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Filed via: regcomments@ncua.gov

June 15, 2011

Ms. Mary Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Participation Intent and Comments on the Voluntary Prepayment of Assessments Program

Dear Ms. Rupp:

My Credit Union intends to participate in the Voluntary Prepayment of Assessments Program for the maximum amount of $105,823.

We commend the NCUA for listening to credit unions and trade association concerns about the need to level out the corporate stabilization assessments, especially the larger, front-loaded early-year assessment, and we thank the agency for coming up with a program that in part meets this need. The California Credit Union League recently submitted a comment letter offering recommendations in an effort to improve the effectiveness, transparency, and attractiveness of the program for credit unions and we would like to take this opportunity to reiterate those comments and recommendations.

Interest Rate on Prepaid Balances

Under the proposal, the interest rate received by credit union for prepayments would be zero. NCUA explains this aspect of the program by stating that the NCUA Board may accept interest free loans pursuant to §127 of the Federal Credit Union Act. However, this section of the Act more specifically permits the Board to receive gifts, which by analogy is how the NCUA is viewing the zero-interest prepaid advances made under the program. We believe that a below-market interest rate may also be viewed as a gift, and recommend that the NCUA consider paying a variable interest rate on the prepaid balances. We believe this change would help address the opportunity costs associated with the prepayments in the event interests rates rise, thereby providing more credit unions with the incentive to participate and helping reduce “free-rider” concerns.

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Minimum and Maximum Prepaid Amounts

The proposal provides a minimum advance amount of $10,000 and a maximum advance amount of 36 basis points of insured shares. While we understand NCUA's concerns in setting the maximum limit, we recommend that each credit union's commitment level should be determined by credit union management. As opposed to using an arbitrary, one-size-fits-all limit, credit union management is in a much better position to evaluate and balance factors such as a credit union's financial health, business and economic environment, strategic plans, and other considerations that would help determine a commitment level. In addition, NCUA has indicated that its projected pre-2013 funding needs are $2.94 billion, while projecting that maximum participation in the program at 36 basis points would raise a total of $2.8 billion. This would seem to indicate that a commitment level higher than 36 basis points should be permitted. Along these lines, we further recommend that NCUA set the minimum participation amount at 10 basis points rather than $10,000 in order to encourage small credit union participation in the program.

Minimum Commitment to Proceed

To encourage broad involvement and meaningful funding levels, NCUA has proposed to not proceed with the program if prepaid commitments from credit unions total less than $300 million. This minimum commitment level is intended to give credit unions contemplating participation in the program some assurance that there will be sufficient aggregate participation to warrant the opportunity cost of making the advance before committing funds to it. However, at a participation level of $300 million, assessments would only be reduced by a total of four basis points for 2011 and 2012. We believe that this does not sufficiently address the "free-rider" issue, and recommend that the NCUA set the minimum commitment level at $1 billion. This would represent approximately one-third participation, and would allow lowering the 2011 assessment from 25 basis points to approximately 12 basis points.

Use of Prepayment Funds as a Liquidity Buffer

NCUA has stated that at higher levels of participation, prepayment funds may be used to reduce the level of borrowed funds instead of further reductions in 2011 and 2012 assessments. We strongly disagree with the use of prepayment funds as a liquidity buffer, as we believe it serves to penalize participants and benefit non-participating, free-rider credit unions. By restricting use of collected funds to paying for corporate stabilization assessments only, credit unions will be provided a greater incentive to participate. We believe it is more equitable to assess all credit unions for any liquidity shortages rather than to use funds collected from a subset of credit unions.

On a related note, if funds greater than NCUA's cash management needs we recommend that a provision be included that any over-subscription in the program be returned to credit unions.

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Accounting Treatment of Prepaid Amounts

My Credit Union is concerned that the NCUA is not clear in describing the accounting for prepaid assessments, specifically as to whether prepaid amounts are to be recorded as a prepaid expense (asset) from which actual assessments for 2013 and later would be paid. While NCUA cites the FDIC's prepaid program – which treated prepaid assessments as a prepaid expense – as precedent for NCUA's program, the proposal goes on to state that the NCUA program is "structured somewhat differently than the FDIC's prepaid assessment program so the related accounting may differ," and encourages credit unions to refer to GAAP. We believe this lack of clarity in the proposal may undermine the single most attractive feature of the program for many credit unions: that is, the ability to improve earnings in the earlier years of the Stabilization Fund by not having to expense considerable assessments. This feature is especially appealing for credit unions in areas that were hardest hit by the recession. Therefore, we recommend that the NCUA clearly state in the finalized program that participating credit unions should record the entire amount of its prepaid assessment as a prepaid expense (asset) until the funds are used by the Stabilization Fund to cover assessments, at which point they would record and expense – and an offsetting credit to the prepaid asset – for the amount assessed by the NCUA Board. Notwithstanding how GAAP may treat voluntary prepayments, we believe such an approach is appropriate and within NCUA's authority under §202(a)(6)(C)(ii) of the Federal Credit Union Act, which states:

> Board determination – If the Board determines that the application of any generally accepted accounting principle to any insured credit union is not appropriate, the Board may prescribe an accounting principle for application to the credit union that is no less stringent than generally accepted accounting principles.

We thank the NCUA for the work done on this proposal. The proposed program is a welcome and creative approach to addressing credit union concerns, and we hope the NCUA incorporates our concerns and recommendations so that a more effective, transparent, and attractive program is finalized.

Sincerely,

Alex Casillas
President