

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

DATE: October 2008 **LETTER NO.:** 08-CU-23
TO: Federally Insured Credit Unions
SUBJ: Central Liquidity Facility

Dear Board of Directors and Chief Executive Officer:

During these turbulent times, I want to assure you NCUA stands ready to assist credit unions with liquidity needs through NCUA's Central Liquidity Facility (CLF). The CLF is available to help credit unions meet their liquidity needs.

Congress created the CLF as a back-up source of liquidity for both Federal and state-chartered credit unions. As a back-up source, credit unions cannot use CLF loans to expand their portfolio of loans or investments. 12 U.S.C. 1795e(a)(1).

As I recently announced, Congress now permits the CLF to lend up to its statutory limit, currently approximately \$41 billion.

Criteria for Lending. In order for the CLF to lend, credit unions 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. 12 U.S.C. 1795a(1).

Short-term adjustment credits are 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.

Seasonal credits are 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.

Protracted adjustment credits are available in the event of unusual or emergency circumstances of a longer term nature resulting from national, regional, or local difficulties.

Additional Information. The NCUA web site has information regarding the CLF loan process. There are two ways to apply for a CLF loan: 1) through the agent lending process at a corporate credit union; or 2) as a regular member. The CLF Operating Circulars explain in detail the CLF loan process. See, <http://ncuagov.ncua.lan/Resources/CLF/Pages/default.aspx>.

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.

Currently, the CLF has 104 regular members. Regular member credit unions have purchased capital stock of the CLF.

I encourage you to reassess your liquidity contingency funding plans and include the CLF as a back-up liquidity provider. If you need additional information, please contact your regional office or state supervisory authority. You may also contact the CLF at 703-518-6620.

Sincerely,

/s/

Michael E. Fryzel
Chairman