

History of the Central Liquidity Facility

The Central Liquidity Facility (CLF) is a mixed ownership government corporation created to improve the general financial stability of credit unions. It serves as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls.

The CLF was established in 1978 by Congress. As other federal sources were not available to most natural person credit unions (NPCUs), they could not rely on the banking system to provide needed liquidity. Changing market conditions required more reliable sources of liquidity. In the past, 98% of the capital shares in the CLF were owned by US Central Bridge (USCB) with the remaining 2% owned by natural person credit unions, as direct members of the CLF.

With the liquidation of USCB, the capital stock that it owned was redeemed to pay its obligations. As such, the coverage enjoyed by NPCUs via their membership in corporates was eliminated. Therefore, NPCUs with direct member status would be the only credit unions eligible to borrow from the CLF. The dissolution of USCB brought the borrowing authority of the CLF down to \$1.9B (from approximately \$50B originally).

December 2011 – ANPR Issued

An Advanced Notice of Proposed Rulemaking (ANPR) was introduced by NCUA in December 2011 regarding maintaining access to emergency liquidity – and published for comment. The ANPR proposed four sources for emergency liquidity: 1) direct membership in the CLF, 2) membership via a corporate credit union, 3) access to the Discount Window or 4) maintaining a certain percentage of assets in U.S. Treasury securities.

Alloya was among approximately 62 organizations commenting on the proposed regulation. The corporate's comments centered around continuing the CLF, but making it closer in capital structure and operational nature to the Discount Window (immediate availability, little or no capital requirement), maintaining corporates as the agents for the CLF, allowing corporates to borrow from the CLF, CLF Board representation by credit unions and better investment returns on CLF stock through longer term investing. The majority of credit union

and corporate comments were similar and found value in continuing the CLF, but suggested that the structure (either capital or operational or both) be changed to preserve value. Another large portion of the comments were in reference to allowing the FHLB to act as a source of emergency liquidity.

October 2013 – Final Rule Released by NCUA

On October 24, 2013, the NCUA published its final rule 12 CFR Part 741.12 requiring all federally insured credit unions to plan for unexpected liquidity events, effective March 31, 2014. The rule outlines requirements for credit unions across three tiers: less than \$50M in assets, \$50M or more in assets, \$250 or more in assets. Based on the size of the credit union, requirements range from establishing a liquidity policy for unexpected shortfalls to creating an actionable contingency funding plan to, for the largest credit unions, establishing access at least one federal liquidity source: the CLF or the Federal Discount Window. To view NCUA's final rule 12 CFR Part 741.12 in its entirety, [click here](#).

March 2020 – The CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted on March 27, 2020, brought important changes to the Central Liquidity Facility. The CARES Act made four amendments to Subchapter III of the Federal Credit Union Act, all of or expired on December 31, 2022.

These include:

- Increasing the Central Liquidity Facility's maximum legal borrowing authority;
- Permitting temporary access for corporate credit unions, as Agent Members to borrow for their own needs;
- Providing greater flexibility and affordability to Agent Members to join and serve smaller groups of their covered institutions than their entire memberships; and
- Providing more clarity and flexibility about the purposes for which the NCUA Board can approve loans by removing the phrase, "the Board shall not approve an application for credit the intent of which is to expand credit union portfolios."

Additionally, the NCUA Board approved an interim final rule of Part 725 of the NCUA's Rules and Regulations on April 13, 2020, that provided additional enhancements to the Central Liquidity Facility, including:

- Eliminating the six-month waiting period for a new member to receive a loan;
- Eliminating the explicit waiting period for a credit union to terminate its membership;
- and
- Easing collateral requirements for certain assets securing loans.

To view the interim final rule, click [here](#). This rule expired December 31, 2022.

December 2022 – FY23 Spending Bill

The FY23 government spending bill reached by negotiators on Monday, December 19, 2022 did not include an extension of the pandemic-related CLF provisions. As a result, corporate credit unions lost their ability to serve as an Agent Member for credit unions with assets of \$250 million or less. As such, in order for any credit union, regardless of asset size, to have access to the CLF, they are required to become direct members of the CLF.