



BUDGET JUSTIFICATION

2026–2027 Central Liquidity Facility

January 2026

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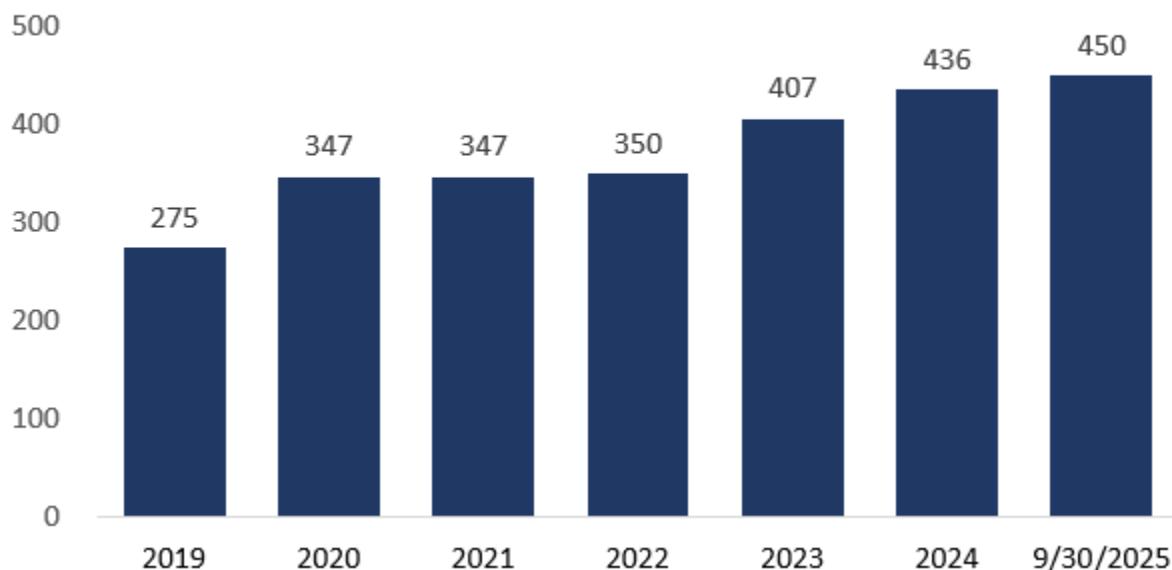
INTRODUCTION

The CLF is a member-owned mixed ownership government corporation managed by the NCUA Board in its capacity as the CLF Board. The CLF enhances the financial stability of the credit union system by meeting the liquidity needs of its members and it serves as a backup source of liquidity for both federal and state-chartered credit unions. The CLF can also provide the National Credit Union Share Insurance Fund a vital source of emergency funds to assist with any system-wide liquidity events that may occur. CLF expansion through new memberships results in an increase in the total liquidity available to CLF members as well as the credit union system as a whole.

MEMBERSHIP

The CLF has 450 regular members¹ and 11 corporate credit union correspondents.² As of September 30, 2025, the CLF's regular membership increased by 14 net new members from December 31, 2024. The 2019–2025 regular membership trend is shown below in Figure 1.

Figure 1. CLF Regular Members

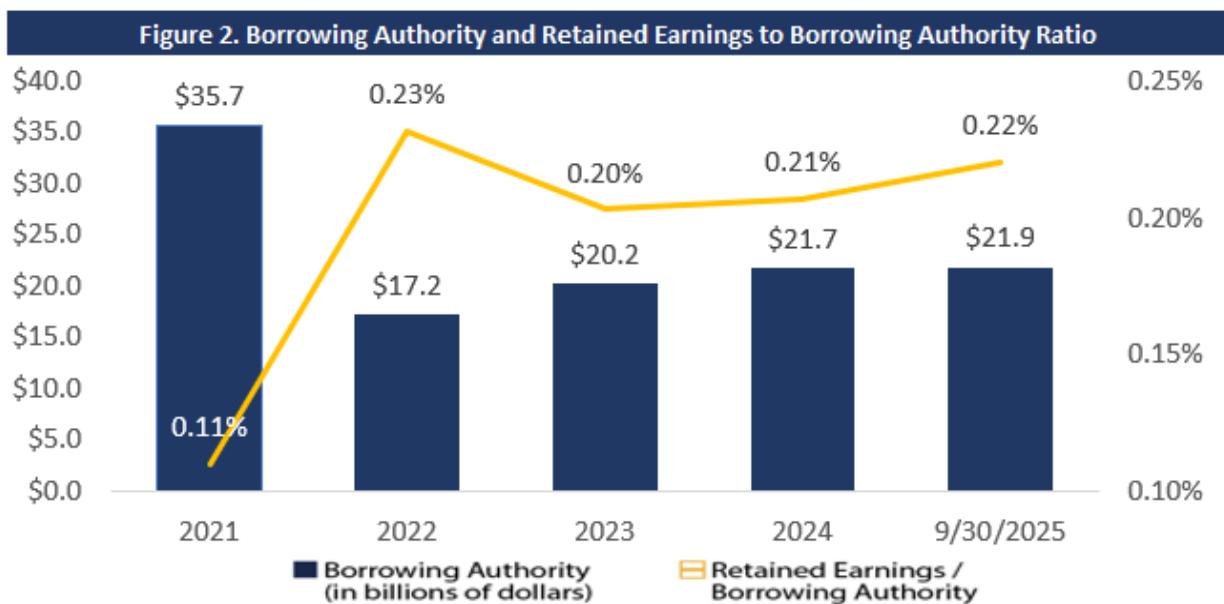


¹ All information and statistics are provided as of September 30, 2025, unless otherwise specifically noted.

² Corporate correspondents act as agents for the CLF by providing services in support of CLF members' activities and liquidity advance transactions (including acting as a collateral agent in perfecting CLF's security interests).

Capital and Borrowing Authority

The CLF's current 450 regular members provide \$1.78 billion in subscribed capital bringing subscribed capital stock and surplus to \$1.82 billion. This amount provides for a statutory borrowing authority from all sources of \$21.9 billion. Figure 2 below illustrates the historical trend of the CLF's borrowing authority³ with a ratio of retained earnings to borrowing authority, providing insight into recent growth in borrowing authority and the health of the facility. By prudently managing retained earnings relative to its capital base and borrowing authority, the CLF strengthens the facility's stability and positions the facility to sustain operational resilience and mitigates risks to member capital holders, especially during periods of systemic economic uncertainty.



³ The Coronavirus Aid, Relief, and Economic Security and Consolidated Appropriations Acts provided temporary provisions expanding membership and maximum borrowing authority from 2020 until expiration in 2022.

Investment Portfolio

The CLF investment portfolio of \$1,006 million is comprised of member deposits, paid-in capital stock, and retained earnings. Continued growth in membership offset by the reduction of short-term interest rates through the fourth quarter are expected to result in increases in full-year 2025 capital stock, a decrease in 2025 investment income, and targeted growth in retained earnings. The 2021–2025 investment portfolio par amounts and portfolio yields are shown below in Figure 3.

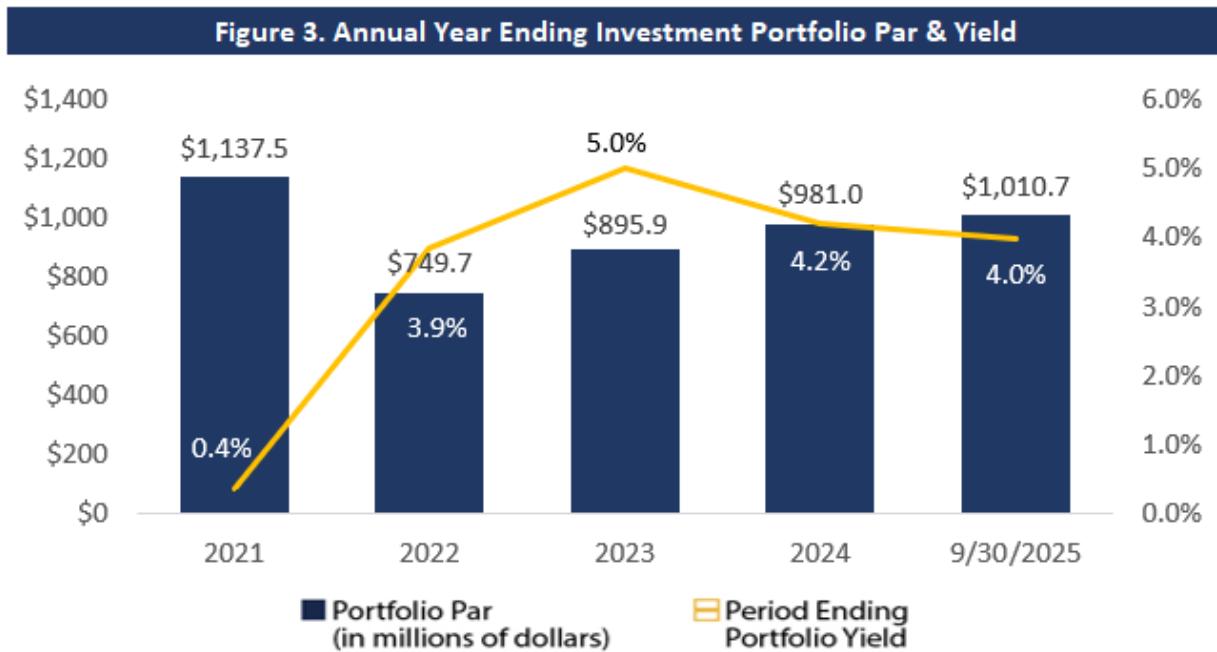
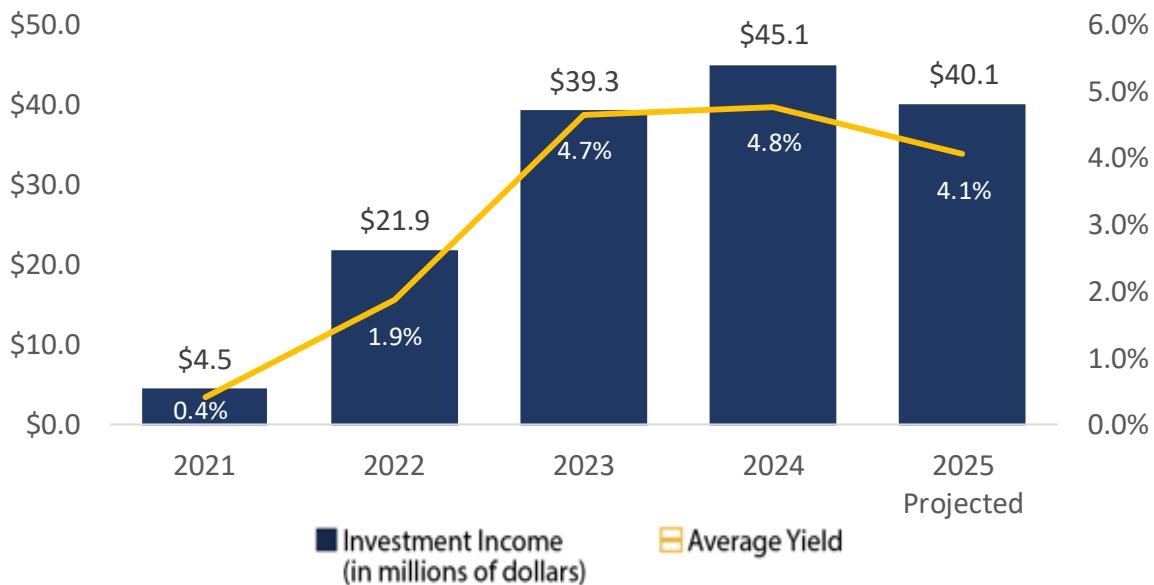


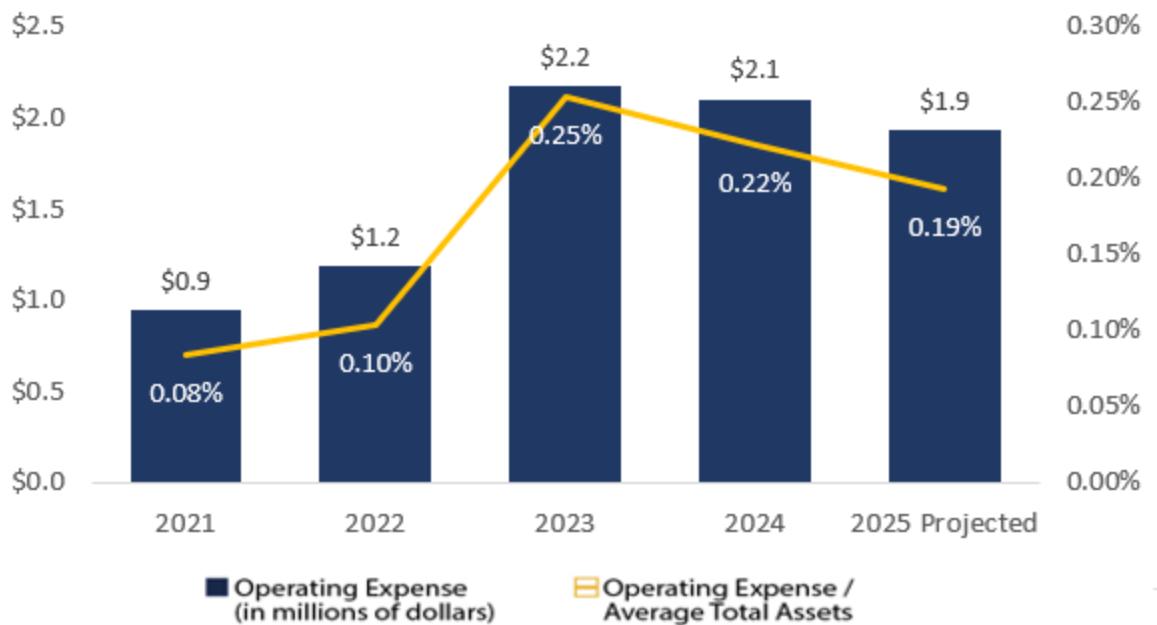
Figure 4 below shows the associated 2021–2025 investment portfolio annual investment income and average yield. The CLF's investment portfolio⁴ has materially shifted over 2025 from approximately 75 percent invested short term of 1 year or less to 50 percent of instruments maturing within 1 year. Extending duration slightly by moving from overnight funds and Treasury bills to slightly longer Treasury floating rate notes and treasury notes has resulted in mitigating the effects of the combined 75 basis point reduction in the target federal funds rate that occurred in the last quarter of 2025. However, the CLF investment portfolio remains a short duration portfolio with a cumulative 89 percent of its investments in instruments whose terms are 2 years or less.

⁴ Pursuant to the Federal Credit Union Act (12 USC 1795f), the CLF may invest in obligations of the United States or any agency thereof, make deposits in federally insured financial institutions, and make investments in shares or deposits of credit unions.

Figure 4. Annual Investment Income and Average Yield

Operating Expenses

The CLF has built \$48 million in retained earnings and remains self-supporting through interest income earned on investments held by the CLF. Figure 5 illustrates the facility's operating expenses and operating expense ratio. Operating expenses were lower in 2025 with the full year operating expense to average total assets ratio projected to be 0.19 percent. The increase in operating expenses from 2022 to 2023 reflected the increases in costs associated with the establishment of the CLF as a separate office within the NCUA, and the costs associated with the appreciable increase in regular membership during that time. However, since then full year operating expenses have been lower and will again be less than the previous year.

Figure 5. Operating Expense and Operating Expense Ratio

THE 2026-2027 CLF BUDGET

Overview

The CLF must be ready to provide support for the financial stability of member credit unions by delivering liquidity for short-term, seasonal, and protracted needs. For this reason, the annual CLF budget request considers the potential for surges in both applications for membership and the processing of liquidity advances while maintaining routine operations and audit support.

The CLF has prepared a comprehensive budget which recognizes CLF estimates of revenue, retained earnings objectives, and member distributions while outlining operational expenditures for 2026. Table 1 below shows the CLF's projected full-year 2025 and 2026 budget metrics. Full-year 2025 operating expenses are expected to be consistent with, and are trending below, the approved 2025 budget of \$2.3 million.

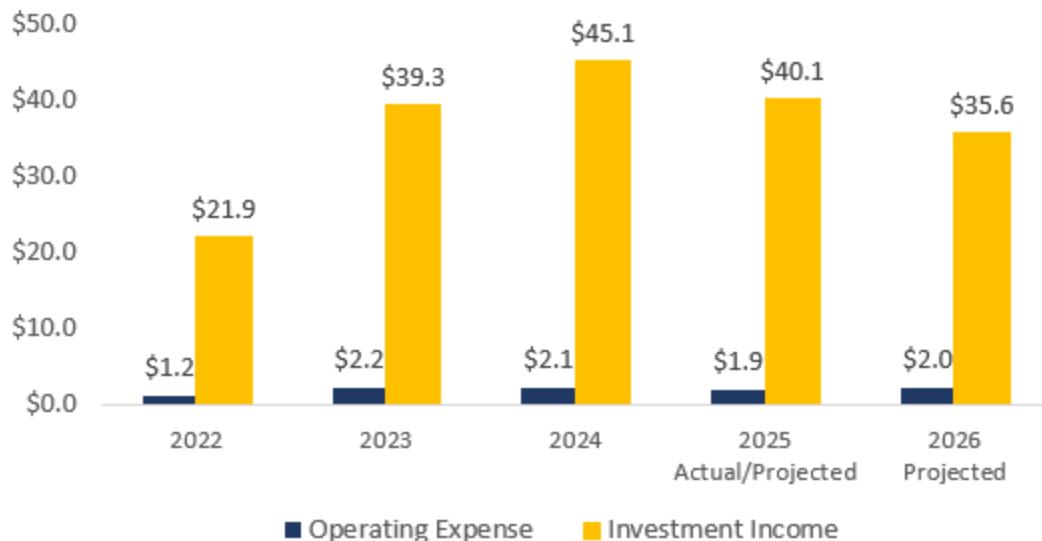
TABLE 1. BUDGET METRICS

(In Millions)	Budget Metrics	
	Projected 2025	Projected 2026
Income	\$40.1	\$35.6
Operating Expenses	-\$1.9	-\$2.0
Dividends & Interest	-\$34.6	-\$30.6
Increase in Retained Earnings	\$3.5	\$3.0
Cumulative Retained Earnings	\$48.5	\$51.5

Sources of Funds

Federal funds futures and Treasury forward curves were employed to project the remaining 2025 and 2026 investment income of \$40.1 million and \$35.3 million, respectively (Figure 6). Membership growth is expected to remain strong in 2026. However, investment income is projected to decline due to lower market-implied short-term interest rates which are the key drivers of revenue.

Figure 6. Operating Expense and Investment Income (in millions of dollars)

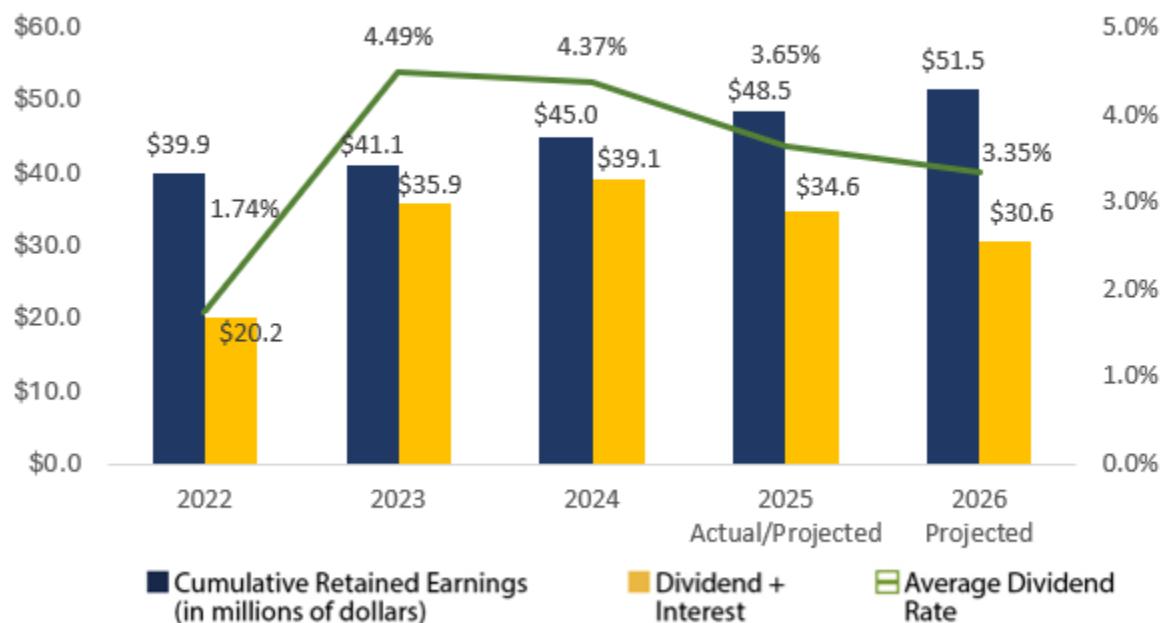


Use of Funds

In 2026, the CLF will use its investment income (\$35.6 million projected) to cover operating expenses (\$2.0 million), meet retained earnings objectives (\$3.0 million), and distribute the remaining proceeds (\$30.6 million) as dividends on paid-in capital accounts and interest paid on liquidity reserve and clearing accounts. These estimates are the best available given the current forward rates and are subject to change with market condition changes.

The CLF's projected retained earnings increase of \$3.0 million will support the continued growth in CLF membership and maximum borrowing authority by providing additional reserves to absorb unexpected costs or losses. Retained earnings also provide a borrowing base and produce investment income which supports the operating expenses of the facility. The recent history of cumulative retained earnings, annual dividends, and average dividend rate, and the 2026 projected levels are shown in Figure 7.

Figure 7. Retained Earnings, Dividends & Interest with Dividend Rate



As the CLF's investment income is the source of funding member dividends, the level of dividends is subject to change based on investment portfolio performance. Member dividend rates are projected to decline as they are closely correlated with short-term investment yields. Market-implied rates suggest a decrease in yields, which are expected to impact dividend rates and payouts accordingly. Annual dividends with average dividend rates, and the 2026 projected levels, are shown in Figure 8.

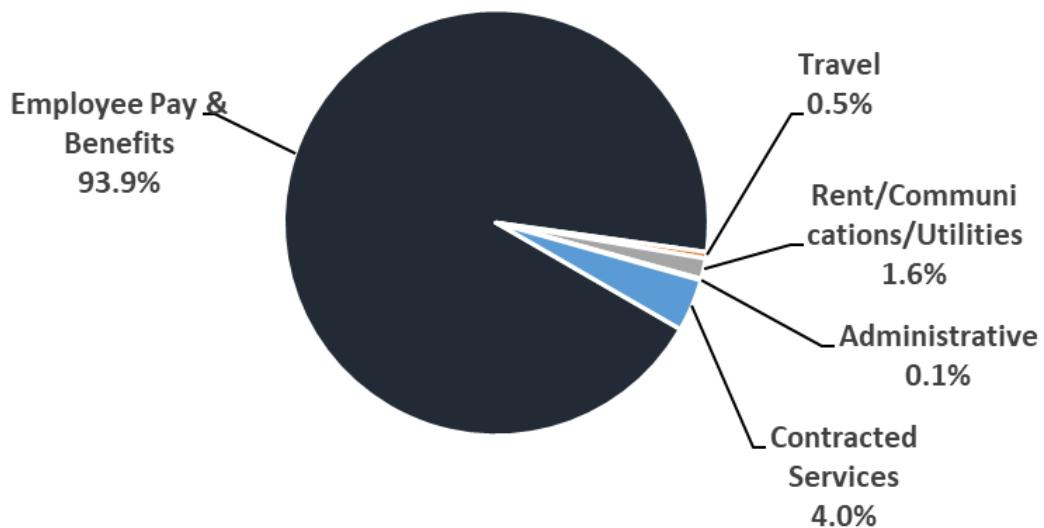
Budget Summary

The proposed CLF budget represents the estimated annual needs for 2026 and 2027. As shown in Table 2 below, the 2026 budget is \$2.0 million and represents a decrease of 12 percent, or \$276,032, from the prior year budget.

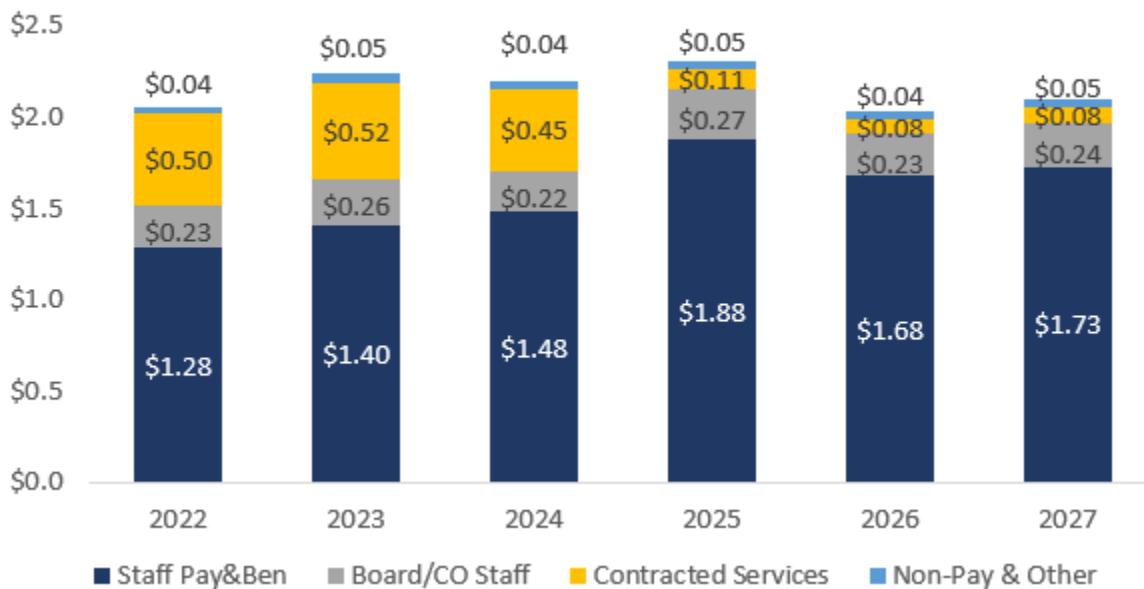
TABLE 2. CALENDAR YEAR 2026 AND 2027 CLF BUDGETS

Budget Cost Category	2025 Board Approved Budget	2026 Proposed Budget	2025-2026 Change	Change Percent	2027 Proposed Budget	2026-2027 Change	Change Percent
Employee Compensation	2,149,978	1,907,196	(242,782)	-11.3%	1,964,412	57,216	3.0%
CLF Salaries	1,342,716	1,171,697	(171,019)	-12.7%	1,206,848	35,151	3.0%
CLF Benefits	535,327	505,965	(29,362)	-5.5%	521,144	15,179	3.0%
Salaries (allocation of NCUA Board & Central Office	271,935	229,534	(42,401)	-15.6%	236,420	6,886	3.0%
Travel	26,300	10,000	(16,300)	-62.0%	10,300	300	3.0%
Rent/Comm/Utilities	43,563	31,663	(11,900)	-27.3%	32,613	950	3.0%
Administrative	3,762	2,272	(1,490)	-39.6%	2,340	68	3.0%
Contracted Services	84,260	80,700	(3,560)	-4.2%	83,121	2,421	3.0%
Total	\$ 2,307,863	\$ 2,031,831	(276,032)	-12.0%	\$ 2,092,786	60,955	3.0%

The following chart (Figure 8) presents the major categories of spending supported by the proposed 2026 CLF Budget.

Figure 8. Proposed 2026 CLF Budget

The 2021–2027 trend illustrated in Figure 9, and year-over-year expenditure changes for each category are further discussed below.

Figure 9. Annual Budget Trend (in millions of dollars)

Staffing, Pay, and Benefits

Pay and benefits represent approximately 94 percent of the proposed 2026 CLF Operating Budget. The allocation for these expenses is projected to decline by \$242,782, or 11 percent, relative to the 2025 budget, resulting in a total of \$1.9 million. This reduction is primarily attributable to the elimination of one full-time equivalent position. The decrease is partially offset by anticipated cost increases associated with merit and locality pay adjustments, employer contributions to retirement and health insurance plans, and other mandatory employer obligations.

Board and Headquartered Staff Costs

The pay and benefits referenced above include indirect costs associated with the NCUA Board, acting in its capacity as the CLF Board, as well as other headquarters staff. These costs are estimated at \$229,534 for 2026 and \$236,420 for 2027. The allocation for 2026 reflects a decrease of \$42,401 from the prior year's budget of \$271,935. The CLF reimburses the Operating Fund on a quarterly basis for these indirect costs, which are calculated by applying the ratio of CLF positions to the total number of authorized NCUA positions.

Non-pay and Other Expenses

Non-pay and other expenses decreased by 21 percent, or \$33,250, totaling \$124,635 for 2026 and \$128,374 for 2027. The Non-pay category includes Contracted Services, Travel, Rent, Communication, Utilities, and Administrative costs.

Contracted Services

Due to the contingent nature of the CLF function, the budget reflects expenses that may or may not be incurred in 2026 and 2027 and that are directly related to the extent of the increased CLF activities—such as increases in CLF membership and the processing of loan applications. The expenses subject to the contingent nature of the CLF include Contracted Services and Travel expense categories. The Contracted Services and Travel budgets for 2026 are 18 percent lower at \$90,700 as compared to \$110,560 in 2025. This decrease represents a modest adjustment to cover anticipated service needs and maintain operational continuity.

The CLF uses correspondent relationships with corporate credit unions to manage the back-office functions related to lending activity and pays the correspondents for these services. Moderate increases in CLF activity are expected to be supported by existing staff and contracted services; however, a large increase in activity could exceed the capacity of the existing CLF staff resulting in the need to obtain additional contracted services.

Planned Activities

In 2026 the CLF will continue to pursue new efficiencies and automation in facility operations (including liquidity advance procedures), expand outreach efforts in support of additional membership growth (particularly for those consumer credit unions approaching the \$250 million asset level), and further use business and artificial intelligence platforms to support improvements and gain actionable insights into existing and potential member activities.



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