California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE

Filed via: regcomments@ncua.gov

September 24, 2012

Ms. Mary Rupp
Secretary to the Board
National Credit union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Comments on Notice of Proposed Rulemaking for Part 741, Maintaining Access to Emergency Liquidity

Dear Ms. Rupp:

On behalf of the California and Nevada Credit Union Leagues, I appreciate the opportunity to comment on the Board's proposal regarding contingency funding requirements. Specifically, the proposal would require federally insured credit unions with assets of $10 million or more to have a contingency funding plan that sets out strategies for addressing liquidity shortfalls in emergency situations. Credit unions with assets of $100 million would be required to have access to a federal liquidity backup source. Finally, credit unions with less than $10 million in assets would be required to maintain a board-approved policy for managing liquidity with a list of contingent liquidity sources. By way of background, the California and Nevada Credit Union Leagues (Leagues) are the largest state trade associations for credit unions in the United States, representing the interests of more than 400 credit unions and their 10 million members.

The Leagues agree with NCUA that proper liquidity management, including access to emergency funding sources, is very important. We also agree that access to federal backstops can be an important component of a liquidity risk management program. However, we disagree that this issue is best addressed via an inflexible regulation. Instead, we believe a more reasonable and flexible approach would be to issue guidance to credit unions, combined with responsible regulatory supervision and examination of credit union liquidity management policies. A well-managed credit union should be allowed to determine its own liquidity needs based upon its asset mix and cost-benefit analysis. It should be sufficient to ensure that credit unions have liquidity management policies in place that adequately address the majority of circumstances, including a volatile marketplace.

We are concerned about NCUA's dismissal of the Federal Home Loan Banks (FHLBs) as an effective emergency liquidity source. In the proposal NCUA states its belief that the FHLBs may not be able to meet emergency liquidity demands in the same way as the Discount Window and Central Liquidity Facility (CLF). This statement contradicts the very real, important role the FHLBs played in the recent financial crisis for many financial institutions. As the Federal Reserve Bank of New York states in Staff Report Number 357 (November 2008):

> *"The ongoing global financial crisis has provided an opportunity to learn about the roles of many often-overlooked financial institutions and financial markets. The often-overlooked FHLB System was one of the first institutions to emerge as an important provider of government-sponsored liquidity. Indeed, it was about eight months into the crisis before the Federal Reserve eclipsed the FHLB System in terms of crisis-related lending to the financial system. Nevertheless, the FHLB System remains, by far, the largest lender to U.S. depository institutions while most of the Federal Reserve's liquidity operations have been for the benefit of non-depository or foreign financial institutions. Without the FHLB System, the Federal Reserve likely would have faced significant demand for borrowing at the Discount Window at a much earlier stage."*

Further, we would like to point out that changes need to be made to the CLF to ensure that it functions as a viable emergency liquidity source. Currently, it can take up to 10 days to approve and fund a loan from the CLF. This is unacceptable in a true emergency funding scenario. At the Federal Reserve Discount Window and the FHLBs, funding can occur on the same day as the request. In addition, the amount of the required CLF stock purchase is not in line with the requirements from the Federal Reserve (no capitalization) or the FHLBs. Finally, the CLF does not currently permit periodic contingency liquidity funding testing.

We would like to add that guidance issued by NCUA on liquidity should not focus exclusively on federal liquidity sources, as this would be impractical and restrictive, and does not reflect the multiple, viable, non-federal liquidity sources available to credit unions today. Instead, NCUA should include and recognize other suitable and practical methods for managing liquidity such as:

- Lines of credit maintained at a corporate credit union
- Marketable securities with maturities less than 1 year
- Certificates of deposit with maturities less than 1 year
- Maintaining higher levels of cash
- Loan sales, particularly for credit unions that have extensive experience with participation sales

In closing, I would like to thank the Board for the opportunity to comment on this proposal. While we believe that more specific guidance should be provided for consistent application and enforcement of standards regarding liquidity management, we do not believe that a regulation is necessary. Instead, we urge the Board to address this issue with a more reasonable and flexible approach utilizing responsible regulatory supervision and examination of credit union liquidity management policies.

Sincerely,

Diana R. Dykstra
President/CEO