



Credit Union National Association

CUNA Issue Summary

CENTRAL LIQUIDITY FACILITY (CLF)

ISSUE: Congress established the Central Liquidity Facility (CLF) in 1978 and is managed by the National Credit Union Administration (NCUA). The role of the CLF is back-up liquidity provider (whereas the role of the Federal Reserve System's discount window is lender of last resort). In passing the *Monetary Control Act of 1980*, Congress recognized the CLF as a special industry lender – a back-up liquidity provider – distinct from the discount window. Even though approximately 400 natural person credit unions have access to the Fed's discount window, the CLF continues to serve as a key source of back-up liquidity for credit unions.

The CLF's lending activities are funded by its capital, subscriptions from credit unions, and by borrowing from outside sources like the Federal Financing Bank. The *Federal Credit Union Act* imposed a limit on the CLF's borrowing authority – twelve times the CLF's subscribed stock and retained earnings. Congress also determines CLF's operating expenses, even though the funding comes from CLF's earned income. In 1981, Congress imposed a \$600 million cap on CLF. Congress increased the CLF's borrowing authority to more than \$21 billion during Y2K to provide assurance during the millennium date change; however, in FY2001-2008 the cap was been maintained at \$1.5 billion.

CUNA POSITION: Credit unions operate under a three-tiered approach for their liquidity needs. Credit unions can access the CLF, as a back-up liquidity provider, when corporate credit unions and other correspondent funding is unavailable. Membership is voluntary and open to all credit unions that purchase a prescribed amount of CLF stock. There are two types of membership, regular (natural person credit unions) and agent (corporate credit unions). The American financial system operates on confidence and credit unions are no different than banks in this regard. The imposition of an unreasonably low borrowing cap would severely restrict the CLF and would likely prevent it from functioning as intended in even a moderate liquidity strain.

STATUS/OUTLOOK: In September 2008, NCUA asked Congress to temporarily eliminate the artificial lending cap of the Central Liquidity Facility (CLF). Since then, Congress has approved language that permits the CLF to continue lending to its statutory cap as authorized by section 307(a)(4)(A) of the Federal Credit Union Act, meaning 12 times of the CLF's subscribed stock plus retained earnings.

In the President's Budget Proposal for Fiscal Year 2012, the Administration recommends maintaining the CLF lending authority at the statutory cap, a victory for credit unions. On June 23, 2011, the House Appropriations Committee approved legislation to maintain the CLF lending authority at the statutory cap. The bill now will be considered by the full House. The Senate Appropriations Committee has yet to act on this issue.

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