National Association
of Federal Credit Unions
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NAFCU | Your Direct Connection to Education, Advocacy & Advancement

May 23, 2016

Troy Hillier
PRA Clearance Officer
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Information Collection Request on the Central Liquidity Facility

Dear Mr. Hillier:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, I am writing to you regarding the National Credit Union Administration's (NCUA) information collection request on the Central Liquidity Facility (CLF).

General Comments

NAFCU has always supported low-cost means of meeting credit unions' liquidity needs, and as such, NAFCU remains convinced that it is important that a viable and dependable resource such as the CLF exists to offer credit unions liquidity when necessary. In fact, NAFCU recently expressed such support when the agency finalized its rule allowing corporate credit unions to establish a correspondent relationship with the CLF. Under the final rule, corporate credit unions are now enabled to serve as financial correspondents to help service and administer liquidity advances for CLF members, without requiring the credit union to maintain an account at the corporate credit union. These services include assisting with new member questions and application forms, managing collateral, perfecting security interests, and performing other tasks related to facilitating and administering CLF loans. NAFCU believes that promulgation of this final rule was a much needed change that creates a win-win situation for credit unions and corporates. Now, credit unions have a new opportunity to take advantage of the valuable services that corporate credit unions provide.

NAFCU also supported the provision of the final rule that excludes CLF-related bridge loans from counting against a corporate credit union's aggregate unsecured lending limit to one borrower. So long as the natural person credit union has already been approved for an advance and is awaiting funding from the CLF, bridge loans serve to close the funding gap that exists from when a CLF loan advance is approved until the funding is actually provided, which could be up to 10 business days.

Updated Circulars and Procedures

In order to leverage the agency's recent actions discussed above, NAFCU urges NCUA to update technical provisions and information related to the CLF. For example, NCUA's CLF operating circular has not been updated since October 1999. Given the significant changes the CLF has undergone in the last decade, NAFCU requests the agency revise its operating circular, which provides guidance on CLF membership and advances. NAFCU believes that an updated operating circular will provide credit unions with an opportunity to reevaluate whether the CLF is a practical solution to their potential liquidity problems.

Legislative Modernization

NAFCU believes that certain legislative changes are needed to address shortfalls in the current CLF framework. The CLF should be modernized to meet liquidity needs by: (1) removing the subscription requirement for membership, and (2) permanently removing the CLF borrowing cap so that it may meet current industry needs.

<u>Removing Subscription Requirements</u>
Currently, under Title III of the *Federal Credit Union Act* (FCU Act), credit unions must join the CLF before gaining access to CLF liquidity. NAFCU believes that the standards for membership to the CLF, both in terms of the amount of capital contributions that is required and the application process involved, should not be as stringent and onerous as they are currently. The fact that the standards are too burdensome is evidenced, in part, by the fact that as of November 2015, only 258 natural person credit unions are members.

<u>Removing CLF Borrowing Cap</u>
NAFCU believes that targeted changes to the CLF are needed in order to expand the agency's access to the U.S. Treasury. While access to emergency liquidity played a critical role during the financial crisis, the expiration of the agency's temporary increase in emergency borrowing authority from the U.S. Treasury, coupled with the contraction in the CLF's borrowing authority, has greatly reduced the contingency funding capability of NCUA and the Share Insurance Fund to meet a systemic liquidity event. Accordingly, NCUA should encourage Congress to remove, or greatly increase, the CLF's borrowing cap.

Therefore, NAFCU restates our earlier calls for the agency to seek legislative changes to Title III of the FCU Act that would increase direct membership in the CLF, and encourages the agency to continue working to ensure updates discussed above are implemented.

Should you have any questions or would like to discuss these issues further, please contact me at (703) 842-2249 or memancipator@nafcu.org.

Sincerely,

Michael Emancipator
Senior Regulatory Affairs Counsel