CorporateOne
FEDERAL CREDIT UNION

November 14, 2017

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Request for Comments, Regulatory Reform Agenda

Dear Mr. Poliquin:

Corporate One Federal Credit Union (Corporate One) welcomes the opportunity to submit comments concerning the National Credit Union Administration's (NCUA) Request for Comments regarding their review of regulations as part of the agency's regulatory reform agenda.

Corporate One serves as a correspondent credit union and has over 800 credit union members. We appreciate the NCUA's initiative to ensure financial institutions have sound operating environments and common sense regulations, resulting in a stronger economy.

Corporate One respectfully requests that the NCUA use this regulatory review process as an opportunity to examine and change the following regulatory areas.

Weighted Average Life (WAL). The concept of WAL as a tool for risk mitigation of government issued or guaranteed securities needs to be examined. NCUA Rules and Regulations Part 704.8(h) states the following: *Government issued or guaranteed securities. The WAL of investments that are issued or fully guaranteed as to principal and interest by the U.S. Government, its agencies or sponsored enterprises, including investments that are fully insured or guaranteed (including accumulated dividends and interest) by the NCUSIF or the Federal Deposit Insurance Corporation, will be multiplied by a factor of .50 for purposes of the WAL tests of paragraphs (f) and (g) of this section.*

Per the current rule, a corporate is to manage their financial assets to maintain a WAL of 2 years or less to be measured at month-end in the base case, and 2.25 years or less to be measured at month-end in a 50% prepayment speed slowdown scenario. U.S. Government issued or guaranteed securities (Part 704.8 (h)) are allowed a modest WAL benefit in the rule, as the WAL for this type of security is given a one-half WAL treatment.

Government guaranteed securities exhibit no credit risk, are highly liquid in the marketplace, serve as a buffer in economic stress scenarios, and are valuable collateral for liquidity in the capital markets and at the Federal Reserve Bank. Accordingly, we believe that the one-half

WAL treatment is not enough of a benefit or incentive for buying these securities. We are not recommending that the NCUA Board revise the WAL measurement for credit related securities, NCUA Rules and Regulations Part 704.8(f) and Part 704.8(g), but we are recommending the factor in 704.8(h) be changed to make the WAL of government issued and government back securities equal to a cash equivalent. We believe it is technically incorrect to assign WAL limits on government guaranteed instruments.

Expanded Authorities Part 1. A corporate credit union that has been granted Part 1 expanded authority should have more flexibility in the Weighted Average Life (WAL) requirement than Base or Base Plus corporate credit unions. Since a Part 1 corporate credit union has a stronger developed infrastructure and higher capital requirements such as a minimum leverage ratio of 6%, permission to increase the WAL in the base case and stressed scenario should be permitted. We recommend that the calculation be tiered to reflect a correlation to the required higher leverage ratios. For example, a part 1 corporate credit union with a 6% leverage ratio should be permitted to have a 2.5 year WAL in the base and 2.75 year WAL in the 50% slower prepayment scenario; a 7% leverage ratio should be permitted to have a 3.5 year WAL in the base and 4.0 year WAL in the 50% slower prepayment scenario; and an 8% leverage ratio should be permitted to have a 4.5 year WAL in the base and 5.0 year WAL in the 50% slower prepayment scenario. Part 1 corporate credit unions are required to have more developed risk mitigation tools as part of its infrastructure in addition to stronger capital ratios. Higher capital ratios are a good assessment of the safety and soundness of any financial institution and should correlate with the amount of risk a corporate should be given. The additional regulatory flexibility within the WAL calculation is commensurate with the additional required capital and stronger infrastructure.

Investments. As a Part 1 corporate credit union, we would also welcome the opportunity to expand our investment authority related to credit risk to correlate with the stronger capital position. Specifically, we would like to have the ability to buy investment grade subordinate secured asset backed securities. We are seeking parity with investment grade unsecured corporate debt, which is currently permitted under Part 1, to investment grade secured asset-backed securities. This parity will create an opportunity for Part 1 corporate credit unions for an investment which has the same credit rating and the same credit risk regardless of subordination. Subordination investments within the secured asset-backed sector should be limited to only those sectors that are highly mature, such as, credit card, auto loans and FFELP-backed student loans. Arguably, a lower credit rating investment in these sectors are less risky than the highest rating investment in a less mature, esoteric sector that does not have a proven track record through a business cycle.

Investment Action Plan (IAP). Currently the regulation has different definitions for credit risk for Part 1 versus base plus authorities. Under Part 1 a purchase must be of "investment grade" whereas for base plus a purchase must only have a "minimal amount of credit risk". A distinction has been made for credit risk as it applies to Part 1 versus base plus. However, the standard for IAPs remains the same for both expanded authorities. IAP's are defined as required

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when the investment presents more than a minimal amount of credit risk. This infers that an investment purchased under Part 1 as "investment grade" would be considered an IAP immediately after purchase. We do not believe this was the intent of the NCUA and should be clarified to remove any ambiguity.

CUSO. As a corporate credit union, the ability to invest in companies that produce products or services that would benefit our membership is a priority for us. However, many companies shun our investment dollars due to the regulatory constraints of becoming a corporate CUSO. As a corporate CUSO, the company must primarily sell to credit unions and follow the various regulatory restrictions of 704. Without the opportunity to invest in companies, a corporate credit union cannot direct or participate in the direction of new products or services. There should be a way for a corporate credit union to make a minimal investment in a company without the company becoming a corporate CUSO. The intent of an investment in such a company is not measured by a return as it is with traditional investments (securities) but instead is an opportunity to help bring new technologies, products, and services to our credit union members.

Technical Correction. Lastly, Corporate One requests that the NCUA make a technical correction to 704.7. The NCUA made changes to Part 723, but they have not yet opened up the corporate rule 704, so the references in 704.7(e)(3) to 723.1(b) and the now non-existent 723.16 are no longer valid, which leaves the regulations surrounding a loan to a member that isn't a credit union or a corporate CUSO unclear. A technical correction to align 704 with the now revised 723 is appropriate.

Corporate One applauds the NCUA for quickly acting to implement the regulatory reform agenda and we look forward to the regulatory relief and guidance that the NCUA can provide to credit unions. We respectfully request the NCUA to implement Corporate One's suggestions. If you have further questions or would like to discuss these comments in more detail, please feel free to contact me at 614-825-9338.

Thank you for your consideration and the opportunity to provide industry feedback.

Respectfully,

Lee C. Butke
President/CEO
Corporate One Federal Credit Union

cc: Board of Directors, Corporate One Federal Credit Union