National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
www.ncua.gov

Media Contact: NCUA Office of Public & Congressional Affairs
Phone: (703) 518-6330
Fax: (703) 518-6409
Email: pacamail@ncua.gov

NCUA Media Advisory

NCUA Announces Central Liquidity Facility Investment Policy Changes

July 31, 2009, Alexandria, Va. -- The National Credit Union Administration (NCUA) today announces that, effective August 3, 2009, the Central Liquidity Facility (CLF) will transfer its funds from U.S. Central FCU (USC) to the U.S. Treasury and invest them in a laddered portfolio of U.S. Treasury securities. Additionally, NCUA will explore alternatives regarding the transfer of the primary ownership of CLF stock from USC to other credit unions or groups of credit unions through the anticipated reforms of the corporate network. This change is essential for CLF to implement for operational purposes and is not based on a concern or diminished confidence in NCUA's conservatorship efforts to restore USC to financially strong operational status.

Ultimately, CLF is taking these necessary actions to: 1) preserve its full borrowing capacity; and 2) continue in its role uninterrupted as a stabilizing agent and contingent liquidity provider to the credit union system.

Accounting for CLF investments and stock ownership:
The existing interrelationships between USC's ownership stake in CLF, USC's conservatorship, the corresponding National Credit Union Share Insurance Fund (NCUSIF) assistance it receives, and the CLF liquidity advances to NCUSIF on behalf of USC add complexity to the financial disclosure requirements that in turn necessitate changes to CLF's investments of capital stock proceeds and its stock funding arrangements.

In consultation with its auditors, CLF has determined this change is necessary because Generally Accepted Accounting Principles (GAAP) accounting rules may require the funds invested in U.S. Central to be presented on CLF's financial statement as a contra equity account rather than an asset (as it had always previously been classified). Since the investment in USC is equal to the sum of CLF's paid-in capital stock and retained earnings, this contra equity treatment would effectively result in total member equity of zero. Because CLF's borrowing authority is determined based on a multiple of its equity, this treatment would effectively reduce CLF's borrowing amount to zero.

This accounting treatment leads to an untenable situation because of its corresponding impact upon the CLF's borrowing capacity. CLF's borrowing capacity is based upon its total subscribed stock and surplus (i.e., total capital). By transferring its investable funds from the current U.S. Central accounts into Treasury securities, the unfavorable accounting treatment is rectified as these funds are immediately recorded as an investment asset on the balance sheet. This in turn means CLF's equity will not have to include a contra equity account and thus restores its borrowing capacity to its full maximum potential of twelve times subscribed stock and surplus.

Role of CLF funding in corporate stabilization efforts:
CLF funding has been a critical component of NCUA's ongoing efforts to stabilize liquidity in the credit union system, and it remains an integral part of the agency's transition plan to establish a strongly reformed corporate credit union network. These contingency liquidity efforts, while highly effective, are now impacted by the accounting implications described above. Because of NCUA's strong commitment to achieving lasting financial reform and the central role that CLF will continue to play, the agency must take proactive steps now to address these attendant matters.

Changing status of U.S. Central's ownership interest:
For its part, USC must similarly reevaluate its role as a CLF stock owner. USC currently owns the vast majority of CLF stock and the reinvestment of the stock proceeds back into USC is a circular transaction in which no funds actually exchange hands and results in a self-funded purchase of stock. This longstanding arrangement had permitted USC to acquire, and bear the cost of, the CLF stock on behalf of the vast majority of natural person credit unions that belong to the Agent Members of CLF. Now, with the requisite change in how CLF funds are invested, the stock purchase is not self-funding and it does not make economic sense for USC to hold the vast majority of stock on behalf of credit unions.

Thus, it is necessary for CLF to consider ways for the orderly exchange of CLF stock ownership from USC to other credit union owners in a manner that fully preserves the CLF's role as a stabilizing agent poised to meet the contingent liquidity needs of its member credit unions.

During the next several months, NCUA will seek input and ideas from the credit union industry to determine the future CLF stock ownership arrangement that is best suited to achieve a seamless transfer of stock and most importantly, a continuation of the important contingent liquidity resource that CLF provides.

Background:
CLF is a mixed ownership government corporation that serves as a back-up lender to meet the unexpected liquidity needs of its member credit unions when funds are unavailable from standard credit sources. The two primary sources of funds for the Facility are stock subscriptions from credit unions and borrowings from the Federal Financing Bank.

CLF membership consists of 104 Regular Members and 1 Agent Group Representative, U.S. Central FCU (USC), representing 27 Agent members. USC owns approximately 96 percent of CLF stock purchased on behalf of its 27 Agents and their member natural person credit unions that do not belong directly to CLF.

For more information on the NCUA Central Liquidity Facility, please visit the NCUA website: http://www.ncua.gov/Resources/CLF/Index.aspx

The National Credit Union Administration is the independent federal agency that charters and supervises federal credit unions. NCUA, with the backing of the full faith and credit of the U.S. government, operates the National Credit Union Share Insurance Fund (NCUSIF), insuring the savings of nearly 90 million account holders in all federal credit unions and many state-chartered credit unions.

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