America's Credit Unions

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The Honorable Andy Barr
Chairman
Committee on Financial Services
Subcommittee on Financial Institutions
and Monetary Policy
U.S. House of Representatives
Washington, DC 20515

The Honorable Bill Foster
Ranking Member
Committee on Financial Services
Subcommittee on Financial Institutions
and Monetary Policy
U.S. House of Representatives
Washington, DC 20515

Re: Today's Hearing: "Lender of Last Resort: Issues with the Fed Discount Window and Emergency Lending"

Dear Chairman Barr and Ranking Member Foster:

On behalf of America's Credit Unions, I am writing regarding the Subcommittee's hearing entitled, "Lender of Last Resort: Issues with the Fed Discount Window and Emergency Lending." America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their nearly 140 million members nationwide.

Credit unions are proud that the industry continues to remain safe and sound even during last year's bank troubles. Still, having access to liquidity is an important tool for credit unions to have when challenges arise. This access to liquidity has traditionally come from several sources including the Federal Reserve's (Fed) Discount Window, membership in a Federal Home Loan Bank (FHLB), and utilization of the Central Liquidity Facility (CLF). The Fed Discount Window and the CLF have become more important to credit unions with recently proposed changes to the FHLB system. The FHLB has been an important liquidity source for many credit unions over the years, and we hope a robust FHLB system can remain a liquidity option for credit unions in the future.

The CLF is a National Credit Union Administration (NCUA)-operated, mixed-ownership U.S. government corporation intended to improve general financial stability by meeting the "liquidity needs" of credit unions. The CLF is owned by its member credit unions and is financially self-supporting, drawing its funds from its own balance sheet and its ability to borrow from the Federal Financing Bank.

Per the Federal Credit Union (FCU) Act and the NCUA's regulations, "liquidity needs" covers a range of needs, including short-term credit, seasonal credit, and protracted credit needed for unusual or emergency circumstances. While the CLF has primarily been a backup source of liquidity, we believe it could be better utilized by more credit unions with greater frequency if it were modernized to meet needs of institutions such as streamlining the process to access liquidity (*i.e.*, membership application and request of an advance) and ensuring responses to requests were timelier.

Credit unions often point to the Federal Reserve's Discount Window as an easier and quicker way to access liquidity than the CLF. One reason for this is that the FCU Act includes certain constraints related to the extension of credit from the CLF that are not applicable to the Fed Discount Window, such as that there must be a valid liquidity need and the credit union must be creditworthy. However, the NCUA can improve certain aspects of the process of receiving funds from the CLF, such as the time necessary to access funds. When a credit union experiences an unexpected need for liquidity, time is of the essence. The FCU Act requires the NCUA to approve or deny an application within five working days. Five, or even up to eight days depending on weekends and holidays, can be a prohibitively lengthy period to learn whether a funding request has been approved. This delay can force credit unions to pursue other liquidity sources instead, particularly when sources such as the Discount Window can provide a credit union with same-day liquidity. As such, we have asked the NCUA to consider—consistent with the FCU Act—shortening the five-day window provided in Part 725 to two days.

Some of these liquidity challenges with the CLF are statutory, and, as such, we urge the Committee to support and examine legislative efforts to improve the CLF. We support an amendment to the FCU Act to allow corporate credit unions to act as agents for smaller (under $250 million in assets), non-CLF member credit unions. This important provision was temporarily enacted previously and made it easier for smaller credit unions to access emergency liquidity. Amending the FCU Act to implement this change on a permanent basis would be an invaluable and necessary lifeline for smaller credit unions, most of which are not CLF members. We believe that the time to take these steps is now, absent a crisis, so that the liquidity tools for credit unions are in place when they are really needed.

On behalf of America's Credit Unions and the 140 million credit union members, thank you for holding this important hearing and considering our views on the subject.

Sincerely,

Jim Nussle, CUDE
President & CEO

cc: Members of the Subcommittee on Financial Institutions and Monetary Policy