

CORPORATE CREDIT UNION ALLIANCE, MELISSA ASHLEY

Proposal and Comment Information

Title: Request for Information and Comment on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit, OP-1838

Comment ID: FR-0000-0137-01-C116

Subject

Docket No. OP-1838

Submitter Information

Organization Name: Corporate Credit Union Alliance

Organization Type: Organization

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Please accept the attached comment letter on behalf of the Corporate Credit Union Alliance.

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December 9, 2024

Ms. Ann E. Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit, Docket No. OP-1838

Dear Secretary Misback:

Thank you for the opportunity to provide comments on the Board's Request for Information regarding operational aspects of Federal Reserve Bank extensions of discount window and intraday credit. These comments are informed by extensive experience working with credit unions and their actual experiences with discount window operations.

Intro to the Alliance

This letter is submitted by the Corporate Credit Union Alliance (CCUA), an alliance comprised of all eleven corporate credit unions in the United States, in response to the notice of potential action issued by the Board of Governors of the Federal Reserve System. The CCUA appreciates the opportunity to submit comments regarding potential actions to modify or change operational aspects of the Federal Reserve Discount Window.

Operational Frictions and Inefficiencies

1. Submitting Legal Documents: There is inconsistency across different Federal Reserve districts regarding the submission and signing of agreements. Some districts accept digital signatures, others require wet signatures, and some use DocuSign. Standardizing document requirements would improve efficiency.
2. Pledging or Withdrawing Securities as Collateral: The verification process for collateral withdrawal is lengthy and involves multiple authorized employees. A streamlined multi-step authorization and witness process could simplify this.
3. Requesting Discount Window Advances: Without the Discount Window Direct platform, the advance request process is cumbersome and necessitates multiple authorized employees to join a call simultaneously. Streamlining this process could enhance efficiency.
4. Repaying Discount Window Advances: While the FRB discount window staff are knowledgeable and helpful, the FRSecure messaging system has limitations, such as restricted access to historical communications and the inability to add additional individuals to emails.

5. Interacting with FRB Staff: Responses are often delayed as FRB staff await information from other departments. For instance, the approval and implementation of the BIC collateral program experienced delays due to legal approval, FHLB subrogation, and data team processing.

6. Electronic Signatures: Standardizing the use of electronic signatures across all FRB operations would streamline processes, eliminating the need for printing, wet signatures, scanning, and emailing through FRSecure.

Specific Improvements for FHLB Members

When loans are pledged under the BIC program, the Fed files a lien on all assets of the organization that are pledged or delivered to the Fed. This quasi-blanket lien limits access to liquidity from other sources. We recommend that all lenders, including the Fed Discount Window, specifically identify assets pledged as collateral to support liquidity facilities. This process could be expedited through a standard agreement between the FRB and FHLB, thus avoiding lengthy legal processes.

Challenges for Smaller Depository Institutions

The 2013 regulatory requirement (NCUA section 741.12) mandating that all credit unions with over \$250 million in assets have direct access to either the FRB Discount Window or the NCUA Central Liquidity Facility was beneficial in establishing critical emergency liquidity sources. Corporate credit unions act as correspondent agents for both federal sources, which is positive. However, the ongoing correspondent operational process, requiring forms on a credit union's letterhead with wet signatures between multiple parties, is slow and inefficient. Smaller depository institutions with limited staffing often lack the resources to navigate establishing access to the Discount Window. While the Correspondent option facilitates access, the overall documentation required to establish access to the Discount Window and pledge collateral is overly burdensome for smaller depository institutions that may not have available investment securities to pledge. Simplifying documentation requirements and enhancing support for smaller institutions could alleviate these challenges.

Intraday Credit Operational Frictions

The FRB's Operating Circular No. 10, along with the Payment System Risk Policy, require a substantial application process and an annual submission of a self-assessment and board resolution. Both the initial application and the yearly requirements are quite cumbersome and complex. Given that the FRB, FDIC, and NCUA already have electronic access to the financials and supporting details of every financial institution, we recommend that this process be automated internally by the FRB. This would eliminate the need for the annual self-assessment, board resolution, and submission process as outlined in the "Guide to the Federal Reserve's Payment System Risk Policy on Intraday Credit.

Most smaller credit unions rely on their corporate credit unions for payment process and settlement. To avoid managing intraday credit and after-hours payment activities for their members, corporate credit unions maintain high balances at the FRB. Enhancing the operational Discount Window and addressing the perception of institutions that

borrow could help corporate credit unions manage more efficient balance sheets and better serve small credit unions.

It is also crucial that as the FRB enhances systems for real-time activities, they continue to collaborate with corporate credit unions, which represent the majority of credit union settlement activities.

With FedNow payments occurring during evenings and weekends, intraday credit and Discount Window access should be made available.

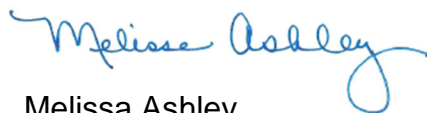
Further Recommendations

To facilitate the FRB's transition from being the "lender of last resort" to a primary operational lending facility, it is essential to address the stigma associated with the discount window. Offering a variety of borrowing structures and enhancing the Discount Window Direct platform to provide availability on weekends are also vital steps. Additionally, considering the competitive landscape with wholesale financial institutions, the FRB's borrowing options should be diverse and flexible.

In conclusion, we encourage the FRB to automate internal processes, standardize document requirements, and enhance communication and operational functionalities to improve the efficiency of the discount window and intraday credit programs. These changes will better support financial institutions and contribute to the stability and effectiveness of the US financial system.

Thank you for considering our comments.

Sincerely,



Melissa Ashley
Corporate Credit Union Alliance Chair
Corporate One Federal Credit Union, President/CEO

cc: Corporate Credit Union Alliance Executive Committee
Chris Felton, President/CEO, Corporate Central Credit Union
Cindy Nelson, President/CEO, EasCorp Federal Credit Union
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