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AMERICA'S CREDIT UNIONS

June 17, 2011

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

RE: Comments on Potential Voluntary Prepaid Assessments Program

Dear Ms. Rupp,

The Georgia Credit Union League (GCUL) appreciates the opportunity to comment on NCUA's proposal to allow credit unions to prepay some of the Temporary Corporate Credit Union Stabilization Fund assessments on a voluntary basis. As a matter of background, GCUL is the state trade association and one member of the network of state leagues that make up the Credit Union National Association (CUNA). GCUL serves approximately 153 credit unions that have nearly 1.9 million members. This letter reflects the views of our Regulatory Response Committee, which has been appointed by the GCUL Board to provide input into proposed regulations such as this.

We commend NCUA for listening to credit union and trade association concerns about the need to level out the corporate stabilization assessments, especially with the larger, front loaded early year assessments. We also thank the agency for proposing a program that appears to meet that need. We support the concept of prepaid assessments and offer the following recommendations in the hope of improving the effectiveness and to ensure that the program is attractive to all credit unions.

In order to understand the impact of this program on Georgia credit unions the twenty-five largest credit unions in Georgia were surveyed. The survey asked for feedback on a few issues to help formulate the response. The six issues we asked credit unions were as follows:

1. initial reaction to NCUA's pre-payment proposal;
2. prefer that NCUA ask credit unions to pre-pay more;
3. prefer making a loan to NCUSIF (and earn interest);
4. will you pre-pay your special assessments;

5. any questions that would need to be resolved; and
6. can you think of alternative approaches.

Out of the top 25 – 16 responded and most of those said they generally supported the concept but wish it was mandatory for all credit unions. Only 5 would want to pay more, and that response seemed tempered by the wish to get everyone involved. In addition, while folks wanted some rate of return on the prepaid amount, they were not sure that calling it a loan was the way to go. And finally, of the 12 that responded to the question about would they participate, only 3 said probably not.

The Recommendations:

<u>Minimum Commitment to Proceed</u>

To encourage broad participation and meaningful funding levels, NCUA has proposed to not proceed with the program if prepaid commitments from credit union total less than $300 million. The thought is that this commitment level will 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. We believe that this does not address the “free rider” concern we have heard from numerous Georgia credit unions. Most would prefer the plan to be mandatory, but if that is not something NCUA feels they have the authority to require, then we would like to see the minimum participation threshold be increased. We recommend NCUA consider increasing the minimum commitment to at least $1.5 billion, which would mean approximately a 1/2 participation from credit unions.

<u>Increase Number of Credit Unions Who Could Participate in the Program</u>

Another concern expressed by Georgia credit unions dealt with why exclude smaller credit unions. With the $10,000 prepayment amount, the cutoff point for participation is around $3 million in assets. We would also recommend that credit unions of any size should be allowed to participate in the program if they so desire. Our recommendation would be for NCUA to remove the minimum prepayment amount of $10,000 and change the approach to 10 basis points of insured shares regardless of a credit union’s size. This approach would apply the same eligibility standard to all credit unions.

<u>NCUA Should Pay Interest on the Prepaid Balance</u>

Credit unions that participate in the program incur an opportunity cost of reduced interest income. In addition, every credit union will benefit from more level assessments over time and the possibility of lower assessments due to lower borrowing costs paid to Treasury if NCUA uses less of the Treasury line. Under the proposal, the interest rate received by credit unions for prepayments would be zero. The thought among credit unions is if those that participated in the program could earn a small rate of return, it might lessen the concern over the transfer of benefit from participants to non-participants.

NCUA has explained that the zero interest rate aspect of the program is allowed in the Federal Credit Union Act (§127) which allows the NCUA Board may accept interest free loans. Our read of this section of the Act permits the board to receive gifts, and we believe that a below-market interest rate may still be viewed as a gift. So we suggest that NCUA consider paying a reasonable, but slightly below market, return on these prepaid deposits made by participating CUs.

In closing, we appreciate the effort of NCUA in developing a proposal that creatively addresses the concerns of credit unions. We hope that NCUA incorporates some of our concerns and recommendations so that a more effective and attractive program is finalized.

Sincerely,

Cindy Connelly

Cynthia Connelly
Sr. VP/Government Influence
Georgia Credit Union Affiliates