From: Rick Heldebrant
To: _Regulatory Comments
Subject: R. Heldebrant -Comments on Potential Voluntary Prepaid Assessments Program
Date: Monday, June 20, 2011 12:07:14 PM

June 20, 2011
Ms. Mary Rupp
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on the Voluntary Prepayment of Assessments Program

Dear Ms. Rupp,

On behalf of Star One Credit Union, I appreciate the opportunity to comment on NCUA's proposed program to permit federally insured credit unions to participate in a voluntary corporate stabilization prepayment program.

By way of background, Star One is a state chartered federally insured CU in Sunnyvale, California serving the Santa Clara County community and various employer groups. We have 86,000 members, $5.5 billion in assets and $3.6 billion of insured savings.

We commend NCUA for listening to credit unions concerns about the need to level out the corporate stabilization assessments. We offer the following comments for the program.

Minimum Commitment to Proceed
NCUA has proposed to not proceed with the program if prepayment commitments from CUs total less than $300 million. However, at low participation levels ($300 million), the 2011 and 2012 assessments would be reduced by only about four basis points (bp). We have run Net Present Value (NPV) analysis on various "what-if" scenarios. One of the significant factors in the scenarios is the reduction in 2011 and 2012 assessments, which means that the minimum commitment must be big enough. Our full 36 bp prepayment would be $12.8 million. In our NPV analysis a full 36 bp prepayment with full participation is a worse alternative (by $200,000 or 0.7%) than no prepayment program. The NPV of a full 36 bp prepayment with a minimum $300 million assessment is a worse alternative (by $1,050,000 or 3.2%) than no prepayment program. To reach a "break even" NPV with the minimum $300 million assessment, we could only commit to a 17 bp prepayment. Basically, the program has a poor design for soliciting commitments to prepay. We have to state yes or no for a set amount, without knowing what our reduction in 2011 and 2012 assessment bp will be. So the design of this program defeats our performing due diligence in a financial analysis. We suggest that the Minimum Commitment to Proceed be set no lower than $1 billion. We suggest that we be allowed to commit to an amount based upon certain expected assessment reductions.

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 to the 2011 and 2012 assessments. We disagree with this and feel it penalizes the prepayment participants and

benefits non-participating “free-rider” CUs. We do not wish to contribute if “excess” funds will be used in this way. We desire that the program be redesigned so that any funds “oversubscribed” are returned to the participating CUs. We ran our NPV analysis and concluded that with full participation, CUs would contribute 17 bp (they commit to 36 bp and have 19 bp returned) which leads to a better alternative (by $777,000 or 2.4%) than no prepayment plan. Such a design to return any oversubscription would incent CUs to commit to participate.

Commitment
We would like to see the program adjusted to allow CUs to increase their committed amount. If we “vote” to not participate, but other CUs choose to contribute, then we would become a “free-rider”. We did run our analysis for being a free-rider; with full system participation and us as a free rider, our NPV is a better alternative (by $1.3 million or 4.0%). We do not wish to choose to free ride, but the program design inadvertently will lead to that for some CUs. We would like the option to reselect after-the-fact to make some contribution. We like this option because of the poor plan design noted earlier - since we do not know the amount of the 2011 and 2012 reductions, we can cannot logically select the amount we should commit. Note, this does not say NCUA should allow CUs to select a lower amount, only the option to allow for more.

Accounting Treatment of Prepaid Amounts
NCUA should be clear in describing the accounting treatment for the prepayments.

Other Design Comment
We suggest that NCUA find a way to pay interest on the prepayment. That would make it easier to justify the prepayment.

Additional Disclosures from NCUA
One of the difficulties in analyzing the decision to contribute is trying to understand how NCUA ended up in this current cash management crisis. There has been little or no detail regarding the status or cash flows from the NCUA Guarantee Notes program. We have also seen little information regarding the costs and losses of the corporate cash management estates. We need to have more information on these related issues to make a proper informed decision on the prepayment program.

Participation Choice
Under the current program design, our credit union would not choose to participate in the prepayment program.

In closing, thank you for the work done on this proposal. It was a good start but we think more needs to be done. We hope NCUA incorporates our comments to develop a better program.

Sincerely,
Rick Heldebrant
President and Chief Executive Officer
Star One Credit Union