



**NCUA**  
National Credit Union Administration

# 2024 CLF Budget Justification

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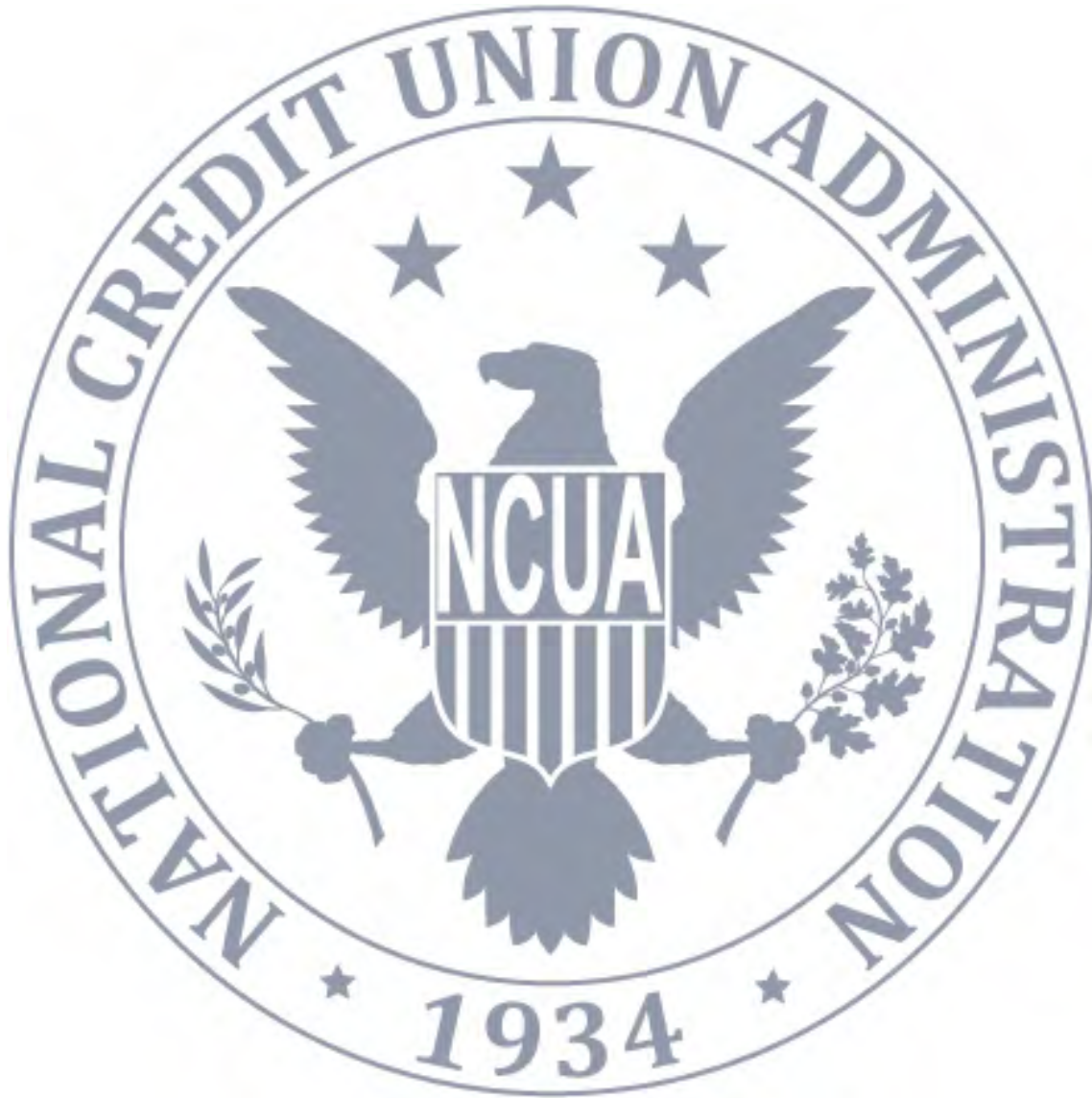
December 2023



# NCUA

National Credit Union Administration

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## Table of Contents

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<b>THE CENTRAL LIQUIDITY FACILITY (CLF)</b> .....	<b>1</b>
INTRODUCTION .....	1
MEMBERSHIP .....	1
CAPITAL AND BORROWING AUTHORITY.....	2
INVESTMENT PORTFOLIO.....	2
<b>THE 2024 CLF BUDGET</b> .....	<b>4</b>
OVERVIEW .....	4
SOURCES OF FUNDS .....	4
USES OF FUNDS .....	5
BUDGET SUMMARY .....	6
STAFFING, PAY AND BENEFITS.....	8
BOARD AND CENTRAL OFFICE STAFF SALARIES .....	8
NON-PAY AND OTHER EXPENSES .....	8
CONTRACTED SERVICES.....	8
PLANNED ACTIVITIES .....	8



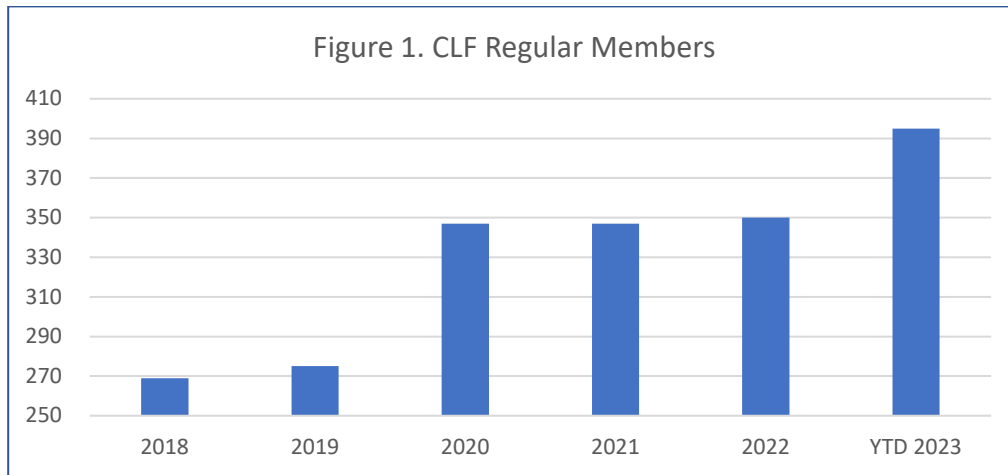
## The Central Liquidity Facility (CLF)

### Introduction

The CLF is a member-owned, mixed ownership government corporation managed by the National Credit Union Administration (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, serving as a back-up source of liquidity for both federal and state-chartered credit unions. The CLF can also provide the National Credit Union Share Insurance Fund (NCUSIF) 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 whole of the credit union system.

### Membership

At this time, the CLF has 394 regular members and 11 corporate credit union correspondents. The CLF’s regular membership increased by 44 net new members from December 31, 2022, and is expected to exceed 400 by year end 2023.<sup>1</sup> The 2018–2023 regular membership trend is shown in Figure 1.



<sup>1</sup> All information and statistics are as of September 26, 2023, unless otherwise specifically noted.



## Capital and Borrowing Authority

The CLF’s current 394 regular members provide approximately \$1.6 billion in subscribed capital bringing subscribed capital stock and surplus to approximately \$1.65 billion. This amount provides a statutory borrowing authority from all sources of \$19.8 billion.

## Investment Portfolio

The paid-in portion of capital stock and retained earnings that comprise the CLF investment portfolio is \$868 million. With continued growth in membership and the net income levels expected for the CLF, capital stock and retained earnings are expected to continue to increase. The 2018–2023 investment portfolio par amounts and portfolio yields are shown in Figure 2. Approximately \$696 million, or 80%, of the aggregate investment portfolio is currently invested in overnight funds and U.S. Treasury Floating Rate Notes.

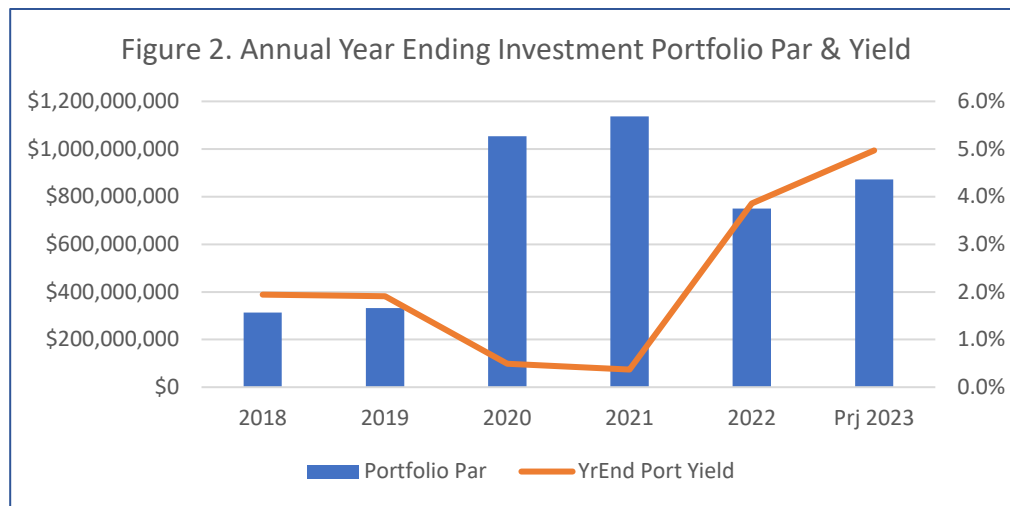
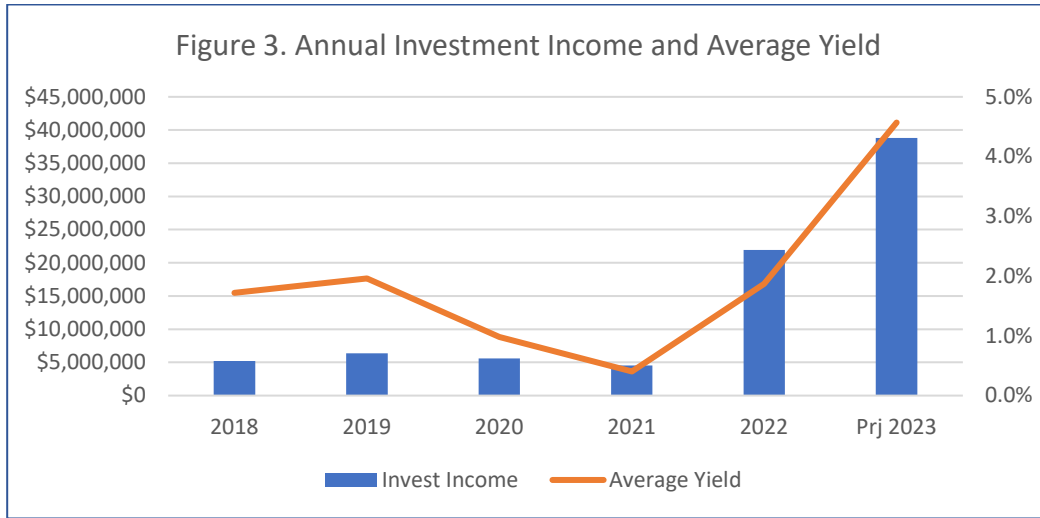
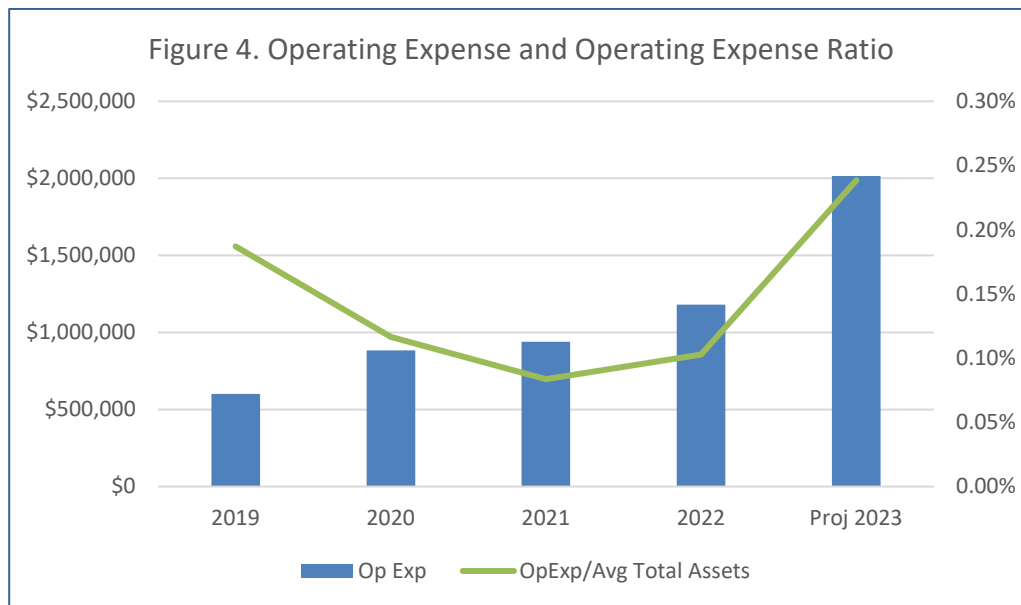


Figure 3 shows the associated 2018–2023 investment portfolio annual investment income and average yield.



The CLF has built retained earnings to \$40 million and remains self-supporting through interest income earned on invested member capital and the retained earnings held by the CLF. As illustrated in Figure 4, the CLF operating expenses remained relatively low with the operating expense ratio averaging 0.24% for 2023.





## The 2024 CLF Budget

### Overview

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

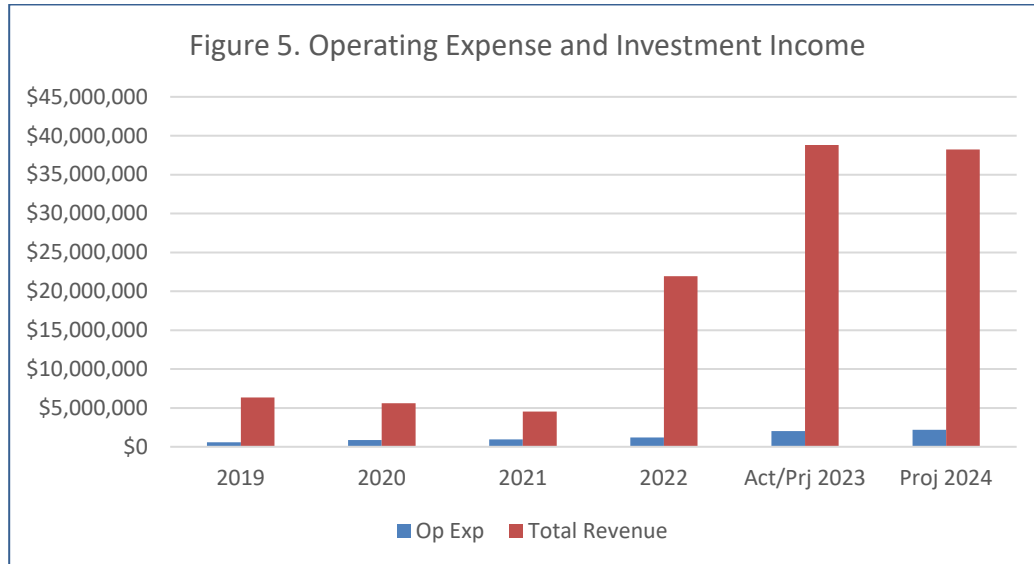
The CLF has prepared a comprehensive budget which recognizes CLF estimates of revenue, retained earnings objectives, and member distributions while detailing operational expenditures for 2024. Table 1 below shows the CLF’s September 2023 and projected full-year 2023 and 2024 budget metrics. The full-year 2023 operating expenses are expected to be \$0.2 million less than originally budgeted primarily due to a lower utilization of previously anticipated contracted services.

Table 1. Budget Metrics

(in Millions)	YTD Q3 2023	Projected 2023	Projected 2024
Income	\$28.4	\$38.8	\$38.2
Operating Expenses	\$-1.5	\$-2.0	\$-2.2
Dividends & Interest	\$-26.2	\$-35.6	\$-34.0
Increase in Retained Earnings	\$0.6	\$1.2	\$2.0
Cumulative Retained Earnings	\$40.6	\$41.2	\$43.2

### Sources of Funds

The federal funds futures implied overnight rates and forward curves were employed to project the remaining 2023 and 2024 investment income of \$38.8 million and \$38.2 million respectively (Figure 5).

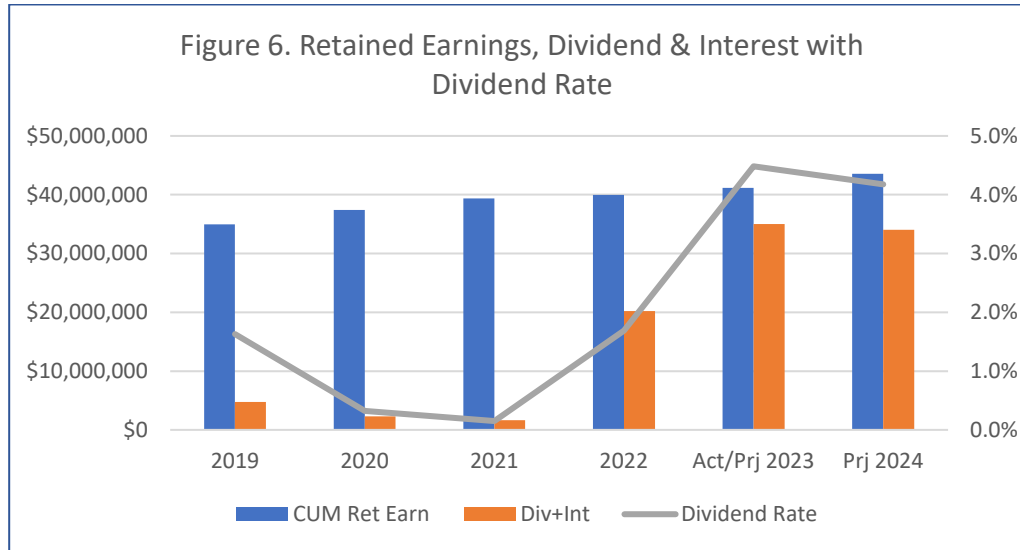


## Uses of Funds

The CLF will utilize its investment income to cover operating expenses (\$2.2 million), meet retained earnings objectives (\$2 million), and distribute the remaining proceeds (\$34 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 modification with changes in market conditions. The slight decrease in investment income forecasted for 2024 is due to the predicted decrease in overnight and short-term rates in 2024.

In 2024, the CLF plans to increase retained earnings by \$2 million as the growth of CLF membership requires additional reserves to absorb any unexpected costs or losses and provide a source of revenue to fund the operations. 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. The 5-year history for cumulative retained earnings, annual dividends, and annualized dividend rate, and the 2024 projected levels, are shown in Figure 6.





## Budget Summary

The proposed CLF budget represents the estimated annual needs for 2024. As shown in Table 2 below, the 2024 budget is \$2.2 million and represents a decrease of 2 percent, or \$35,557, from the prior year budget.

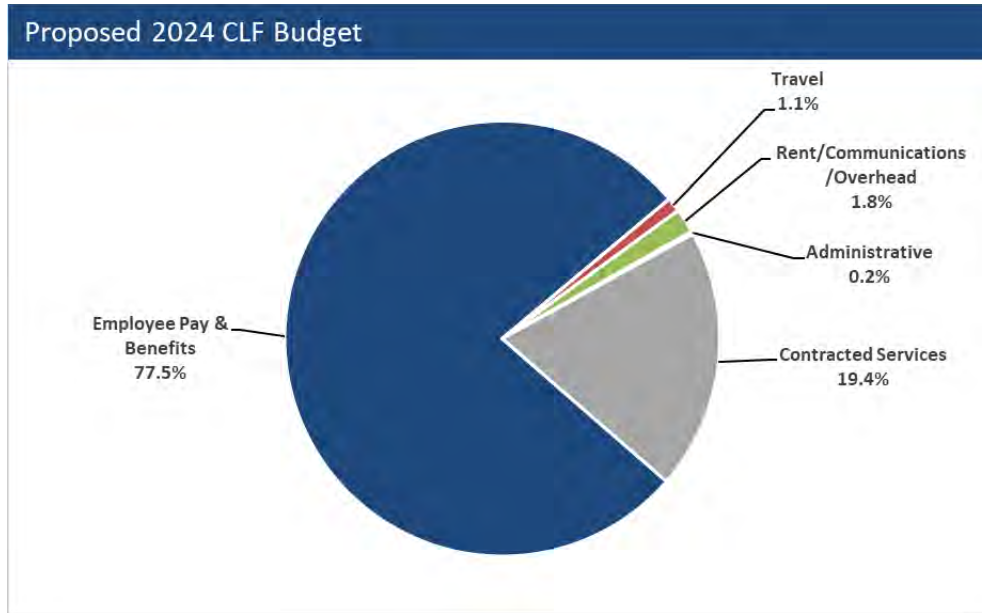
Table 2. Calendar Year 2024 and 2023 CLF Budgets

Description	2024 Budget	2023 Budget
Salaries	\$1,057,793	\$983,221
Benefits	\$425,078	\$420,391
Salaries (allocation of NCUA Board <sup>1</sup> and Central Office)	\$222,084	\$256,560
<b>Pay &amp; Benefit Subtotal</b>	<b>\$1,704,955</b>	<b>\$1,660,172</b>
Rent, Communications, Overhead	\$40,027	\$48,911
Administrative	\$4,618	\$4,095
Contracted Services, Travel, Training	\$449,465	\$521,444
<b>Non-Pay Subtotal</b>	<b>\$494,110</b>	<b>\$574,450</b>
<b>Total Expense</b>	<b>\$2,199,065</b>	<b>\$2,234,622</b>

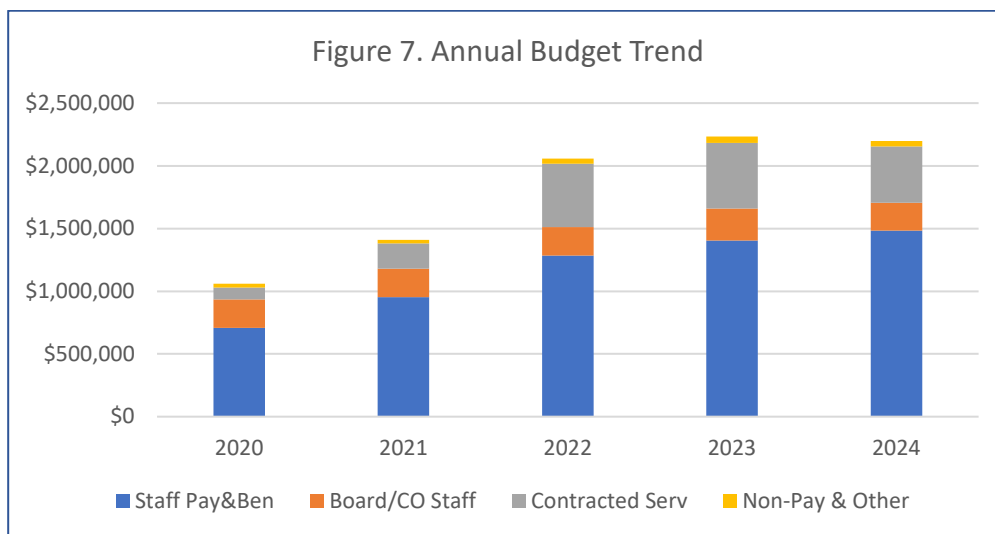
<sup>1</sup>In its capacity as the CLF Board



The following chart presents the major categories of spending supported by the proposed 2024 CLF Budget.



The 2020–2024 trend illustrated in Figure 7, and year-over-year expenditure changes for each category are further discussed below.





## **Staffing, Pay, and Benefits**

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The 2024 staffing level remains at five (5) positions. There is no increase in the total authorized staffing level. The pay and benefits increase by 3 percent, or \$44,783, for a total budget of \$1.7 million. The budget reflects the merit and locality pay increases required by NCUA’s current collective bargaining agreement, as well as the promotions and other mandatory employer contributions, including health insurance and retirement.

## **Board and Headquarters Staff Costs**

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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 \$222,084 for 2024. Cost allocations decreased \$34,476 from the prior year budget of \$256,560. CLF reimburses the Operating Fund quarterly for the indirect costs. Indirect costs are allocated by applying the ratio of CLF full-time equivalent (FTE) employees to the NCUA total.

## **Non-pay and Other Expenses**

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Non-pay and other expenses decreased by 14 percent, or \$80,340, totaling \$494,110 for 2024 as compared to \$574,450 in 2023. The Non-pay category includes Contracted Services, Travel, Rent, Communication, Utilities, and Administrative costs.

## **Contracted Services**

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Due to the contingency nature of the CLF function, the budget reflects expenses that may or may not be incurred in 2024 which are directly related to the extent of the increased CLF activities – such as increases in CLF membership and the processing of loan applications. The expenses subject to the contingency nature of the CLF include Contracted Services and Travel Expense categories. The contracted services for 2024 is 14 percent lower at \$449,465 as compared to \$521,444 in 2023. A major contributor to the decrease was the successful completion of an electronic statement automation project which had an expense of \$101,000.

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**

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In 2024, the CLF will continue to pursue new efficiencies and automation through efforts of existing staff members and available contracted services. Specifically in 2024, the CLF will progress in further leveraging data sources to more easily report on CLF membership (including potential members), which will provide improved visibility related to both opportunities and risks. Planned initiatives include continued employment



of business intelligence platforms to support current operations, enhanced membership, and liquidity dashboard reporting, and bolstered investment management tools and reporting.