



August 14, 2012

Maintaining Access to Emergency Liquidity

The National Credit Union Administration (NCUA) Board is seeking comments through September 28, 2012 on a new proposal regarding liquidity requirements for federally insured credit unions. The proposal would impose new, varying requirements on credit unions depending on their asset size.

Executive Summary

Under the proposal, credit unions would face the following requirements:

- Credit unions with less than \$10 million in assets would be required to maintain a basic written policy approved by their board that sets out a plan for managing liquidity and a list of contingent sources of liquidity.
- Credit unions with \$10 million or more in assets would be required to have a written, board approved plan that is more comprehensive based on the credit unions' activities and provides an appropriate strategy for the credit union to address how it would handle the need for emergency liquidity.
- Credit unions with assets of \$100 million and more, in addition to the written plan for handling liquidity, would have to ensure immediate, established access to a backup federal emergency liquidity source. The federal sources for liquidity would have to be the Federal Reserve's Discount Window or the Central Liquidity Facility (CLF), either directly or indirectly.
- NCUA is also seeking comments on whether certain Basel III requirements should apply to large credit unions.
- The proposal follows an advanced notice of proposal rulemaking on liquidity requirements issued in December 2011.
- Comments on this proposal are due to NCUA by September 28; **please submit your comments to CUNA by September 14, 2012.** Comment letters may be filed with NCUA via email at regcomments@ncua.gov. If commenting directly to the agency, please include "[Your name] – Comments on Notice of Proposed Rulemaking for Part 741, Maintaining Access to Emergency Liquidity" in the e-mail subject line.
- For more information from CUNA, contact Deputy General Counsel Mary Dunn at mdunn@cuna.coop or Regulatory Counsel Dennis Tsang at dtsang@cuna.coop.
- For further details, please visit the NCUA's [proposal](#) in the [Federal Register](#).

Background and More Information

NCUA is concerned that with the closure of U.S. Central Bridge Corporate Federal Credit Union (U.S. Central Bridge), 6,019 credit unions will no longer have access to the Central Liquidity Facility (CLF), the government liquidity facility created by Congress to provide emergency, backstop liquidity to credit unions. That is because currently U.S. Central Bridge is the agent group representative that heads an agent group of corporate credit unions for those natural person credit unions, by paying for their stock in the CLF and acting as an agent for the CLF. (By law, stock ownership either directly or indirectly in the CLF is required in order to access liquidity from the CLF, unlike the Federal Reserve's Discount Window which does not require capital.)

NCUA noted that the CLF during the financial crisis played a very important role, including providing loans to the National Credit Union Share Insurance Fund and liquidity to some of the corporate credit unions, totaling over \$20 billion. NCUA explained that the CLF makes liquidity advances to CLF members that are funded with matched borrowings from the Federal Financing Bank. A corporate credit union may become an agent member of the CLF by subscribing to capital stock on behalf of its members. Currently, there is one agent group representative, U.S. Central Bridge, and there are 19 CLF agent members within the group. Natural person credit unions may also join the CLF directly if they are willing to purchase the stock on their own. About 96 credit unions are direct members of the CLF.

NCUA said that it views a credit union's capacity to handle a rapid loss of liquidity (runoff) as a "major indicator" for liquidity risk and a useful way to measure a credit union's liquidity risk management. The agency said it has analyzed credit unions' contingent liquidity needs, using 1) a measure of interest-rate sensitive liabilities held by each credit union as a proportion of its cash and short term investments, and 2) a measure of all deposits (shares) as a proportion of its cash and short-term investments. NCUA said the second, broader measure is the "emergency liquidity ratio" (ELR), which can be calculated for every credit union from existing call report data.

NCUA calculated the ELR for all federally insured credit unions (FICUs) based on March 2012 call report data and found that generally the ratio of shares to cash and short term assets rises with increasing asset size at credit unions. A higher ELR corresponds to a greater risk of a liquidity issue. NCUA said that in general, for a credit union over \$100 million, the ELR rises to a level that combined with the institution's size suggests the need for demonstrated access to a source of emergency liquidity.

The Board said it was proposing different levels of requirements to minimize burdens on smaller credit unions while ensuring "adequate regulatory coverage of total FICU assets." NCUA is requesting comments on whether the asset differences should distinguish liquidity requirements or whether NCUA should use a risk measure such as the ELR. NCUA also seeks comments on whether Basel III standards for liquidity monitoring, and to track maturity mismatches on the balance sheet, should be applied to credit unions over \$500 million.

Regarding requirements for credit unions with assets under \$10 million, their basic written policy should specify an overall approach to liquidity management. It should include liquidity measures and associated benchmarks, a reporting requirement on the credit union's liquidity position to its board, and a contingent source of liquidity.

For credit unions with assets of \$10 to \$100 million, a fully developed plan would also provide for an evaluation of liquidity stress scenarios, sources of liquidity in an emergency, and periodic testing of liquidity sources.

Credit unions with assets of \$100 million or more would also have to ensure that they have immediate, established access to a named federal source of liquidity, either the Federal Reserve's Discount Window or the CLF. The agency would not permit the selection of a Federal Home Loan Bank (Bank) as an emergency source of liquidity, although the agency acknowledges that the Banks can be important sources of non-emergency borrowings. The agency states that the Banks are private institutions, which are not obligated to meet emergency liquidity needs.

Questions to Consider Regarding the Proposal

1. Should NCUA adopt a rule on liquidity, as it is proposing? Does it matter that other regulators have guidelines in this area but no specific rule?

2. Are different requirements for credit unions based on asset differences appropriate? Should some other measure be used such as the emergency liquidity ratio (ELR), which is a measure of all deposits (shares) as a proportion of cash and short-term investments?

3. Do you agree with the specific requirements NCUA is proposing for each asset size group?

4. Do you agree the CLF or the Fed's Discount Window should be the only sources of emergency liquidity for credit unions?

5. Should the Federal Home Loan Banks be included as sources of emergency liquidity?

6. Are there other sources of emergency liquidity NCUA should permit?

7. Should the CLF continue to exist?

8. If yes, should the CLF's role remain or be expanded to facilitate non-emergency credit for credit unions? How should that be accomplished?

9. How should the CLF be funded?

10. Does your corporate credit union generally have the desire or ability to serve as an agent member representative to the CLF for the corporate credit union's members?

11. Does your corporate credit union generally have the desire or ability to serve as an agent for the Fed's Discount Window for the corporate credit union's members?

12. Should BASEL III liquidity monitoring requirements be applied to larger credit unions?

Thank you very much for your time and comments.