Central Liquidity Facility

Changes to Legislation, Proposed Changes to Regulation & Operational Enhancements in Response to COVID-19 Pandemic
Introduction

• Legislative changes to Title III
• Regulatory changes to Part 725
• Operational Enhancements
Changes To Title III – FCU Act

1. Modifies definition of “liquidity needs” to include Corporates
2. Grants NCUAB authority to approve Agent membership group that covers a subset of member NPCUs (instead of all)
3. For loan authority, replaces restrictive language that said Board can’t approve a loan “the intent of which is to expand credit union portfolios” with “demonstrate a reasonable effort”
4. Increases CLF borrowing multiplier from 12 to 16 times. Every $1 of capital now raises $16 of borrowings ($1 of paid-in capital can raise $32 in new money)

These changes are temporary and sunset on 12/31/20
Changes Made: Part 725– CLF Rule

1. Waives 6-month waiting period on loans to new members
2. Amends 6-month and 24-month notice periods for membership redemptions (return of paid-in capital stock)
3. Eases collateral requirements by replacing the current “110% of net book value” with a CLF collateral table (% varies by asset type)
4. Permits Agents (corporate credit unions) to borrow for their own needs if they buy capital stock on their own account

Changes 1 and 3 are permanent
Operational Enhancements

• Simplified capital stock computation
• Streamlined application materials
• Reconstituting Agent network - consolidates POCs from potentially 1,000s to just 11
• Augmented communications - Agents have existing relationships and services with most smaller NPCUs
• Deputized Facility Loan Officers – Shifting NCUA examiners & analysts to underwriting team
How Does This Increase Liquidity?

- Leverage multiplier (12 to 16) increases legal borrowing authority by 1/3
- Accommodating Agent subgroups gains extensive coverage for smaller credit unions (via 11 agreements)
- Softening “can’t expand portfolio” language let’s more loans qualify
- Easing membership waiting and notice periods incentivizes more CUs to become Regular members
How Does it Benefit Credit Unions?

• More liquidity is better (in crisis)
• Brings external liquidity to system
• Federal source is inviolable
• Helps both individual CUs and system overall
• CLF can lend to the SIF
• Small stock requirement translates to significant borrowing leverage (this multiplier doesn’t exist elsewhere)
Next Steps

- Make cohering changes to policies, procedures, forms
- Finalize corporate credit union memberships
- Approve Agent group applications
- Adjust Borrowing Authority on Flow Basis
- Train Facility Loan Officers - Underwriting
- Host webinar with Agents – Loan Processing
- Socialize Changes in Webinars/Calls/LTCUs
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