NORTHWEST CREDIT UNION ASSOCIATION

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June 20, 2011

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

Subject: Northwest Credit Union Association Comments Regarding Voluntary Prepayment of Temporary Corporate Credit Union Stabilization Fund Assessments

Ms. Rupp:

The Northwest Credit Union Association applauds the NCUA in being innovative and attempting to provide a plan that is mathematically beneficial and therefore potentially a good business decision for our credit unions. The Northwest Credit Union Association represents Oregon and Washington's 193 credit unions with 4.2 million members and $46.3 billion in collective assets.

General Comments
NCUA has determined that while it does not have the ability to mandate prepayment of Temporary Corporate Credit Union Stabilization Fund assessments (assessments), it will offer credit unions the opportunity to voluntarily participate in a program to help smooth out the assessments over their life of the program ending in June, 2021. While the Association finds there are both positive and negative aspects to the plan, it would encourage credit unions to carefully examine the program and strongly consider participation.

Consider costs of regulatory burden
With the intense regulatory burden seen from Dodd-Frank, especially with the potential for a major hit from a reduction in interchange income, credit unions are having a hard time projecting out three to five years. From printing new forms, updating technology, training staff, and managing changing programs, many credit unions are operating in an environment where committing resources to such a program is dangerous.

While we understand this program is voluntary it is important to note that assessments are not the only impact on credit union's bottom lines these days. Unfortunately, as the regulatory and compliance burdens increase, credit unions could be facing unknown futures.

Further, it is not insignificant to note that those credit unions willing to prepay the full 36 basis points would likely be outlaying a total of 46-50 basis points this year in assessments.

NCUA transparency
There has been some concern in the past about transparency around the actions of NCUA. We are grateful that the Administration ultimately chose to allow comments on this proposed plan to be public as the input and perspectives of credit unions and peers is important. Making this a non-public forum does not benefit any of the parties involved.

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Beyond this proposal, corporates were required to regularly report earnings and losses. Now that the NCUA has inherited these losses, regular reports are not required nor are they generated. Therefore, should this program move forward, we would propose that the NCUA develop a public and frequent accounting of how the funds are being managed, cash outlays, and expenses. With some credit unions considering contributing many millions of dollars, and even those contributing smaller amounts, this is a significant investment and they will be invested in knowing how those funds are being used.

Unrelated to whether or not this program moves forward, NCUA should have a policy of 100 percent transparency 365 days a year. Credit unions benefit from interacting with peers and garnering perspectives. Additionally, they benefit from clearly understanding the operations and accounting of the NCUA.

Accounting treatment
NCUA needs to provide definitive accounting guidance regarding the treatment of the prepaid assessments as nothing is yet concrete. Those contributing millions of dollars – or any of their assets – need to know how these payments will be considered under GAAP and how they will be accounted for during both audits and everyday as those contributions would generally be considered assets.

Additionally, the Administration should clarify for participating credit unions how any overage amounts will be used and be accounted for on the future books and call reports. Concrete accounting guidance and treatments will allow those participating to fully understand how this prepayment will impact their bottom line both now and in the future.

Program viability
While the Association again applauds the NCUA for putting together a program under a tight timeframe we believe that having submitted a more finalized plan with a concrete structure, additional details, and more basic framework would have served those credit unions struggling to determine participation well.

Because of the vagueness of many of the provisions in the plan and even the admission by NCUA that details were not finalized and input from credit unions could substantially alter the program, credit unions would like the ability to wait to see if the plan in general will be accepted, and under what conditions, before they join. Pledging their support for a plan that is far from finalized is concerning. In addition, they want to ensure that a sufficient number of participants are included and that the reduction in assessments would be meaningful before deciding to participate.

The NCUA should report back to the group on the overall interest in the program and provide credit unions with another opportunity to consider the program; this would include any changes generated by public comments.

Free riders
As expected there are concerns about the problem of free-riders piggybacking on those institutions able to contribute large sums to the fund. In speaking with many credit unions this is not a major concern should the reduction in assessments actually be benefitting the credit union movement as a whole by protecting potentially vulnerable credit unions. It has been difficult to find information related to this aspect of the plan.

The Association would suggest that the NCUA make public the aggregate number of credit unions that would be negatively impacted by the assessments if not reduced – those whose safety and soundness may be impacted, either raising their CAMEL rating or moving from well to under-capitalized.

Potential options for program modification
While suggesting credit unions seriously consider participation in this potentially mathematically beneficial plan, the Association believes there may be some additional considerations which could help create a stronger and more attractive program.

> *Increase individual prepayment limits:* Many credit unions view this program as a potential alternative that could alleviate the burden of the corporate assessments. Many credit unions would consider the ability to offer more than 36 basis points in order to prepay the entire amount. Assuming this does not impact credit union safety and soundness this would help to bolster the initial investment, reduce initial prepayments, and allow those willing to do so to pay the estimated amount and be done (assuming the estimates remain near actual funds needed).
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> *Increase minimum program prepayment:* A required minimum participation of $300 million would minimally reduce the 2011 assessments by around two basis points. This amount may not be worth the potential administrative costs to be borne by the NCUA, and ultimately the credit unions. The Association would recommend increasing that minimum to $1 billion to ensure that the program would have the intended impact and that the costs associated with administering the program be well worth the investment.
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> *Consider a similar option for next year's assessments:* Many credit unions have already planned for the estimated assessments as rumored around 26 basis points. This program was developed with short notice and does not allow for much flexibility—even among credit unions wishing to participate. Again, we applaud the NCUA for being flexible and would recommend that, should this program not be implemented this year, that a program be considered next year which would allow credit unions to prepay a portion or all of their assessments at that point, once again allowing them to get out from under the looming assessments and provide the NCUA with additional liquidity.

Conclusion
Once again we appreciate the opportunity to weigh in on this proposal and are impressed by the openness and responsiveness of the Administration in developing this program. While we have proposed some potential changes and encourage credit unions to strongly consider participation, we rely fully upon our members and the credit unions throughout the nation to make the best decision for their membership.

We would be happy to answer any questions you may have.

Sincerely,

Jaycee Winn
Director of Regulatory Advocacy
Northwest Credit Union Association