The Wisconsin Credit Union League
One League, One Focus - Your Success!

Via email: regcomments@ncua.gov

September 27, 2012

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

Re: Comments of the Wisconsin Credit Union League regarding Notice of Proposed Rulemaking – Maintaining Access to Emergency Liquidity

Dear Ms. Rupp:

The Wisconsin Credit Union League, serving 196 credit unions and over two million members, welcomes the opportunity to provide the following comments regarding the NCUA's notice of proposed rulemaking (NPR), issued by the NCUA on July 30, 2012, that would require federally insured credit unions with assets of $100 million or more to maintain access to contingent federal liquidity sources for use in times of distressed economic circumstances and financial emergency.

We do not support the adoption of a final rule on emergency liquidity at this time for several reasons:

- As credit unions are working as hard and fast as they can to keep up with the ever-increasing regulatory burdens facing them, it's essential that the NCUA provide adequate justification for any new regulation it imposes, and that has just not happened here. The vast majority of credit unions will never need to access an emergency liquidity source, and the costs of establishing access can be significant. The 2010 Interagency guidance on liquidity is already sufficient. More is just not necessary.

- If the rule goes forward, the Federal Home Loan Banks should be included as possible liquidity sources. A growing number of Wisconsin credit unions have become members of the Federal Home Loan Bank of Chicago and are increasingly using their liquidity products to provide affordable residential housing finance and community development products to their local customers.

  The NPR fails to distinguish convincingly the FHLBs and their products from the CLF and Fed Discount Window as reliable sources of emergency liquidity. Congress created the FHLBs in 1932 for the very purpose of providing readily-available, low-cost financing to member financial institutions in an effort to bolster and support homeownership during the Great Depression. Over the years, Congress has expanded the mission of the FHLBs to include the provision of general liquidity to the nation's community financial institutions, including credit unions. As U.S. government sponsored enterprises, the FHLBs enjoy access to the capital markets in all economic circumstances and at rates on par with the U.S. government. No truly "private" institution can match FHLB capabilities in this area.

Most recently, the FHLBs demonstrated their ability to act as reliable and stable liquidity sources during the financial downturn that began in 2007. During this crisis, when other liquidity sources dried up, the amount of outstanding FHLB advances grew by more than $360 billion, from approximately $640 billion in the second quarter of 2007 to over $1 trillion in the third quarter of 2008. Their record of performance reflects the FHLBs' ability and willingness to provide significant amounts of liquidity to members throughout the most challenging economic environment of our lifetimes. In fact**,** a Federal Reserve study found that that the FHLBs were by far the largest provider of liquidity to domestic depository institutions during this critical period—greater than the total amount provided by the Central Liquidity Facility during that same time period.

Therefore, we believe the failure to include FHLB advances as a source of emergency liquidity unnecessarily prevents credit unions from satisfying the liquidity requirements by using a relationship that is proven and, for those credit unions that are currently members, is already established.

- In addition, we suggest that if this rule goes forward, the NCUA leave open the opportunity for credit unions to access other sources of emergency liquidity that may appear on the scene. By incorporating into the rule the standards for funding sources that will meet NCUA requirements, rather than the names of specific funding sources themselves, the rule becomes more nimble as new sources appear.

- The Central Liquidity Facility may have utility for some credit unions, but not in its current form. For example, it can require a lengthy period to approve and fund loans—up to 10 days, which is just too long for emergency funding. Its stock purchase requirement puts extra pressure on credit unions still recovering from the economic downturn—or puts the CFL out of contention altogether as a funding source. Changes to the CFL might make it a viable liquidity resource for more credit unions, but it should be an option only and have no priority over more "friendly" credit union resources such as the Fed Discount Window and the FHLBs, which are operationally easier to use and have much quicker turnaround time.

- We strongly recommend against imposing BASEL III liquidity monitoring requirements on credit unions. First, the future of the BASEL III is in doubt. Moreover, the requirements are complex, do not recognize different sized financial institutions, and could prove to have very negative unintended consequences that are very disruptive. Again, the need for such heavy-handed regulation would need to be thoroughly substantiated, and it hasn't been.

For these reasons, we strongly urge the NCUA not to adopt a final rule on emergency liquidity at this time or, in the alternative, to make significant changes to it. Thank you for your consideration.

Sincerely,

Joanne R. Whiting
EVP and Chief Advocacy Officer
The Wisconsin Credit Union League