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TRULIANT®
Federal Credit Union
enhancing your life℠

Marcus B. Schaefer
President/CEO

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RE: Voluntary Prepayment of Assessments Proposal

Truliant Federal Credit Union would like to express its appreciation to the NCUA Board for its willingness to consider a means by which credit unions can more evenly recognize and absorb the costs of the corporate credit union stabilization through the Voluntary Prepayment of Assessments Proposal (VPA). The primary benefit of the proposal is to allow credit unions to maintain or build net worth in the near term during a time when the economic recovery remains weak and uncertain. Truliant weathered the recession well (currently maintaining 8.5% net worth) and could readily pay the higher premiums on the front-end; however, we would like the opportunity to build net worth back to over 9.0% over the next two years. In addition, we are aware that other credit unions in the movement would benefit from a spreading of the expense to rebuild net worth allowing them to better serve their members during the economic recovery. Implementation of this proposal with strong participation from other credit unions would greatly help in accomplishing this goal.

Efficacy of Voluntary Prepayment of Assessments

Implementation of this proposal coupled with strong acceptance and participation by a significant number of credit unions, especially the larger credit unions, would help credit unions in need of increasing their net worth ratio do so sooner rather than later. It would also provide the opportunity to financially plan for the slightly larger assessments in the later years when, hopefully, the economy will be stronger. To be meaningful, we believe we would need to achieve prefunding at the $700 million level. We would likely prefund at the 0.36% level although we are not opposed to raising the maximum if other credit unions who can safely mange liquidity/earnings wish to prefund at higher levels. Prepayment participation would need to be sufficient enough to lower the 2012 and 2013 assessments rate to approximately 0.15% or less.

Truliant recognizes that there is lost opportunity cost on the interest free loan to the NCUA. While there could be some offset in lower borrowing costs that the NCUA would incur from the line at Treasury that would be passed on to credit unions, this is a case of foregone interest income that we calculate could reach as much as $220,000 over the life of the program. Most of the loan will likely be retired in the early years (2013-2015) in assessment credits reducing the interest forgone earlier in the program. In spite of the opportunity cost and liquidity reduction, we believe the trade-offs for Truliant and the credit union system warrant participation.

Accounting Treatment

Consultation with our CPA firm points toward classifying an assessment prepayment as an interest-free loan to the NCUA which would be grouped with Other Assets on the Statement of Financial Condition. We do not foresee any significant accounting issues arising from this proposal. Obviously, credit unions prefer to minimize non-earning assets as much as possible but this amount would not be material for our balance sheet size.

Interest in Participation

Truliant FCU is very interested in participating in the VPA at the maximum level of 0.36% in the proposal.

Suggestions or Concerns

We have heard opinions on the VPA from a number of other credit unions who appear to be negatively inclined toward the proposal. These negative opinions seem to be driven by a distrust of the NCUA, self-interest rather than a broader view of the credit union movement, and a lack of understanding of some of the issues. Acceptance of and participation in the VPA could be enhanced if the NCUA addressed the following:

1. Why the “rip the Band-Aid off” approach is not an option. This was addressed in your webinar but many credit unions do not seem to understand.
2. Clarify what additional NCUA administrative costs may be related to the VPA.
3. Stress that the VPA is not for the benefit of the NCUA but for the benefit of credit unions.
4. Provide a clear review of the entire corporate credit union stabilization process. Increase the understanding of the flow of funds from the time of conservatorship to the closing of the Corporate Credit Union Stabilization Fund. Disclose the terms of the Treasury line. Is it variable rate? If yes, what interest rates are projected? Can there be new advances against the Treasury line once partial balances have been repaid or is only declining balance, closed-end? What projected share growth is the NCUA using? This would help credit unions understand where their assessment dollars are going and why.
5. Disclosure of projected cash flows which drive future assessment rates. While these projections depend on projected legacy assets losses which may change, credit unions might feel more confident in their VPA participation if they have good-faith estimates in hand.

Thank you for the opportunity to comment on this important proposal.

Sincerely,

Marc Schaefer

Marcus B. Schaefer
President/CEO