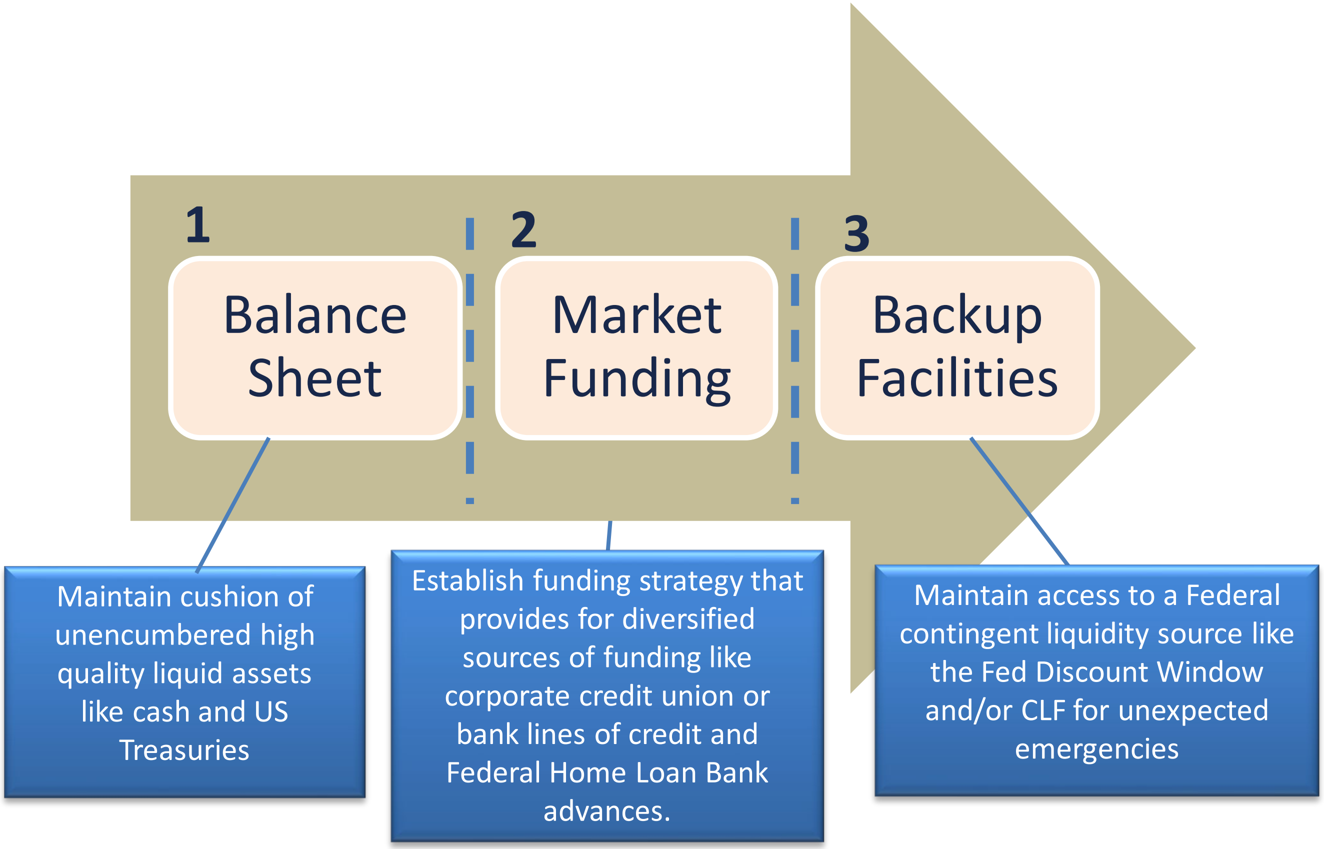
- To be a member of the CLF a:
  - consumer credit union must complete an application and subscribe to CLF capital stock in an amount of 0.5% of its paid-in and unimpaired capital and surplus (Regular Member),
  - corporate credit union must complete an application and purchase stock on behalf of its member credit unions in an amount of 0.5% of its paid-in and unimpaired capital and surplus (Agent Member).
- The CLF plays an essential role in:
  - providing members a liquidity backstop during periods of financial crisis or uncertainty; and
  - assisting with the advancement of providing system wide thrift and credit.

Liquidity & Contingency Funding Plans [1]

- Consumer credit unions:
  - with assets less than $50 million must maintain a basic written policy that provides a CU board-approved framework for managing liquidity and a list of contingent liquidity sources that can be employed under adverse circumstances.
  - that have assets of $50 million or more must also have a contingency funding plan that that clearly set out strategies for addressing liquidity shortfalls in emergencies.
  - that have assets of $250 million or more must establish access to at least one contingent federal liquidity source.

[1] NCUA Regulation § 741.12

Liquidity Sources [1]



[1] NCUA Letter to Credit Unions 13-CU-10

Liquidity Needs

- Members may borrow from the CLF 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; typically made for 90 days, but are available for periods up to one year;
  - **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, generally available for periods of up to 270 days; and
  - **Protracted Adjustment Credit** available in the event of unusual or emergency circumstances of a longer-term nature resulting from national, regional or local difficulties that are advances with varying terms.

[1] 12 U.S. Code § 1795a

CLF Advances

- The CLF shall not approve an application for credit the intent of which is to expand a credit union portfolio.[1]

[1] 12 U.S. Code § 1795e(a)(1)

CLF Advances

- Appropriate circumstances for members seeking CLF advances may include, but are not limited to, borrowing to:
  - meet an unexpected loss in shares or nonmember funds;
  - address an unexpected surge of credit demands, such as unexpectedly high draws on outstanding lines of credit, within the credit union’s membership; and
  - meet liquidity needs due to forces beyond the immediate control of the credit union, such as an internal operating problem or natural disaster.

CLF Advances

- Borrowing from the CLF is not appropriate to, among other reasons:
  - take advantage of a differential between the rate of a CLF advance and the rate of alternative sources of funds;
  - substitute CLF credit for normal, short term, interest-sensitive shares, such as certificates or money market shares; or
  - support a planned increase in loans or investment holdings or new special loan product offerings.

CLF Advances

- The CLF will:
  - underwrite for creditworthiness [1] and liquidity needs;
  - confer with supervisory authorities on borrower condition;
  - resolve potential inter-creditor conflicts through subordination agreements;
  - charge the higher of the Prime rate or the Federal Financing Bank (FFB) rate on advances of the same tenor;
  - work with borrowers to ensure primary liquidity access can be restored/resumed at maturity; and
  - transition the borrower to supervisory authorities (NCUSIF) if warranted.

[1] NCUA Regulations § 725(c)

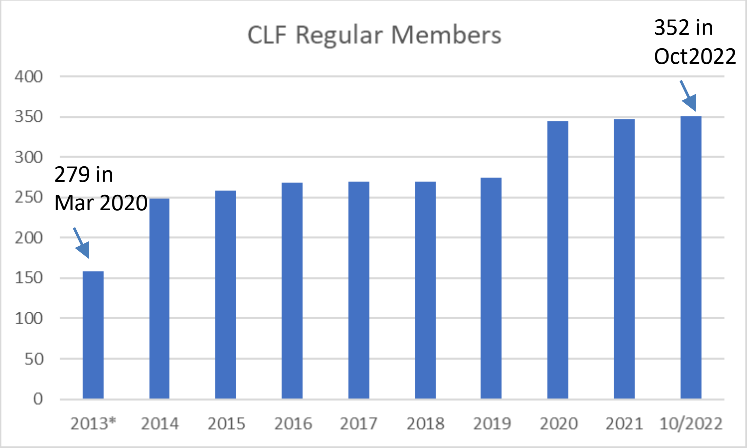
CLF – Financial Highlights

As of September 30, 2022

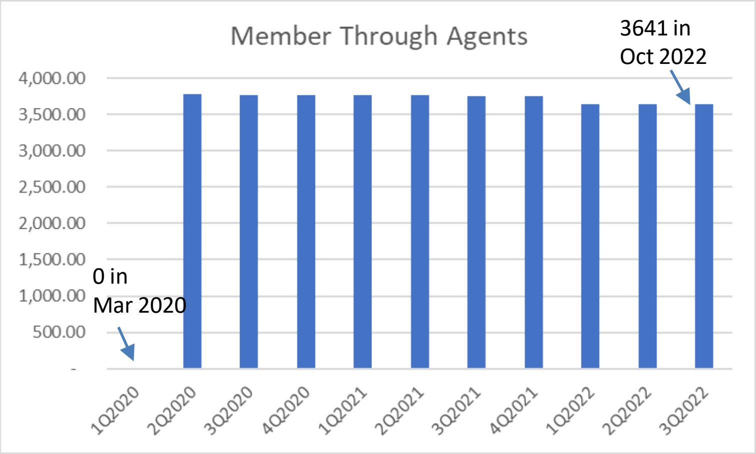
- **Total Assets: $1.243 billion**
- **Year-to-Date Net Income: $1.1 million**
- **Retained Earnings: $40.5 million**
- **Third Quarter 2022 Dividend: 2.24%**
- **Third Quarter Total Membership: 3,991**
- **Borrowing Authority: $29.1 billion**

CLF Membership

- Regular members of the facility

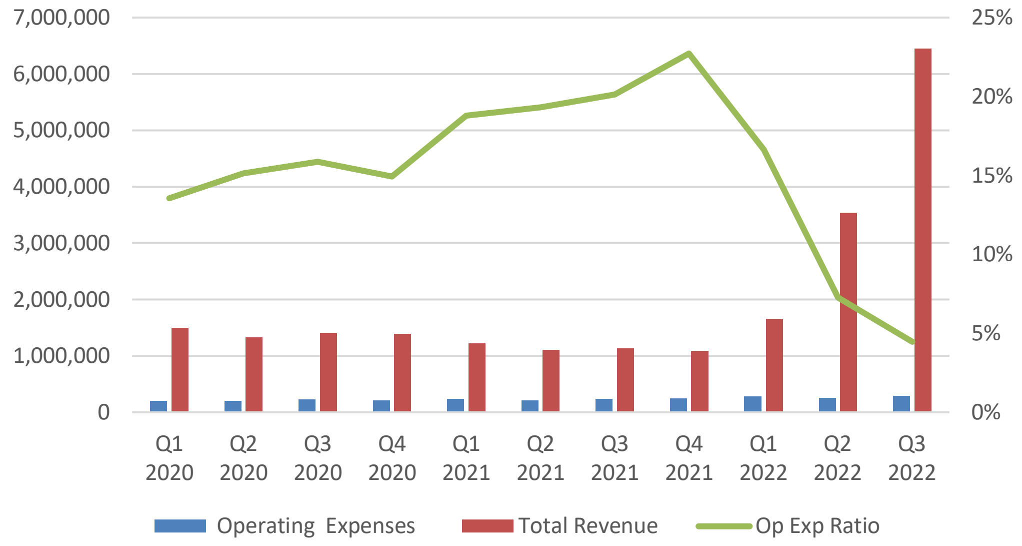


- Membership through Corporate Agents



CLF Operational Expenses

- The CLF is financially self-supporting and funded exclusively through earnings on investments.



- CLF advances do not materially increase total revenue, as all loans by the CLF reflect a loan rate based on facility costs.

CLF Investments

- The CLF may invest in obligations of the United States or any agency thereof, to make deposits in federally insured financial institutions, and to make investments in shares or deposits of credit unions. [1]
- Currently the CLF investments portfolio is invested in non-callable U.S. Treasury Overnights, Bills, Notes, Floating Rate Notes and Bonds.

[1] 12 U.S. Code § 1795f (7) and (8)

CLF Investments

- The objectives of the investment activity are:
  - to meet credit union liquidity needs by holding sufficient funds in overnight accounts to meet unexpected loan demand, liquidity reserve clearing account withdrawals, and membership withdrawals; and
  - to maintain the balance of funds in authorized investments whose portfolio mix is dependent upon liquidity expectations, projected credit union needs, credit risk, current interest rate environment, and market expectations.

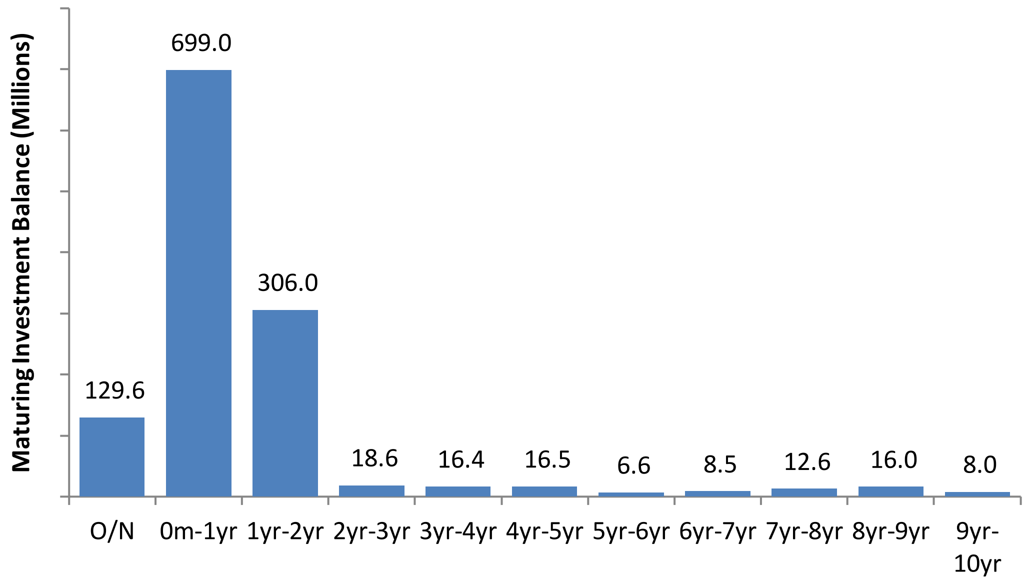
CLF Investments

As of September 30, 2022

Book Value:	$1,238.0 million
Market Value:	$1,225.1 million
Book Yield:	2.42 percent
WAM:	0.90 years
Duration:	0.45 bps
Retained Earnings:	$40.5 million

Par Distribution by Maturity (years):

0-1	$828.6 million
1-2	$306.0 million
2-3	$18.6 million
3-4	$16.4 million
4-5	$16.5 million
5-6	$6.6 million
6-7	$8.5 million
7-8	$12.6 million
8-9	$16.0 million
9-10	$8.0 million
Total Par	$1,237.8 million



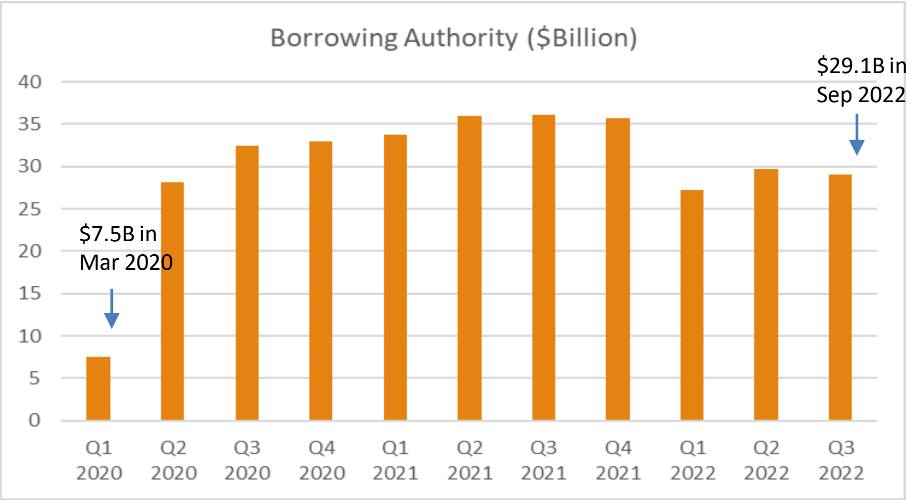
CLF Dividend

- The CLF pays regular members and agents a quarterly dividend.
- Dividends allow members to earn interest on their contributed capital.
- The CLF's policy is to pay a dividend commensurate with the Federal Reserve's Excess Balance Account.

DIVIDEND RATES:	**2022**	**2021**	**2020**
First Quarter	0.20%	0.15%	0.75%
Second Quarter	0.82%	0.15%	0.50%
Third Quarter	2.24%	0.15%	0.25%
Fourth Quarter		0.15%	0.15%

CLF Sources of Funds

- The CLF has two sources of funds that it can use to fund advances to its members. The CLF operating account and advances from the FFB. Limitations exist on the amount of funds available from each source.
- Generally, CLF loans to members are match-funded with back-to-back advances from the FFB.
- The amount that can be borrowed from the FFB is a function of the CLF's subscribed capital stock and surplus.
- Currently, the CLF can borrow 12x its capital and surplus.



CLF Enhancements

- Operational modernization
- Dividend Policy
- Collateral Policy
- CLF Vice President

Looking Forward

- Bolster CLF membership to better serve individual credit unions, the NCUSIF, and the system overall.
- Increase access to liquidity.
  - Re-examine the set of conditions under which the CLF could be permitted to extend loans.
- Exercise agreements with the correspondents to ensure the administrative and operational processes are functional in preparation to meet potential future loan demands.
  - Allow corporate credit unions, in partnership with consumer credit union members, to test CLF borrowing to familiarize parties with CLF loan policies and procedures.
- Continue to improve stakeholder outreach and communication.
- Membership through corporate agents expires December 31, 2022.

Contact Information

- **CLF**
  - https://www.ncua.gov/support-services/central-liquidity-facility
  - CLFMail@ncua.gov
  - 703-518-6428
- **Anthony N. Cappetta, President, CLF**
  - acappetta@ncua.gov
  - 703-518-1592