Missouri Credit Union Association

June 20, 2011

The Honorable Debbie Matz
Chairman, National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314-3428

RE: Michael V. Beall, Esq., Comments on NCUA's Voluntary Prepaid Corporate Credit Union Stabilization Fund Assessment Proposal

Dear Chairman Matz:

On behalf of Missouri's 139 credit unions, the Missouri Credit Union Association appreciates the opportunity to comment on the agency's proposal to allow credit unions to prepay some of the Temporary Corporate Credit Union Stabilization Fund assessments on a voluntary basis.

The size, complexity and membership of our member credit unions are diverse and their response to this proposal varies. We believe, however that if certain aspects of the proposal were to be finely tuned, it would be met with more support.

The proposal in its current state is complex and difficult to interpret. With the recent discussions of interest rate risk programs, some credit unions are concerned that committing monies today will create an interest rate risk or a liquidity issue given the amount of uncertainty in the market. Some credit unions want to pay all remaining assessments immediately and others want the option to spread out those assessments over many years. Many feel the liquidity cushion has already been addressed and the proposal creates an inequity between those who participate and those who do not but reap the same rewards.

MCUA supports permitting options of prepaid assessments to credit unions which will allow the credit unions to prepay some of their Corporate Credit Union Stabilization Fund assessments this year. However, we recommend improvements to the proposal which address concerns mentioned above, without undermining the payment of assessments or the Fund.

<u>Landscape without Prepayment Option</u>

NCUA has estimated roughly $3 billion in additional funds need to be raised in 2011-2012, with assessments of approximately 25 bp and 13 bp of insured shares, respectively. Additionally, it has been estimated that the average assessment rate over the following nine years will be approximately 6 basis points.

Regarding a prepay option, NCUA is of the opinion that the Federal Credit Union Act prohibits a mandatory prepayment option, but does allow credit unions to make gifts to the Stabilization Funds. The prepayment to the Fund is not the gift, but the non-payment of interest on the prepaid assessments is considered the gift.

Recommendations

MCUA has four concerns with the proposal which would make the plan more appealing and effective for credit unions without jeopardizing the stability of the Fund.

Free Rider Issue

While every credit union benefits from the credit unions who prepay into the fund, only those who do restrict their cash flow and lose the return on their investment. This inequity could be lessened by paying a below market rate on the prepaid balance a credit union pays into the fund. It could be returned to participating prepay credit unions or reduce their future assessment charges as a credit.

Liquidity Issue

MCUA strongly agrees with the Credit Union National Association on this point and strongly urges NCUA to eliminate it. A prepaid assessment should be used solely to evenly spread the expenses of assessments over time for credit unions and this should be stated clearly in the proposal. **NCUA should clarify that prepayments will NOT be used to build an additional liquidity buffer.**

NCUA's intention to use the prepayment plan to build an additional liquidity buffer for the Stabilization Fund demotivates participation. The fund currently has a $500 million cushion resulting from the remainder of a $6 billion line of credit from Treasury established by the Helping Families Save Their Homes Act of 2009. MCUA disagrees with NCUA's intention to use any portion of the voluntary assessment prepayments to further pad the liquidity of the Fund beyond this $500 million dollars. Any excess should be used to reduce assessments to credit unions as much as conceivable in the first two years.

Credit unions have expressed concern over this detail and it further widens the gap between those credit unions prepaying and those who do not, either by choice or restriction by asset size. If this point is not rectified, MCUA believes credit unions will be less likely to participate in the voluntary program.

One Size Does Not Fit All

Unless smaller credit unions' participation in prepayment into the Fund is cost prohibitive to NCUA, change the minimum participation requirement to 10 basis points of insured shares. Smaller credit unions are vital in our industry and our communities and credit unions of any size should be encouraged to participate in the prepayment plan. The current proposal mathematically creates a participation cut off of approximately $3 million in assets.

Communication
Lastly, credit unions will be more comfortable prepaying as a partner in the Funds future if more communication and reports were made available to them on the performance of the legacy assets. Transparency and reporting are instrumental in effective credit union management planning decisions.

Summation

The MCUA appreciates the NCUA offering credit unions the voluntary participation of prepaying their corporate credit union stabilization Fund assessment. However, we think the proposal could benefit immensely with some fine tuning and therefore, encourage more credit unions to participate in the program without weakening the Fund substantially.

Thank you for the opportunity to comment.

Sincerely,

Michael V. Beall, Esq.
President/CEO