September 28, 2012

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

Re: Comments on Proposed Rule 741 - Maintaining Access to Emergency Liquidity

VIA ELECTRONIC MAIL: regcomments@ncua.gov

Dear Ms. Rupp:

The Michigan Credit Union League (MCUL) appreciates the opportunity to comment on the NCUA Board's proposed rule to amend Part 741 regarding maintaining access to emergency liquidity. MCUL is a statewide trade association representing 97% of the credit unions located in Michigan.

MCUL does not support this proposal and urges the NCUA Board to withdraw it. Though emergency liquidity is an important issue for credit unions to manage, MCUL does not believe that a regulation is necessary to achieve the objectives outlined in the proposed rule for the reasons stated herein.

<u>Existing Liquidity Policy Statement is Sufficient; Proposal is Contradictory to Existing Guidance</u>

The NCUA, in conjunction with the Office of the Comptroller of the Currency (OCC), the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Conference of State Bank Supervisors (CSBS), adopted a liquidity policy statement (Policy Statement) that became effective on May 21, 2010.

The commenters to the proposed policy statement "expressed concern over whether the agencies were being too prescriptive in the policy statement regarding expectations for contingency funding plans (CFPs)," and urged flexibility in order to "respond quickly to rapidly moving events that may not have been anticipated during the design of the CFP."

In response to the commenters, the NCUA and the other agencies stressed that the Policy Statement "provided a basic framework" and addressed "the need to diversify an institution's funding sources, ***there is no requirement to use a particular funding source***." [Emphasis added] NCUA and the other agencies also stated the belief ***"that a diversification of funding sources strengthens an institution's ability to withstand idiosyncratic and market wide liquidity shocks."*** [Emphasis added]

In response to credit union commenters that questioned the need for the Policy Statement, given that liquidity guidance is already provided in the NCUA Examiner's Guide, the NCUA responded that "the purpose of the policy statement is to reiterate the process and liquidity risk management measures that depository institutions, including federally insured credit unions, should follow to appropriately manage related risks. ***The policy statement does not impose requirements and contemplates flexibility in its application.***" [Emphasis added] Additionally, in response to credit union commenters that the Policy Statement imposed additional burdens on federally insured credit unions, NCUA responded that "the policy statement does not add to a credit union's current burden in this regard but rather clarifies NCUA's expectation for those credit unions with risk profiles warranting a higher degree of liquidity risk management.

MCUL believes this proposed regulation directly contradicts assurances provided to credit unions in 2010, as it would impose significant burdens on already-burdened federally insured credit unions (FICUs). MCUL also believes the proposal does not sufficiently justify any additional regulation, and urges the NCUA to continue operating under the framework provided in the Policy Statement.

<u>Flexibility Should be Provided; Federal Home Loan Bank Access Should be Permitted</u>

The proposed rule provides that a FICU could demonstrate access by any one of the following three ways: (1) becoming a regular member of the CLF; (2) becoming a member of the CLF through an Agent; or (3) establishing borrowing access through the Discount Window.

MCUL does not agree that the only sources of emergency liquidity should be limited solely to the CLF and the Discount Window. According to the Policy Statement, NCUA expected credit unions to have "comprehensive contingency funding plans (CFPs) that sufficiently address potential adverse liquidity events and emergency cash flow requirements." At the time this Policy Statement was written, NCUA did not provide any limitations on how to achieve a comprehensive CFP. It may be that FICUs will choose, as part of their respective CFPs, to become a member of the CLF or establish borrowing access through the Discount Window. However, MCUL believes that this decision should be left up to the individual credit unions, and should not be mandated by a limiting regulation.

NCUA stated in the proposed rule that it does not believe it is sound practice for larger credit unions to meet their emergency liquidity needs solely by holding highly liquid assets. MCUL agrees that a single avenue for emergency liquidity funding is not advisable. It follows then, that FICUs should be permitted to have a number of emergency funding sources, including access to the Federal Home Loan Banks (FHLBs) as a permissible federal source of emergency liquidity.

CLF Concerns

MCUL believes issues associated with the CLF should be addressed before a regulation is passed that would mandate becoming a member of it.

First, NCUA stressed its concern that the FHLBs may not be able to meet emergency liquidity demands in the same way the Discount Window and CLF are designed to do. However, it has come to MCUL's attention that, depending on the amount of funding required, it could take up to ten (10) business days for a loan request to be funded. For a FICU confronted with a liquidity emergency, this amount of time would be insufficient to meet the need.

Second, MCUL is concerned that the CLF will be unable to meet the demand in the next crisis unless it is recapitalized by a significant number of credit unions. In the event it is not, credit unions will be confronted with an even more disastrous situation due to the fact that the regulation limits available funding sources. MCUL believes more assurances should be provided regarding the CLF before it becomes a mandatory avenue for emergency liquidity.

Third, MCUL believes a legislative amendment to allow corporate credit unions to capitalize and borrow from the CLF directly would provide an additional layer of emergency liquidity.

Until such changes are made, MCUL urges the NCUA Board to withdraw this proposed rule.

Application of Basel III Liquidity Measures and Monitoring Tools for Credit Unions with Assets of $500 Million or More

NCUA requested comments on the costs and benefits of applying Basel III liquidity measures and monitoring tools to credit unions with assets of $500 million or more. The proposal stated that these measures and monitoring tools are designed to enhance the liquidity risk management framework and improve the banking sector's ability to absorb shocks arising from financial and economic stress.

MCUL does not support the application of the Basel III liquidity measures and monitoring tools to credit unions with assets of $500 million or more until a more thorough analysis can be conducted to determine the impact of these tools on the credit union industry.

Conclusion

MCUL does not support this proposed rule, as it is unnecessary to create an additional regulatory requirement when adequate guidance already exists.

MCUL agrees with NCUA's Policy Statement position "that a diversification of funding sources strengthens an institution's ability to withstand idiosyncratic and market wide liquidity shocks." Therefore, FICUs should be afforded flexibility with their CFPs, and should not be limited to the CLF and the Discount Window.

For the reasons stated herein, MCUL urges the NCUA Board to withdraw this proposed rule.

MCUL appreciates the opportunity to comment.

Sincerely,

Dave Adams
Chief Executive Officer