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

Subject: Proposed changes to 12 CFR Part 741: Maintaining Access to Emergency Liquidity

Thank you for the opportunity to provide comments on the proposed regulation. In short, this proposal requires federally insured credit unions (FICUs) with assets of $10 million or more to have a contingency funding plan that clearly sets out strategies for addressing liquidity shortfalls in emergency situations as well as requiring access to a back up federal liquidity source for emergency situations which would be limited to either the Central Liquidity Facility or the Federal Reserve Bank Discount Window. The rule also requires FICUs with $10 million or more in assets to maintain a basic written policy that provides a board approved framework for managing liquidity and a list of contingent liquidity sources that can be employed under adverse circumstances.

Questions posed in the most recent proposal include:

Whether specific asset thresholds are appropriate for application of this rule? Also whether NCUA should use a specific liquidity risk measure – such as the Emergency Liquidity Ratio (ELR) – to further distinguish among federally insured credit unions with the most significant risk and should, in turn, use those levels to determine the scope of the rule's application.

It seems appropriate to exempt the smaller credit unions from the burden of additional regulation wherever possible. The level of burden placed on smaller financial institutions over the last several years has been the death of many institutions.

In regard to the suggestion of using the ELR or another measurement to further refine the scope of the rule's application, I would encourage NCUA to avoid using a metric that is not able to capture the true amount of liquidity a credit union generates from its investment portfolio. For example the ELR is calculated with total deposits divided by cash, cash equivalents and investments less than one year to maturity. This ratio would have been appropriate many years ago when the majority of a credit union's portfolio was held in point in time maturity (bullet) securities. Today, many credit unions hold a variety of investment products including bullet maturities as well as amortizing maturities. This calculation ignores the strong cash flow liquidity that is generated from an investment portfolio that has maturities that amortize over time. It would be better to apply the rule consistently to all credit unions rather than to create a metric that may inappropriately calculate the liquidity available to fund an unexpected deposit outflow.

The Board requested comment on the cost and benefit of applying Basel III liquidity measures and monitoring tolls to federally insured credit unions with assets over $500 million.

NCUA guidance already outlines the use of cash flow forecasting and liquidity measurements as part of the best practices for liquidity management. This has allowed credit unions to develop metrics that are focused on their unique situation and risk profile. In addition, the new requirements outlined in the proposed rule regarding liquidity policy and contingent liquidity sources as well as a plan on how to handle a liquidity shortfall should be sufficient to monitor liquidity risks in credit unions.

Basel III liquidity measurements may be theoretically sound, but they are untested and their success as a good liquidity tool in practical use is unknown. In fact these metrics are just now going into a monitoring phase with implementation in 2015 and 2018 for banks. Much of the original framework from the December 2010 documents is written in at a level more appropriate for large commercial and international banks. It is expected that additional guidance and potential revisions will occur over the next few years. It would be appropriate for NCUA to wait before considering a decision on applying this one size fits all metric to credit unions.

Other Comments:

Since NCUA has made a determination to continue the CLF in its current structure, I think it is important to comment on the need for it to be modernized. During the CLF existence, the fund has rarely been tapped for liquidity by natural person credit unions. For a credit union to receive emergency liquidity, they must fill out a request and then wait up to 5 days for the request to be underwritten and approved. This does not sound like an emergency or last resort liquidity source. As the person in charge of managing the financial stability of this credit union, I will choose the discount window due to lower cost of access (no stock requirement) and the quick access to funding if there's an emergency. I would encourage NCUA to work toward improving the CLF to function more like the Fed Discount Window which uses collateral to reduce the delay in access, allows emergency funding testing and eventually reduce the cost of access to the facility.

Thank you for the opportunity to provide comments.

Sincerely,

Bonnie Humphrey Anderson

Bonnie Humphrey-Anderson
Executive Vice President/CFO