

NCUA-IR - 80-4 PROTRACTED ADJUSTMENT CREDIT 04/80

Central Liquidity Facility; Policy Regarding Protracted Adjustment Credit

AGENCY: National Credit Union Administration.

ACTION: Notice.

SUMMARY: This notice announces the policy of the National Credit Union Administration Central Liquidity Facility with regard to extensions of "protracted adjustment credit." The notice discusses types of long-term liquidity needs that Facility will meet under its authority to provide credit, and basic conditions which must be met for approval a loan.

EFFECTIVE DATE: April 20, 1980.

ADDRESS: National Credit Union Administration Central Liquidity Facility, 1776 G Street, N.W., Washington, D.C. 20456.

FOR FURTHER INFORMATION CONTACT: Mark S. Medvin, Assistant to the President, Central Liquidity Facility, the above address. Telephone (800) [Illegible] -3205.

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The Central Liquidity Facility will provide "protracted credit" for periods in excess of 90 days to credit unions with liquidity problems resulting from national, regional, or local difficulties. The statutory provision authorizing to provide protracted credit /1 is modeled after 201.2(e) of Federal Reserve Regulation A, and it is reasonable that CLF should extend protracted credit to credit unions suffering essentially the same types of liquidity problems as met by the Federal Reserve System under its authority to provide long-term emergency credit to its members. The Federal Reserve Board has never issued formal guidelines for its long-term emergency lending, but the Federal Reserve's operational guidelines have been determined through discussions with Federal Reserve discount officials and other officials and a review of certain relevant documentary materials bearing on discount policy. /2 On the basis of these investigations, the CLF is promulgating the following policy on providing protracted credit.

/1 12 U.S.C. [Illegible] of the Federal Credit Union Act.

/2 Report of a System Committee, Reappraisal of the Federal Reserve Discount Mechanism. Volume 1 Board of Governors of the Federal Reserve System, August 1971, was particularly valuable in this respect.

The CLF has a clear responsibility to lend to its members in unusual and emergency circumstances resulting from national, regional, or local difficulties which give rise to long-lived liquidity needs. This is one of the benefits of CLF membership and the CLF is prepared to give prompt and sympathetic consideration to providing such assistance to a troubled credit union finding itself in these circumstances.

CLF protracted credit is available to meet a broad range of unusual or emergency funding needs which, if not met, may threaten the ability of credit unions to meet contractual obligations for payment over an extended period. CLF's authority is limited to meeting only such needs as result from local, regional, or national difficulties. In general, this means that protracted credit will be provided in situations where a significant contributing cause of the liquidity problem is external to the credit union or largely beyond its control. The cause may be isolated, affecting only one or a small number of credit unions, or it may be widespread with regional or national implications. In either case, the key factor is that unforeseen or uncontrollable conditions, as opposed to mere mismanagement, has meaningfully contributed to the liquidity problem. Examples of such external factors are strikes; local or regional disasters such as fires, floods, tornadoes, or similar unpredictable problems; unforeseen changes in economic conditions; and unusual or emergency circumstances which might cause an otherwise sound credit union to experience persistent problems.

In addition, the stress placed upon the credit union by external difficulties must be of some significance to its present or future viability. In order to grant protracted adjustment credit, the officers of the CLF must find that the failure to fund the credit union's needs might ultimately result in the failure of the credit union or in its inability to serve its members in an effective manner.

The financial condition of the credit union requesting assistance is also significant in the decision of whether to extend CLF protracted credit. Protracted credit will not be extended to support a failing credit union; nor will it be provided to sustain for a time a credit union which is unlikely to return to viability because of problems running deeper than an interim need for funds. On the other hand, even sound credit unions may experience liquidity problems in the event of an emergency or other unforeseen situations, and the CLF in considering whether to extend protracted credit distinguishes between a credit union's present difficulties and its future prospects.

This determination of financial condition, focusing primarily on the future, is necessarily judgmental. Information supplied by the credit union, NCUA, and by appropriate State supervisory authorities plays a significant role in the decision of whether to lend, as does evidence that the credit union has a plan for resolving its problems and is taking appropriate steps to achieve that end. The critical factor in approval of an appropriate request for protracted assistance is a reasonable expectation that the credit union will, with the help of CLF funds, be able to regain its feet as a viable going concern, repay its loans, and ultimately be able to operate without CLF support (other than short-term and seasonal support of a routine nature).

Consistent with the prohibition on CLF from making loans to expand portfolios, the amount of credit available from CLF for protracted assistance is limited to amounts just sufficient to enable the credit union to resolve its difficulties. The rate of interest and terms on protracted loans will be established on a case-by-case basis in order to meet the particular needs of the situation.

All protracted credit requests will be reviewed by the NCUA Board under procedures to be prescribed which will permit the CLF to meet its statutory

responsibility to make decisions within five days.

Dated: April 4, 1990.

Beatrix D. Fields,
Secretary of the Board.

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