NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
1775 Duke Street, Alexandria, VA 22314

Central Liquidity Facility Frequently Asked Questions

NCUA is available to assist credit unions with liquidity needs through NCUA's Central Liquidity Facility (CLF). The CLF exists to help credit unions meet their liquidity needs.

Q1: How much can a credit union borrow from the CLF?
A1: The credit union can request *any* amount of funding it needs, up to its legal borrowing limit.

Q2: When using a corporate credit union as agent, is the credit union restricted in dollar amount of advance request to the amount of the current line of credit with that corporate?
A2: No. Regardless of the credit union's current line of credit amount with their corporate credit union, they can request any dollar amount needed from the CLF.

Q3: If a credit union requests a CLF loan through the corporate credit union, must the corporate credit union process this loan request on behalf of its member credit union?
A3: Yes. The corporate credit unions have agent agreements with US Central Federal Credit Union and the CLF that they will process all requests without funding these requests first themselves.

Q4: Must a credit union exhaust all other funding sources before requesting a CLF advance?
A4: No. NCUA recognizes that CLF is not to be considered the "lender of last resort." However, the CLF is not to be used as a conventional funding facility or standard market alternative for borrowing credit unions.

Q5: How does a credit union qualify for a CLF loan?
A5: A credit union must meet two criteria to qualify for a loan. The credit union must: 1) be creditworthy; and 2) demonstrate liquidity needs. A credit union generally is creditworthy if the credit union is viable and not in danger of failing. The term "liquidity needs" is defined by statute.

Q6: Can a state-chartered, non-federally insured credit union borrow from the CLF?
A6: Yes, as long as the credit union is creditworthy and has a demonstrated liquidity need.

Q7: What type of liquidity need must a credit union demonstrate?
A7: There are 3 types of liquidity needs for which the CLF may fund:

1) <u>Short-term adjustment credits -</u> 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. These advances are typically made for 90 days, but are available for periods up to 1 year.

2) <u>Seasonal credits -</u> 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. Season credit advances are generally available for periods of up to 270 days.

3) <u>Protracted adjustment credits -</u> Available in the event of unusual or emergency circumstances of a longer term nature resulting from national, regional, or local difficulties. The terms for these advances vary.

Q8: Can a credit union borrow for any purpose?
A8: No. Generally there must be a demonstrated liquidity need. As a back-up source, credit unions cannot use CLF loans to expand their portfolio of loans or investments. However, the CLF can make other extensions of credit if the NCUA Board, the Board of Governors of the Federal Reserve System, and the Secretary of the Treasury concur that such extensions of credit are in the national economic interest.

Q9: What collateral is required of the credit union to secure the CLF loan?
A9: By regulation, each advance must be secured by a first priority security interest in assets of the borrowing natural person credit union. Such assets must have a net book value of at least 110% of all amounts due under the applicable CLF advance.

Q10: Can a credit union establish a line of credit with the CLF?
A10: No, the CLF only grants fixed term loans at a fixed rate.

Q11: How does a credit union obtain a CLF loan?
A11: Most credit unions have access to CLF loans through their corporate credit union membership. Corporate credit unions act as agents of the CLF. U.S. Central Federal Credit Union, on behalf of most credit unions, has purchased stock of the CLF. A credit union can also access the CLF directly by becoming a regular member of the CLF.

Q12: How does a credit union become a regular member of the CLF?

A12: To become a regular member, a credit union completes an application and purchases capital stock of the CLF. A credit union primarily serving natural persons may be a regular member by subscribing to the capital stock of the CLF in the amount not less than one-half of 1% of the credit union's paid-in and unimpaired capital and surplus.   At least one-half of the payment for the subscription amount required for membership shall be transferred to the CLF. The remainder may be held by the member on call of the Board.

Q13: How does a credit union submit an application for a CLF advance?
A13: This can be done in several ways. If requesting an advance through the corporate credit union acting as agent, the agent can mail, courier, or otherwise hand-deliver a physical notice of intent to borrow, send a fax, or in emergency situations, call CLF directly by telephone and/or communicate by an electronic mail message (email) via the Internet of its intent to borrow and subsequently deliver the written request. For regular members, their process can be the same; however, different documentation is required. Regular members must submit a physical notice of intent to borrow and complete NCUA forms No. 7001, 7002, 7003 and 7004. (These can be found in Operating Circular 99-2 on NCUA's website.)

Q14: Upon request of an advance, how quickly can a credit union expect to receive funding?
A14: The CLF is required by statute to approve or deny an application within five working days after receiving it. The funding process can take up to an additional five working days.

Q15: What rate will the credit union be charged?
A15: The loan rate will be the greater of the Federal Reserve Discount Window Primary Credit Rate or the current average market yield on outstanding obligations of the United States with a like maturity as the loan plus an additional 1/8 of 1 percent.

Q16: If a credit union uses a corporate credit union as agent, can the corporate credit union add on a spread to the rate charged by the CLF?
A16: No. However, the corporate credit union can charge a hard dollar fee to recover its actual costs associated with processing the loan. The fee cannot be based on the dollar amount of the loan (e.g., on a sliding scale, percentage of loan amount).

Q17: Who created the CLF?
A17: Congress created the CLF in 1979 to improve the general financial stability of the credit union industry by meeting the liquidity needs of individual credit unions. This improved stability encourages savings, supports consumer and mortgage lending, and helps provide basic financial resources to all segments of the economy. Credit unions needed their own source of funds to meet their liquidity needs in the same way that the Federal Reserve System "discount window" provided access to loans for banks. In practice, the CLF was created to serve as a back-up source of liquidity for both Federal and state-chartered credit unions.

Q18: How much funding is available through the CLF for meeting credit union liquidity needs?
A18: Recently, Congress permitted the CLF to lend up to its statutory limit, currently approximately $41 billion.

Q19: Where can a credit union find additional Information?
A19: The NCUA web site has information regarding the CLF loan process. The CLF Operating Circulars explain in detail the CLF loan process. See, http://www.ncua.gov/CLF/index.htm.   You may also contact your regional office or state supervisory authority as well as the CLF directly at 703-518-6620.

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