



# Small Credit Union Liquidity Solutions

**-DISCUSSION DRAFT-**

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**2025 Small Credit Union  
Solutions Summit**

# Introduction

## Understanding the Need

- Small credit unions have fewer deposits and limited access to external funding sources.
- They must carefully manage liquidity to handle unexpected withdrawals and operational expenses.
- Unexpected economic downturns or local financial crises can impact deposit stability.
- Small credit unions must ensure compliance while optimizing their limited financial resources.

## Some Proposed Solutions Include

- Low Income Designation
- Social Impact Deposits
- Enhanced Deposit Mobilization
- Loan Participation Network
- Peer to Peer (P2P) Technology
- Distributed Ledger Solutions

## Alternative Liquidity Fund CUSO Proposal

- Shared Liquidity Network
- A "Central Liquidity CUSO
- Controlled by Member CUs

## How You Can Get Involved

- Join us at the 2025 Small Credit Union Solutions Summit.
- Join our Small Credit Union Liquidity Working Group.

Thank you for your interest in supporting this work.

**Renée Sattiewhite**  
President & CEO  
AACUC

**Shirley Senn**  
Small Credit Union Liquidity  
Working Group Leader

## **SECTION 1:**

### **KEY POINT OUTLINE**

# **7 Ways to Improve Small Credit Union Liquidity**

**Discussion Draft Prepared for the  
Small Credit Union Solutions Summit**



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# Small Credit Union Liquidity Solutions



## 1. Low Income Designation Status

- Ensure that all small credit unions who qualify for LID status obtain it. This opens up opportunities to take nonmember deposits. NCUA examiners are trained to provide this option, work with groups/consultants (i.e., Inclusiv, Walter Merkle, Allen Upchurch) or use a tech provider like CU Collaborate.
- Also allows for subordinated debt issuance



## 2. Social Impact Deposits

- Deposits that are placed in a specific CU with the goal of supporting local community development initiatives to create positive social change.
- Partner Example - Cnote (Impact Cash, Climate Cash)
- CU Example - Hope Credit Union



## 3. Enhance Deposit Mobilization

- Digital marketing and mobile banking- work with preselected fintechs willing to cater to small credit unions (discount based on aggregate volume from multiple credit unions). Use data-driven digital marketing strategies to attract new deposits. Enhanced mobile banking apps can also incentivize members with personalized offers, driving higher deposit volumes.
- Co-branded products- partner with local business or community organizations to create special deposit products that can tap into new customer bases and improve overall liquidity.
- High yield checking and savings accounts- (i.e. Kasasa)
- Round up options on debit cards
- Remote deposit capture (benefits- faster funds availability, data driven insights, convenience to members)
- Gamification savings challenges through mobile apps/fintechs to meet deposit goals (i.e. Debbie )
- Partner with fintechs that provide access to available funds like tax credits, social benefits (i.e. Starlight, MasRefund, MuseTax)

# Small Credit Union Liquidity Solutions



## 4. Loan Participation Network for Small CUs

- Traditional network that is structured just for small credit unions, facilitating purchases and sales at reduced fees.
- Platform that allows for buying or selling and settling fractions of individual loans or fraction of loans on a digital platform. Example- Quilo



## 5. Shared Liquidity Network -- A "Central Liquidity" CUSO

- Establish a cooperative liquidity pool among multiple credit unions. Each CU contributes to a central fund, enabling members of the pool to borrow against the pool when short-term cash needs arise.



## 6. Peer to Peer (P2P) Network

- Leverage P2P technology to create platforms where credit unions can lend and borrow liquidity directly from one another, bypassing traditional intermediaries.



## 7. Blockchain and Distributed Ledger Solutions

- Smart contract automation- utilize blockchain technology to create smart contracts that automatically execute liquidity transfers when predefined conditions are met. This can reduce settlement times and improve transparency
- Consider tokenizing portions of loan portfolios or other assets. These digital tokens can then be traded on secure platforms to quickly free up cash when needed.
- Example- Filene Lab LoanNFT

## **SECTION 2:**

### **CUSO PROPOSAL OUTLINE**

# **Shared Liquidity Network** **A “Central Liquidity” CUSO**

**Discussion Draft Prepared for the  
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# Structural & Governance Differences

Feature	NCUA's CLF	Proposed Small CU CLF
Legal Status	Federally chartered under the Federal Credit Union Act (12 U.S.C. 1795-1795k)	Private-sector CUSO, cooperative, or nonprofit
Ownership & Control	Owned by the NCUA and member credit unions	Owned by participating credit unions, fintech partners, and potential investors
Board of Directors	Managed by NCUA-appointed officials	Democratically governed by member credit unions and fintech representatives
Regulatory Oversight	Directly regulated by NCUA and U.S. Congress	Subject to state financial regulators or cooperative laws
Decision-Making Process	Centralized decision-making via NCUA leadership	Decentralized, member-driven governance model

## Key Takeaway

The proposed CLF is independent of the federal government, providing greater flexibility and credit union-driven decision-making.



# Membership & Accessibility

Feature	NCUA's CLF	Proposed Small CU CLF
Eligibility	Open to all federally insured credit unions	Open to smaller credit unions (<\$500M assets) and community-based lenders
Membership Fees	Requires stock purchase in the CLF (equal to 0.5% of assets)	Tiered capital contributions based on CU size
Access to Funds	Requires NCUA approval, loans provided during systemic crises	On-demand liquidity access through a peer-to-peer lending model

## Key Takeaway

The proposed CLF removes federal stock purchase requirements and provides easier, faster access to liquidity, especially for smaller credit unions that may not meet NCUA's requirements.



# Funding Sources & Financial Model

Feature	NCUA's CLF	Proposed Small CU CLF
Primary Funding	Capital from member stock purchases and U.S. Treasury-backed borrowing	Member contributions, private investment, loan participations, and fintech-driven liquidity
Emergency Borrowing Power	Can borrow up to 12 times its capital from the Federal Financing Bank (FFB)	No direct federal borrowing power, but fintech-driven liquidity pools, credit union partnerships, and investment funds
Interest Rate Structure	Fixed federal rates based on the FFB lending window	Flexible market-driven rates with AI-powered risk pricing

## Key Takeaway

The proposed CLF leverages peer-to-peer lending, fintech partnerships, and private capital, allowing it to be more flexible and diversified than the NCUA CLF.



# Liquidity Products & Services

Feature	NCUA's CLF	Proposed Small CU CLF
Emergency Liquidity Loans	Available for systemic crises only	Available for short-term cash flow needs and emergencies
Loan Participation & Trading	Not available	Credit unions can trade loan participations to optimize liquidity
AI-Driven Risk & Liquidity Forecasting	Not implemented	AI-powered liquidity forecasting and risk analytics to optimize funding decisions
Blockchain-Based Liquidity Management	No blockchain integration	Uses smart contracts for automated fund disbursement and compliance
Real-Time Liquidity Access	Requires formal application, NCUA approval	Instant access through digital P2P lending platform

## Key Takeaway

The proposed CLF offers real-time liquidity solutions and loan participations, whereas NCUA's CLF functions primarily as an emergency liquidity backstop.



# Risk Management & Compliance

Feature	NCUA's CLF	Proposed Small CU CLF
Collateral Requirements	Requires collateralized loans backed by federal credit union assets	Tiered risk-based lending model, allowing flexibility for smaller CUs
Liquidity Reserve	Maintains federally mandated liquidity levels	Requires 1-2% liquidity contributions from members to maintain an internal liquidity backstop
Regulatory Reporting	Quarterly reports to Congress and the NCUA Board	Self-regulated, member-driven reporting with AI-powered analytics

## Key Takeaway

The proposed CLF adopts AI-driven risk assessment and flexible collateralization, while NCUA's CLF remains highly regulated and federally controlled.



# Technology & Fintech Integration

Feature	NCUA's CLF	Proposed Small CU CLF
Digital Lending Marketplace	No	Yes – P2P credit union lending platform
Blockchain & Smart Contracts	No	Yes – Blockchain-based liquidity transactions
AI-Driven Liquidity Forecasting	No	Yes – AI-powered fund management
Mobile Access & API Integrations	No	Yes – Mobile app and open banking APIs for real-time transactions

## Key Takeaway

The proposed CLF leverages fintech innovations, making it more agile, efficient, and member-driven, unlike NCUA's traditional CLF model.



# Emergency Response & Crisis Management

Feature	NCUA's CLF	Proposed Small CU CLF
Crisis Liquidity	Available only during systemic financial crises	Always accessible for seasonal, short-term, and emergency liquidity needs
Loan Approval Speed	Slower due to federal bureaucracy	Faster due to digital automation and AI-driven approval
Flexibility in Fund Disbursement	Structured, pre-determined borrowing limits	Dynamic lending limits based on real-time liquidity needs

## Key Takeaway

The proposed CLF provides immediate liquidity access and real-time fund disbursement, unlike NCUA's bureaucratic, crisis-focused model.





## Summary: Why Small Credit Unions Need This Alternative CLF CUSO

- ✓ More Accessible: No federal bureaucracy, simplified membership
- ✓ Flexible Funding: Uses private capital, peer-to-peer lending, and fintech solutions
- ✓ Real-Time Liquidity: Immediate access to funding via digital platforms
- ✓ Innovative Technology: Uses AI, blockchain, and open banking APIs
- ✓ Decentralized & Member-Owned: Credit unions control liquidity management, not the federal government

# Regulatory Framework for the Central Liquidity Facility (CLF) for Small Credit Unions

## Legal & Compliance Requirements

### Legal Structure

- The CLF will be structured as a Credit Union Service Organization (CUSO) or a Cooperative Liquidity Entity.
- Registered under NCUA regulations (12 CFR Part 712) or applicable state cooperative laws.
- Operates as a non-profit or member-owned cooperative, ensuring financial stability and fair access to liquidity.

### Licensing & Registration

- Must obtain NCUA approval (if a CUSO) and adhere to federal/state banking laws.
- If structured as a cooperative, must be registered under state financial cooperative regulations.
- Subject to state banking regulators for interbank lending compliance.

### Compliance Obligations

- Identify key opportunities for innovation in services to member credit unions
- Strengthen leadership development and internal team growth
- Position the coalition for long-term success in financial inclusion and member advocacy

# Regulatory Framework for the Central Liquidity Facility (CLF) for Small Credit Unions

## Governance Structure

### Voting Rights

- Weighted voting based on membership tier or equal vote per credit union.
- Special voting rights for founding member credit unions in strategic decisions.

### Board of Directors

- Comprised of representatives from participating credit unions, fintech partners, and independent experts.
- Minimum of 7 board members, elected on a rotational basis.
- Responsible for policy approval, risk oversight, and liquidity decision-making.

### Risk & Compliance Committee

- Independent body responsible for liquidity risk assessments, collateral reviews, and regulatory compliance.
- Conducts bi-annual stress testing and liquidity risk simulations.
- Maintains oversight on creditworthiness assessments of borrowing credit unions.

# Regulatory Framework for the Central Liquidity Facility (CLF) for Small Credit Unions

## Risk Management Policies

### Liquidity Reserve Requirements

- The CLF must maintain a minimum liquidity reserve ratio of 10% of total assets.
- Participating credit unions are required to contribute 1-2% of assets as an emergency liquidity backstop.
- Excess liquidity will be invested in low-risk assets (e.g., U.S. Treasury Bonds) for sustainability.

### Credit Risk Evaluation

- All liquidity loans are subject to risk-based lending criteria.
- Borrowing credit unions must provide collateralized assets (e.g., share certificates, loan portfolios).
- Interest rates on liquidity loans are tiered based on risk profile.

### Default & Loss Mitigation

- If a credit union defaults on liquidity borrowing, the CLF may seize collateral or adjust future borrowing limits.
- Establish a special contingency fund to absorb potential liquidity shocks.

# Regulatory Framework for the Proposed Alternative Central Liquidity Facility (CLF) for Small Credit Unions

## Reporting & Oversight Mechanisms



### Regulatory Reporting

- Monthly liquidity utilization reports submitted to NCUA/state regulators.
- Annual audits conducted by independent financial examiners.
- Credit unions must self-report liquidity positions quarterly.



### Transparency & Member Reporting

- All members receive quarterly performance and liquidity risk updates.
- A real-time liquidity dashboard will provide transactional transparency for members.
- The board will hold annual meetings to discuss liquidity performance and risk factors.



### Enforcement & Sanctions

- Non-compliant credit unions may face temporary suspension from liquidity borrowing.
- Chronic defaulters risk membership revocation and loss of capital contributions.
- Internal audits and whistleblower policies ensure regulatory integrity.



### Future Expansion & Adaptation

- Potential collaboration with corporate credit unions to expand liquidity options.
- Integration with fintech platforms for real-time liquidity tracking and AI-driven risk analysis.
- Regulatory adaptation based on evolving federal/state liquidity requirements.

# Sample Financial Model for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

## Revenue Sources

### Membership Fees

Tiered membership model based on credit union size:

Small credit unions (<\$100M in assets):

Mid-sized credit unions (\$100M - \$250M in assets):

Larger small credit unions (\$250M - \$500M in assets):

Expected initial membership of \_\_\_ credit unions.

Estimated annual revenue from membership fees:

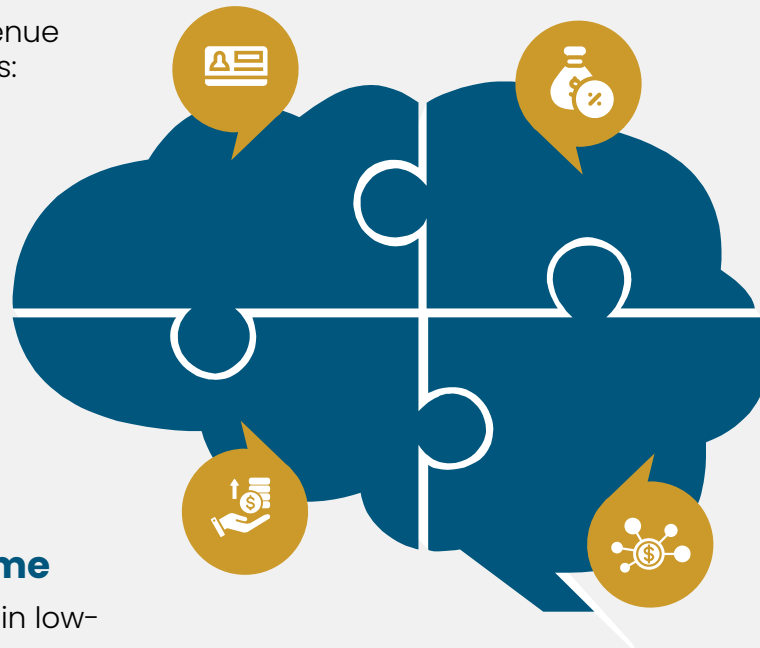
### Loan Interest Income

Liquidity loans offered at \_\_\_% annual interest.

Expected loan utilization rate: \_\_\_% of available liquidity pool.

Estimated liquidity pool size: \$\_\_\_ million.

Expected revenue from loan interest: \$\_\_\_\_\_ annually.



### Investment Income

Excess funds invested in low-risk securities (e.g., U.S. Treasury Bonds, CDs).

Expected return on investments: \_\_\_% annually.

Estimated investment reserve: \$\_\_\_ million.

Expected annual investment income: \$\_\_\_\_\_.

### Additional Revenue Streams

Loan participation sales revenue: \$\_\_\_\_\_ annually.

Technology integration fees (API-based liquidity access): \$\_\_\_\_\_ annually.

Total additional revenue: \$\_\_\_\_\_ annually.

# Sample Financial Model for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

## Operating Costs

### Administrative & Staffing Costs

- Executive team salaries (CEO, CFO, Risk Manager): \$\_\_\_\_\_ annually.
- Compliance and regulatory reporting team: \$\_\_\_\_\_ annually.
- Other operational staff (IT, customer support, finance): \$\_\_\_\_\_ annually.
- Total staffing cost: \$\_\_\_\_\_ annually.

### Compliance & Risk Management

- Legal & regulatory compliance: \$\_\_\_\_\_ annually.
- Credit risk assessment & loss provisions: \$\_\_\_\_\_ annually.
- Insurance & contingency fund contributions: \$\_\_\_\_\_ annually.
- Total compliance and risk management costs: \$\_\_\_\_\_ annually.

### Technology & Infrastructure

- Development of blockchain-based liquidity management platform: \$\_\_\_\_\_ (one-time).
- Annual maintenance & security upgrades: \$\_\_\_\_\_.
- API integrations with credit unions: \$\_\_\_\_\_.
- Total technology costs: \$\_\_\_\_\_ (Year 1), \$\_\_\_\_\_ (annually after Year 1).

### Miscellaneous Costs

- Marketing and member outreach: \$\_\_\_\_\_ annually.
- Office and operational expenses: \$\_\_\_\_\_ annually.
- Total miscellaneous costs: \$\_\_\_\_\_ annually.

# Sample Financial Model for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

## Expected Liquidity Pool Size & Loan Disbursement Scenarios



### Initial Liquidity Pool Composition

- Member contributions: \$\_\_\_\_\_ million.
- External investment & grants: \$\_\_\_\_\_million.
- Total available liquidity: \$\_\_\_\_\_ million.

Utilization Rate	Loan Disbursed	Interest Revenue
40%		
50%		
60% (Target)		
70%		

## Break-Even Analysis & Financial Sustainability Projection



### Year 1 Financial Summary

- Total Revenue: \$\_\_\_\_\_ million.
- Total Operating Costs (including one-time tech investment): \$\_\_\_\_\_ million.
- Net Gain/Loss (Year 1 due to tech investment): \$\_\_\_\_\_ million.



## Year 2 & Beyond (Post-Tech Investment)

- Total Revenue: \$\_\_\_\_\_ million.
- Annual Operating Costs (excluding tech investment): \$\_\_\_\_\_ million.
- Net Profit (Year 2 & beyond): \$\_\_\_\_\_ annually.



## Break-Even Projection

- Given the initial projected deficit in Year 1 (\_\_\_\_\_M) and positive cash flow of \$\_\_\_\_\_K/year thereafter, the break-even point is estimated at Year \_\_\_\_.
- By Year \_\_\_\_, the CLF is expected to reach financial stability and sustainable profitability.

## Long-Term Growth & Financial Resilience

Expand membership to 100+ credit unions within five years, increasing membership fee revenue.

Increase loan portfolio utilization to 75%, enhancing interest revenue.



Introduce new liquidity products such as seasonal liquidity funds and revenue-based financing.

Strengthen fintech partnerships to further reduce technology costs and enhance operational efficiency.

# Implementation Plan for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

Phase 1:  
Feasibility Study & Stakeholder Engagement (0-6 Months)



## Conduct Market Research

- Survey small credit unions (<\$500M in assets) to assess liquidity challenges and interest in joining the CLF.
- Analyze existing liquidity solutions, including the NCUA CLF, to identify gaps and opportunities.
- Develop feasibility reports highlighting financial projections and membership growth potential.



## Engage Key Stakeholders

- Form an advisory board consisting of representatives from small credit unions, fintech partners, and cooperative finance experts.
- Seek partnerships with corporate credit unions, community banks, and fintech firms for funding and technical support.
- Consult with state banking regulators to ensure compliance with cooperative and financial laws.



## Define Legal Structure & Governance Model

- Choose the appropriate legal structure (CUSO, Cooperative, Nonprofit Financial Entity).
- Draft bylaws and governance policies, ensuring member-driven decision-making.
- Establish the CLF Board of Directors and assign voting rights based on membership tiers.



## Register the CLF Entity

- Incorporate the CLF under state cooperative laws or as a CUSO.
- File necessary registrations with state banking authorities and federal agencies.
- Obtain legal opinions on securities law compliance (for liquidity bond offerings).

# Implementation Plan for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

## Phase 2:

Legal & Regulatory Compliance (6-12 Months)



## Secure Regulatory Approvals

- Work with NCUA/state regulators to define oversight requirements.
- Develop a risk management and compliance framework.
- Implement AML/KYC compliance systems.



## Establish Internal Policies

- Draft credit risk assessment policies for liquidity lending.
- Define collateral requirements for borrowing credit unions.
- Set up compliance reporting structures.

# Implementation Plan for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

Phase 3:  
Funding & Financial Structuring (12-18 Months)



## Secure Initial Capital Contributions

- Implement a tiered membership model for capital contributions.
- Collect commitments from founding credit unions.
- Seek investment from corporate credit unions, fintech partners, and impact investors.



## Develop Liquidity Pooling Mechanism

- Establish a central liquidity reserve fund.
- Implement risk-based lending models for liquidity loans.
- Create an emergency liquidity fund for crisis scenarios.



## Build Revenue Streams

- Introduce liquidity subscription fees for participating credit unions.
- Generate revenue through loan interest, fintech service fees, and liquidity bond investments.



## Develop Digital Lending & Liquidity Platform

- Partner with a fintech provider to create an automated liquidity marketplace.
- Implement blockchain-based smart contracts for real-time transactions.
- Enable AI-driven liquidity forecasting tools.

# Implementation Plan for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

## Phase 4:

Technology Development & Integration (18-24 Months)



## API & Open Banking Integration

- Develop API-based connectivity with credit unions' core banking systems.
- Implement a mobile-friendly liquidity request portal.
- Ensure cybersecurity and compliance with financial data protection regulations.



## Testing & Pilot Program

- Select an initial group of 10-20 credit unions for pilot testing.
- Conduct liquidity stress tests and fine-tune risk management protocols.
- Gather feedback and optimize platform usability.

# Implementation Plan for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

Phase 5:  
Full-Scale Launch & Growth Strategy (24-36 Months)



## Official Public Launch

- Expand membership recruitment and marketing campaigns.
- Offer full liquidity services including emergency loans, participation trading, and liquidity swaps.
- Develop educational resources for credit unions on optimizing liquidity strategies.



## Expand Funding & Investment Opportunities

- Issue liquidity bonds to institutional investors and community banks.
- Partner with ESG (Environmental, Social, Governance) investors for impact funding.
- Establish liquidity partnerships with state and municipal treasuries.



## Continuous Improvement & Regulatory Adaptation

- Monitor liquidity utilization and adjust policies as needed.
- Implement AI-powered risk adjustments based on market conditions.
- Stay updated on regulatory changes and refine compliance measures.



## Geographic & Membership Expansion

- Expand to additional states and underserved financial institutions.
- Open membership to CDFIs (Community Development Financial Institutions) and fintech-based lenders.

# Implementation Plan for the Alternative Central Liquidity Facility (CLF) for Small Credit Unions

Long-Term:  
Sustainability & Expansion (36+ Months)



## Enhance Liquidity Solutions

- Introduce new products such as revenue-based financing and seasonal liquidity programs.
- Develop real-time liquidity trading between credit unions.
- Strengthen partnerships with global fintech liquidity providers.



## Establish CLF as a Permanent Industry Solution

- Work towards legislative recognition as an alternative liquidity facility.
- Create an advocacy network to support small credit unions' access to liquidity.
- Invest in ongoing fintech innovations for liquidity optimization.

## Conclusion

The Alternative CLF for Small Credit Unions will offer a decentralized, technology-driven, and member-owned liquidity solution, providing real-time access to funds, reducing reliance on NCUA, and enhancing financial stability for small credit unions. By following this phased implementation plan, the CLF can become a sustainable and innovative liquidity facility serving the unique needs of community-based financial institutions.





## 2025 Small Credit Union Solutions Summit



African-American Credit Union Coalition

P.O. Box 392136  
Snellville, GA 30039

[info@aacuc.org](mailto:info@aacuc.org)

678.587.5111 Office

866.782.2282 Toll Free