NCUA
National Credit Union Administration

2025–2026 Central Liquidity Facility Budget Justification

November 2024

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NCUA
National Credit Union Administration

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The Central Liquidity Facility (CLF)

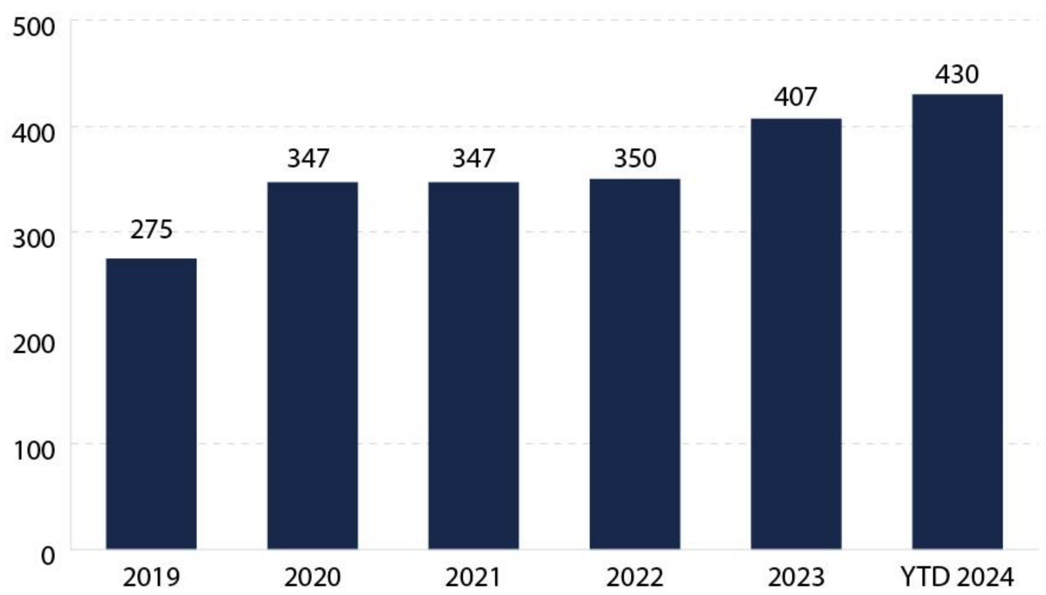
Introduction

The CLF is a member-owned, mixed-ownership government corporation managed by the NCUA Board in its capacity as the CLF Board. The CLF enhances the financial stability of the credit union system by meeting the liquidity needs of its members, and it serves as a backup source of liquidity for both federal and state-chartered credit unions. The CLF can also provide the National Credit Union Share Insurance Fund a vital source of emergency funds to assist with any system-wide liquidity events that may occur. CLF expansion through new memberships results in an increase in the total liquidity available to CLF members as well as the credit union system as a whole.

Membership

The CLF has 430 regular members[1] and 11 corporate credit union correspondents.[2] The CLF's regular membership increased by 23 net new members from December 31, 2023, and is projected to approach 440 by year end 2024. The 2019–2024 regular membership trend is shown below in Figure 1.

Figure 1. CLF Regular Members



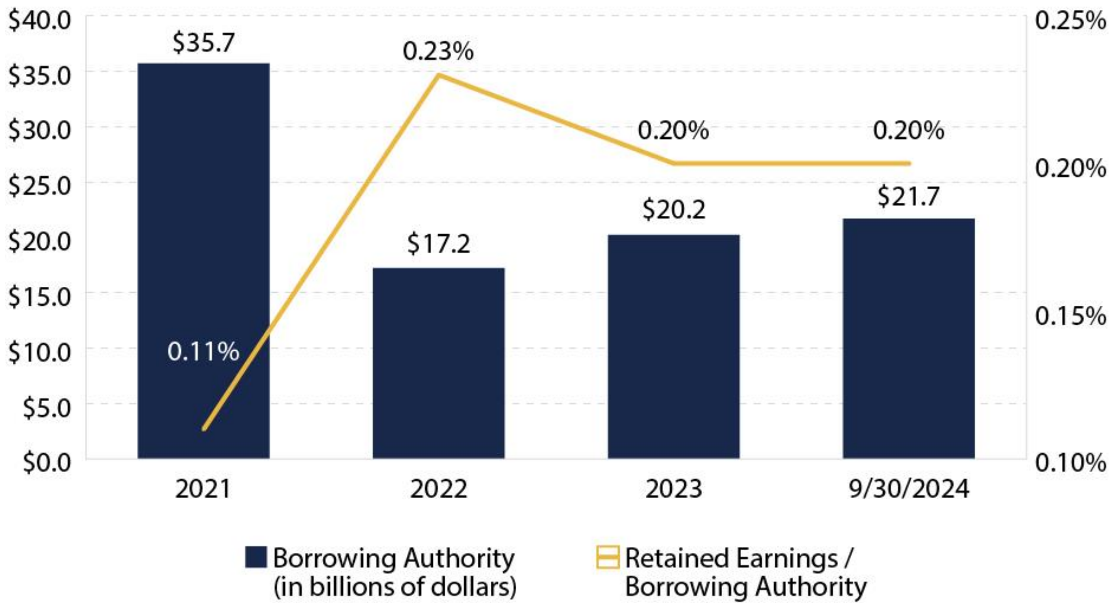
[1] All information and statistics are provided as of September 30, 2024, unless otherwise specifically noted.

[2] Corporate correspondents act as fiduciaries for the CLF by providing services in support of CLF members' activities and liquidity advance transactions (including acting as a collateral agent in perfecting CLF's security interests).

Capital and Borrowing Authority

The CLF's current 430 regular members provide $1.76 billion in subscribed capital bringing subscribed capital stock and surplus to $1.81 billion. This amount provides for a statutory borrowing authority from all sources of $21.7 billion. Figure 2 below illustrates the historical trend of the CLF's borrowing authority with a ratio of retained earnings to borrowing authority, providing insight into recent growth in borrowing authority and the health of the CLF.[3] By prudently managing retained earnings relative to its capital base and borrowing authority, the CLF stability is strengthened and is well-positioned to sustain operational resilience and safeguard risks to member capital holders, especially during periods of systemic economic uncertainty.

Figure 2. Borrowing Authority and Retained Earnings to Borrowing Authority Ratio



[3] The Coronavirus Aid, Relief, and Economic Security and Consolidated Appropriations Acts provided temporary provisions expanding membership and maximum borrowing authority from 2020 until expiration in 2022.

Investment Portfolio

The CLF investment portfolio of $966 million is comprised of member deposits, paid-in capital stock, and retained earnings. Continued growth in membership and the stability of market-implied short-term interest rates through the third quarter are expected to result in full-year 2024 increases in capital stock, investment income, and retained earnings. The 2021–2024 investment portfolio par amounts and portfolio yields are shown below in Figure 3.

Figure 3. Annual Year Ending Investment Portfolio Par & Yield

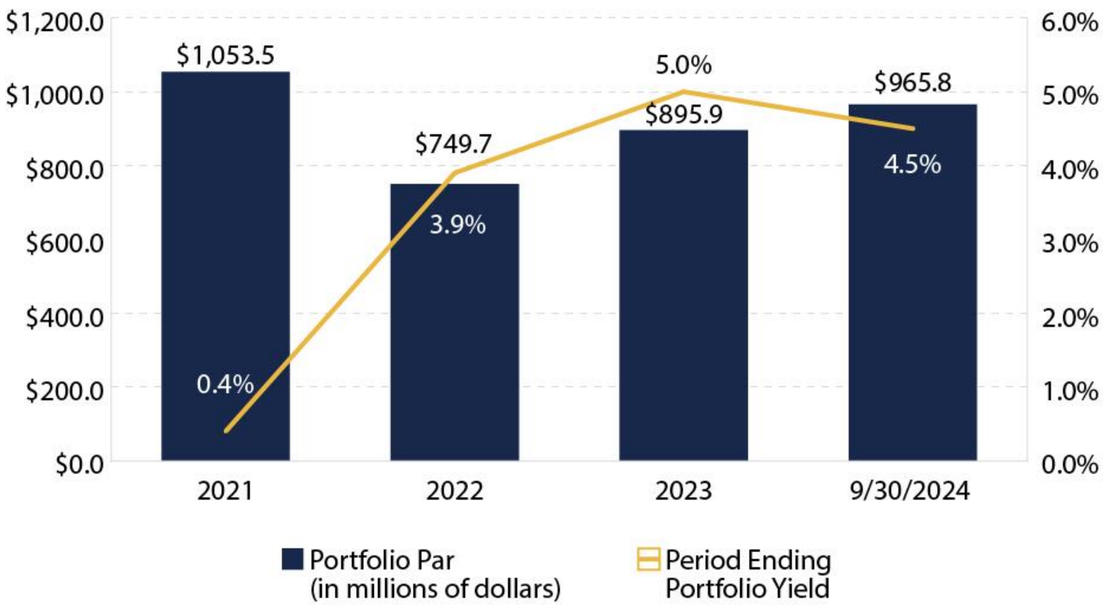
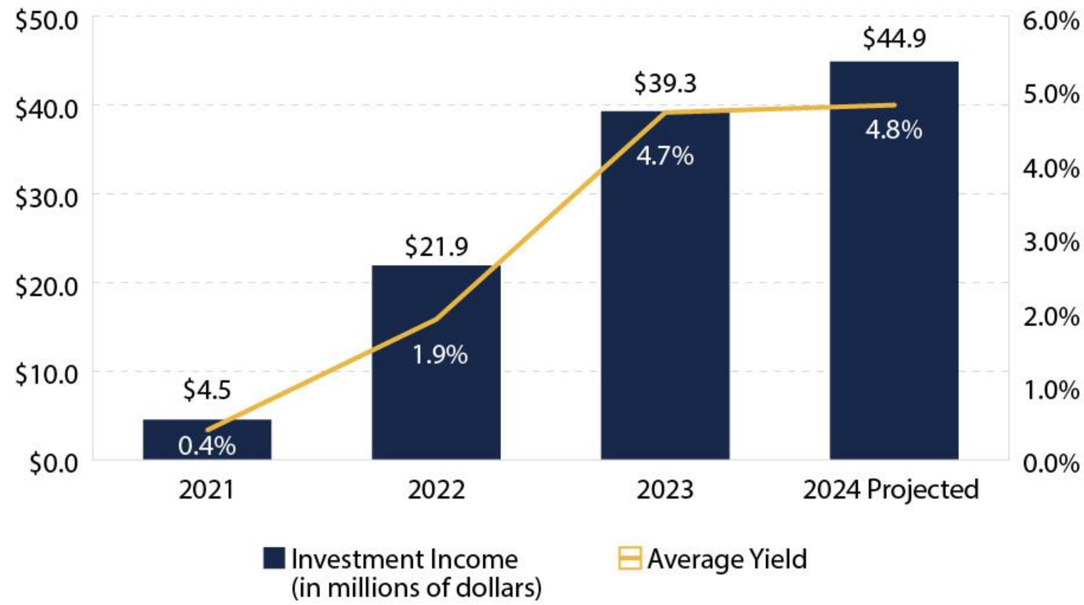


Figure 4 below shows the associated 2021–2024 investment portfolio annual investment income and average yield. The CLF's investment portfolio is materially invested short term with 75 percent of instruments maturing within 1 year.[4] The short duration and material allocation to overnight funds, Treasury bills, and Treasury floating rate notes results in investment income being sensitive to, and highly correlated with, fluctuations in short-term interest rates.

Figure 4. Annual Investment Income and Average Yield

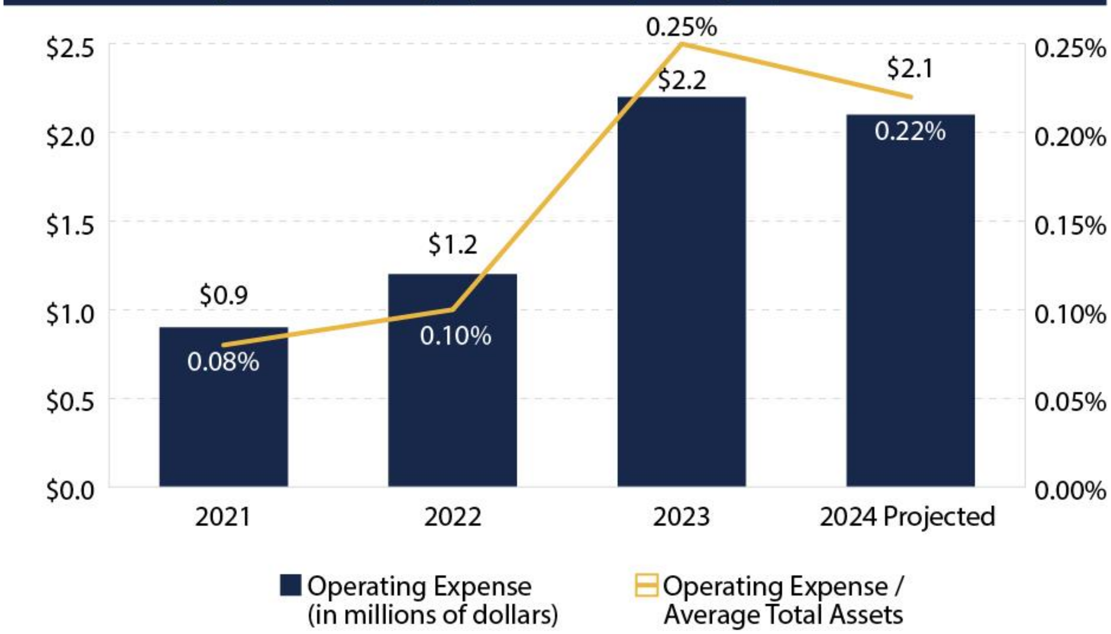


[4] Per the Federal Credit Union Act (12 USC 1795f), the CLF may invest in obligations of the United States or any agency thereof, make deposits in federally insured financial institutions, and make investments in shares or deposits of credit unions.

Operating Expenses

The CLF has built $44 million in retained earnings and remains self-supporting through interest income earned on investments it holds. Figure 5 illustrates the CLF's operating expenses and operating expense ratio. Operating expenses were relatively low in 2024 with a projected operating expense to average total assets ratio of 0.22 percent. The increase in operating expenses from 2022 to 2023 reflects the increases in costs associated with the establishment of the CLF as a separate office within the NCUA, and the costs associated with the appreciable increase in regular membership during that time. Full-year 2024 operating expenses are expected to be below those of 2023.

Figure 5. Operating Expense and Operating Expense Ratio



The 2025–2026 CLF Budget

Overview

The CLF must be ready to provide support for the financial stability of member credit unions by delivering liquidity for short-term, seasonal, and protracted needs. For this reason, the annual CLF budget request considers the potential for surges in both applications for membership and the processing of liquidity advances while maintaining routine operations and audit support.

The CLF has prepared a comprehensive budget which recognizes CLF estimates of revenue, retained earnings objectives, and member distributions while outlining operational expenditures for 2025. Table 1 below shows the CLF's projected full-year 2024 and 2025 budget metrics. Full-year 2024 operating expenses are expected to be consistent with, and are trending below, the approved 2024 budget of $2.2 million.

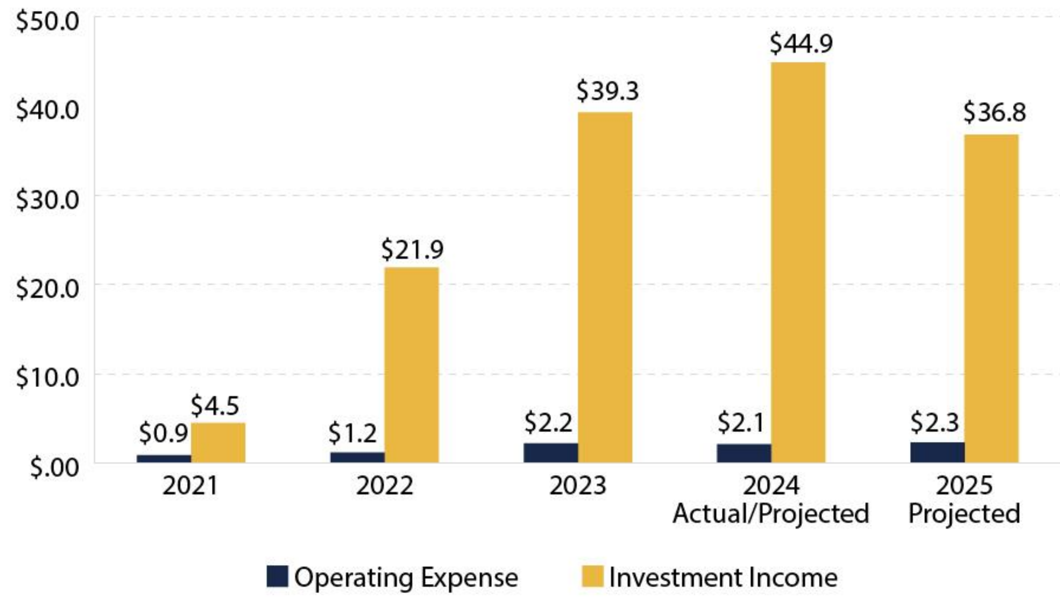
Table 1. Budget Metrics

(In Millions)	Projected 2024	Projected 2025
Income	44.9	36.8
Operating Expenses	-2.1	-2.3
Dividends & Interest	-38.9	-31.0
Increase in Retained Earnings	**3.9**	**3.5**
Cumulative Retained Earnings	**$ 45.0**	**$ 48.5**

Sources of Funds

Federal funds futures and Treasury forward curves were employed to project the remaining 2024 and 2025 investment income of $44.9 million and $36.8 million, respectively (Figure 6). While membership growth is expected to remain strong with the potential addition of 36 CLF members in 2025, investment income is projected to decline due to lower market-implied short-term interest rates that are the key drivers of revenue.

Figure 6. Operating Expense and Investment Income (in millions of dollars)

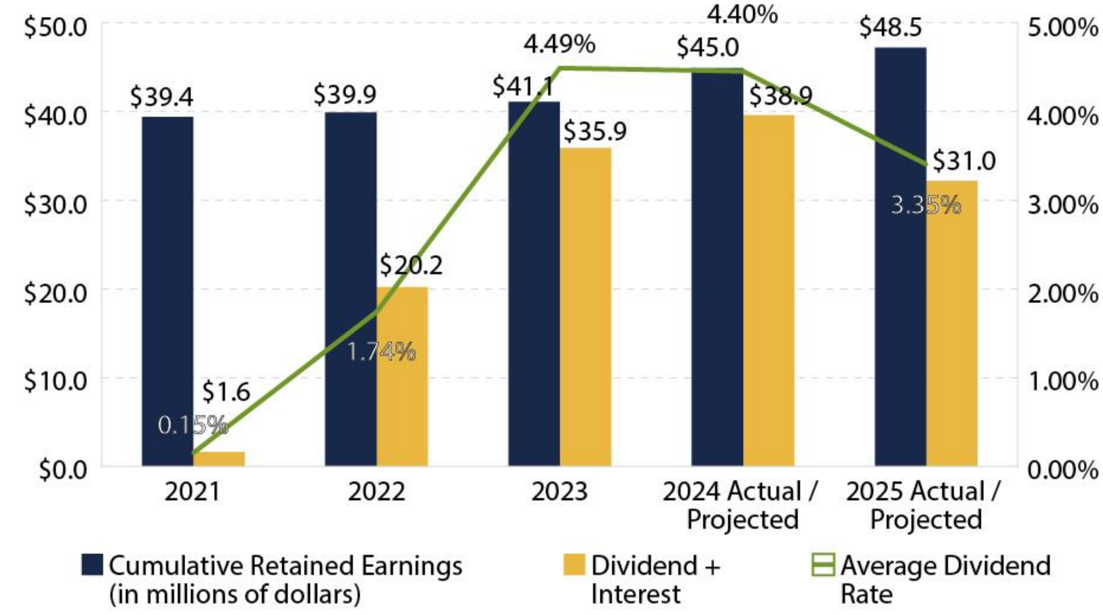


Uses of Funds

In 2025, the CLF will use its investment income ($36.8 million projected) to cover operating expenses ($2.3 million), meet retained earnings objectives ($3.5 million), and distribute the remaining proceeds ($31.0 million) as dividends on paid-in capital accounts and interest paid on liquidity reserve and clearing accounts. These estimates are the best available given the current forward rates and are subject to change with market condition changes.

The CLF's projected retained earnings increase of $3.5 million will support the continued growth in CLF membership and maximum borrowing authority by providing additional reserves to absorb unexpected costs or losses. Retained earnings also provide a borrowing base and produce investment income which supports the operating expenses of the CLF. The recent history of cumulative retained earnings, annual dividends, and average dividend rate, and the 2025 projected levels are shown in Figure 7.

Figure 7. Retained Earnings, Dividends & Interest with Dividend Rate



As the CLF's investment income is the source of funding member dividends, the level of dividends is subject to change based on investment portfolio performance. Member dividend rates are projected to decline as they are closely correlated with short-term investment yields. Market-implied rates suggest a decrease in yields, which are expected to impact dividend rates and payouts accordingly.

Budget Summary

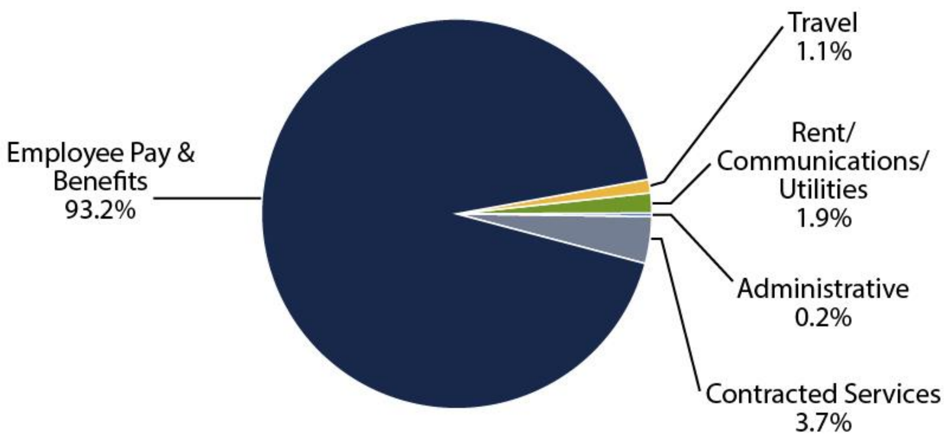
The proposed CLF budget represents the estimated annual needs for 2025 and 2026. As shown in Table 2 below, the 2025 budget is $2.3 million and represents an increase of 4.9 percent, or $108,798, from the prior year budget.

Table 2. 2025–2026 CLF Operating Budget Summary

Budget Cost Category	2024 Board Approved Budget	2025 Proposed Budget	2024-2025 Change	Change Percent	2026 Proposed Budget	2025-2026 Change	Change Percent
Employee Compensation	1,704,955	2,149,978	445,023	26.1%	2,257,477	107,499	5.0%
CLF Salaries	1,057,793	1,342,716	284,923	26.9%	1,409,852	67,136	5.0%
CLF Benefits	425,078	535,327	110,249	25.9%	562,093	26,766	5.0%
Salaries (allocation of NCUA Board & Central Office)	222,084	271,935	49,851	22.4%	285,532	13,597	5.0%
Travel	23,180	26,300	3,120	13.5%	27,615	1,315	5.0%
Rent/Comm/Ulities	40,027	43,563	3,536	8.8%	45,741	2,178	5.0%
Administrative	4,618	3,762	(856)	-18.5%	3,950	188	5.0%
Contracted Services	426,285	84,260	(342,025)	-80.2%	113,480	29,220	34.7%
Total	**$ 2,199,065**	**$ 2,307,863**	**108,798**	**4.9%**	**$ 2,448,263**	**140,400**	**6.1%**

The following chart (Figure 8) presents the major categories of spending supported by the proposed 2025 CLF Budget.

Figure 8. Proposed 2025 CLF Budget



The 2021–2026 trend illustrated in Figure 9, and year-over-year expenditure changes for each category are further discussed below.

Figure 9. Annual Budget Trend (in millions of dollars)

Staffing, Pay, and Benefits

Pay and benefits would increase by 26 percent, or $445,023, for a total budget of $2.1 million in 2025 and $2.3 million in 2026. The budget reflects the addition of one full-time equivalent (FTE) position for a total of six funded staff positions and the merit and locality pay increases required by the NCUA's current collective bargaining agreement, as well as the promotions and other mandatory employer contributions including health insurance and retirement. The additional FTE expenses are offset by accompanying reductions in contracted services.

Board and Headquarters Staff Costs

The pay and benefits discussed above include indirect costs for the NCUA Board, in its capacity as the CLF Board, and other headquarters staff of $271,935 for 2025 and $285,532 for 2026. Cost allocations increased $49,851 in 2025 from the prior year budget of $222,084. CLF reimburses the Operating Fund quarterly for the indirect costs which are allocated by applying the ratio of CLF positions to the total NCUA authorized position count.

Non-pay and Other Expenses

Non-pay and other expenses decreased by 68 percent, or $336,225, totaling $157,885 for 2025 and $190,786 for 2026. The Non-pay category includes Contracted Services, Travel, Rent, Communication, Utilities, and Administrative costs.

Contracted Services

Due to the contingent nature of the CLF function, the budget reflects expenses that may or may not be incurred in 2025 and 2026 and that are directly related to the extent of increased CLF activities—such as increases in CLF membership and the processing of loan applications. The expenses subject to the contingent nature of the CLF include Contracted Services and Travel expense categories. The Contracted Services and Travel budgets for 2025 are 75 percent lower at $110,560 as compared to $449,465 in 2024. The primary contributor to the decrease is the reduction of contracted services, which will be provided by the FTE addition mentioned previously.

The CLF uses correspondent relationships with corporate credit unions to manage the back-office functions related to lending activity and pays the correspondents for these services. Moderate increases in CLF activity are expected to be supported by existing staff and contracted services; however, a large increase in activity could exceed the capacity of the existing CLF staff resulting in the need for obtaining additional contracted services.

Planned Activities

In 2025 the CLF will pursue new efficiencies and automation in facility operations (including liquidity advance procedures), expand outreach efforts in support of additional membership growth (particularly for those consumer credit unions approaching the $250 million asset level), and further use business intelligence platforms to support improvements and gain actionable insights into existing and potential member activities.