September 27, 2012

Via Email to regcomments@ncua.gov

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

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

Dear Ms. Rupp:

We appreciate the opportunity to comment on the proposed rulemaking for Part 741, Maintaining Access to Emergency Liquidity. As background, Kansas Corporate Credit Union (KCCU) is a state-chartered corporate that was formed in 1951. KCCU has a national field of membership, and we currently serve approximately one hundred and eighty member credit unions and twenty credit union organizations located primarily in Kansas, Montana and Nebraska. As of the end of August 2012, KCCU had total assets of $595 million and twelve-month average assets of $658 million.

For the majority of our membership, the advised line-of-credit at KCCU is viewed as their primary source of liquidity to meet the liquidity demands of their memberships. KCCU has advised lines-of-credit with one hundred and seventy four credit union members amounting to $348.5 million, which are primarily funded by our on-balance sheet liquidity and our outside sources of liquidity, the largest of which is a current $230 million line-of-credit with the Federal Home Loan Bank (FHLB) of Topeka. Nineteen KCCU members have made a capital investment in the FHLB of Topeka or Seattle primarily for access to additional liquidity and specifically for more competitive term funding since Regulation 704 governing corporate credit unions limits the ability of KCCU to extend a significant amount of term borrowing to members to meet their asset/liability needs.

Under the proposed rule approximately twenty KCCU member credit unions would be required to ensure they have immediate, established access to a federal backup liquidity source. Of those twenty members, all currently have access to the Central Liquidity Facility (CLF) via KCCU as part of the agent group headed by U.S. Central Bridge FCU (USC Bridge) that will be eliminated when USC Bridge is officially liquidated and the CLF stock is redeemed; none are direct members of the Central Liquidity Facility (CLF); approximately half have an account and maintain reserves at a Federal Reserve Bank (FRB) and could readily set up access to the FRB Discount Window by pre-positioning collateral.

The KCCU board and management have discussed KCCU's future role as a CLF Agent for our membership. Ideally, KCCU would like to continue to provide members with access to the CLF by becoming a direct CLF Agent and therefore, making it simple for all of our members to comply with the proposed rule. In our discussions with the membership, they've certainly expressed a desire to have continued access to the CLF via KCCU and not have to become direct members of the CLF, or purchase stock or deal directly with the FRB whom for most, they have no other relationship with at all. However, under current operating guidelines, in order to continue to provide our membership with access to the CLF when USC Bridge is closed, KCCU would have to purchase CLF stock for all members regardless of whether they're required under the proposed rule to have established access to a federal backup liquidity source or if they've already established access to the FRB.

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As a result, there is a significant cost for KCCU to be a direct CLF Agent. Based upon estimates, KCCU would be required to purchase approximately $20 to $25 million in CLF stock on behalf of all of our members. The CLF typically pays dividends quarterly and the rate is based upon current earnings (minus expenses) and short-term interest rates. In 2011, the dividend averaged 0.16% and for the first two quarters of 2012 the dividend rate has been 0.01% as the CLF has been positioning funds into an overnight Treasury account to prepare for USC Bridge's closure and the corresponding redemption of the CLF stock. As a result, KCCU would be moving funds from higher earning accounts to the lower earning CLF stock investment at a time when emphasis on building retained earnings is a priority, not only to meet regulatory requirements but to continue to build a protective cushion for our members' contributed capital investments. A revenue neutral solution would have to be implemented by KCCU and there are several potential options. However, some members would incur additional costs if they were required to offset the cost of KCCU holding their CLF stock, and they have already incurred the expense of setting up access to the Discount Window.

KCCU would request that the NCUA review and modify the requirements to be a CLF Agent to reflect and require that CLF stock would only need to be purchased for members that are required to have and don't have established access to a federal backup liquidity source. This would make it more financially feasible for KCCU to continue as a CLF Agent for members required to have a federal backup liquidity source and most likely would increase the number of credit unions choosing the CLF option versus the FRB option. It should also save the CLF operating expenses associated with providing service to a large number of direct members versus providing service via the agent relationships and maintaining the efficient process that's currently in place when utilized.

KCCU would also like to comment that regardless of whether or not changes are made to the requirements to be a CLF Agent, we believe that in addition to the CLF and the FRB Discount Window, the FHLB system should also be included as a federal backup liquidity source. The FHLB System is considered a government-sponsored enterprise (GSE) since it was expressly created by an Act of Congress (The Federal Home Loan Bank Act of 1932) and as such, they receive several institutional benefits designed to reduce their operating costs. Certain charter provisions combined with past government actions, have created the perception that GSE obligations are implicitly guaranteed by the federal government. Some of these special privileges accruing to the FHLB System include: a provision authorizing the Treasury Secretary to purchase up to $4 billion of FHLB securities; the treatment of FHLB securities as "government securities" under the Securities and Exchange Act of 1934; the statutory ability to use the Federal Reserve as its fiscal agent (like the Treasury Department); and an exemption from the bankruptcy code by way of being considered "federal instrumentalities". All of those benefits and privileges we believe support our view that the FHLB System should be included as a backup federal liquidity source in addition to the CLF and the FRB Discount Window in the proposed rule.

We know that the NCUA Board has expressed the view that the FHLBs are private institutions which are not obligated, and may not be able, to meet emergency liquidity demands in the same way as the CLF and the FRB Discount Window are statutorily designed to do. We believe that the evidence clearly shows that during the most recent financial crisis, the FHLB System provided more liquidity to depository financial institutions than either the FRB Discount Window or the CLF. As evidenced by the conclusion reached in the November 2008 Federal Reserve Bank of New York Staff Report Number 357 in regards to the ongoing global financial crisis, "The often-overlooked FHLB System was one of the first institutions to emerge as an important provider of government-sponsored liquidity." It wasn't until the FRB implemented many new borrowing programs – which were also designed to reduce the continued stigma associated with borrowing from the FRB Discount Window – that the FRB actually surpassed the FHLB in lending during the most recent financial crisis.

The report also points out that the FHLB System remained, by far, the largest lender to U.S. depository institutions while most of the FRB liquidity operations were more for the benefit of non-depository or foreign

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financial institutions. So although FHLBs are private institutions and are not obligated in the same way as the FRB Discount Window and the CLF to meet emergency liquidity demands, the reality is that they're collateral based lenders and as the evidence indicates, as long as an institution has available collateral the FHLBs will lend to that institution.

We believe by including the FHLB System as a federal backup liquidity source it will allow many of our members (as noted earlier, currently nineteen KCCU members) to utilize an existing relationship to access reliable emergency liquidity.

We thank you for the opportunity to comment on the proposed rule and we urge the NCUA Board to consider our comments as revisions are made to the final rule.

Sincerely,

Board and Management
Kansas Corporate Credit Union

Larry Eisenhauer, President/CEO
Kansas Corporate Credit Union

Kent Gleason, Executive Vice President
Kansas Corporate Credit Union

William Hauber, KCCU Chair
President/Frontier Community Credit Union

Mahlon McCaleb, KCCU Vice Chair
Chief Financial Officer/Meritrust Credit Union

Mark Kolarik, KCCU Sec/Treasurer
President/Kansas Teachers Community CU

Bob Thurman, KCCU Director
President/Credit Union of America

Glen Scott, KCCU Director
President/Envista Credit Union

Gary Colcher, KCCU Director
President/Quest Credit Union

Wayne Warfel, KCCU Director
President/Wichita Federal Credit Union

Kevin Mayer, KCCU Director
President/Richland Federal Credit Union

Tom Kjar, KCCU Director
President/Creighton Federal Credit Union