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A Member of the Credit Union System

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VIA E-MAIL – regcomments@ncua.gov

September 27, 2005

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

RE: Comments on Proposed Rule Part 701, Secondary Capital

Dear Ms. Rupp:

The Credit Union National Association (CUNA) appreciates the opportunity to comment on a proposed rule that will allow low-income designated credit unions (LICUs) offering uninsured secondary capital accounts to redeem the funds in those accounts at the same rate they are discounted when they are within five years of maturity. CUNA represents more than 90 percent of our nation's nearly 8,900 federal and state-chartered credit unions, which serve nearly 87 million members.

LICUs are currently required to discount the net worth value of their secondary capital at the rate of twenty percent per year, beginning five years prior to maturity. However, without the ability to redeem the funds, the result is a dilution of their net worth ratio, as calculated under the prompt corrective action rules.

We support NCUA's proposal to alleviate this problem by allowing LICUs to redeem the funds at the same rate they are discounted. This will allow LICUs to continue to serve predominately lower income members without the added concern as to whether this will adversely affect their net worth ratio.

The proposal outlines six conditions for the redemption of the secondary capital. One of these conditions is that the LICU must at least be "adequately capitalized" under the prompt corrective action requirements. We urge NCUA to reconsider this condition and to allow situations in which credit unions other than those that are “adequately capitalized” can redeem secondary capital if this would help generate additional income and help to rebuild capital.

Currently, LICUs seeking to offer secondary accounts must submit to the appropriate Regional Director (RD) a written plan for the use of the funds in those accounts and the subsequent liquidity needs to repay them upon maturity. A state-chartered LICU must also submit the plan to the appropriate State Supervisory Authority (SSA). The proposed rule will now require that the LICU also obtain approval of the plan from the RD and/or SSA. Although NCUA has cited instances in which several LICUs offering secondary capital accounts were liquidated or merged, forcing the National Credit Union Share Insurance Fund to absorb the losses, we do not believe this justifies the burden of imposing an approval requirement without more information that such a requirement would alleviate this safety and soundness concern.

The proposal also adds two criteria that these plans must address as part of this approval process. One will require that the proposed use of secondary capital conform to the LICUs strategic and business plans, which we agree is reasonable. The other will require that the plan be supported and accompanied by pro forma financial statements, which we do not believe is necessary.

Thank you for the opportunity to comment on the proposal that will allow LICUs offering uninsured secondary capital accounts to redeem the funds in those accounts at the same rate they are discounted when they are within five years of maturity. If Board members or agency staff have questions about our comments, please contact Senior Vice President and Associate General Counsel Mary Dunn or me at (202) 638-5777.

Sincerely,

Jeffrey Bloch
Senior Assistant General Counsel