September 28, 2012

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

Dear Ms. Rupp,

I just have two comments to share regarding the proposed rule. The first is that having an emergency liquidity source based on asset size only is a bad idea. Liquidity needs of Credit Unions vary greatly within the industry as some Credit Unions have different business models, membership fields, and operating philosophies'. Asset size is a poor predictor of liquidity needs. Only Credit Unions that cannot demonstrate a solid liquidity plan with good funding sources should be made to have an emergency liquidity source. The two proposed options are costly and inefficient to Credit Unions, so this should be discouraged by the NCUA unless it is deemed a necessity for a specific Credit Union. Credit Unions can demonstrate that an emergency liquidity source is not needed by having high levels of marketable securities, other lines of credit, a historical trend of minimal liquidity needs, and above average dividend rates on deposits (which make them less rate sensitive). Specific parameters that a Credit Union would need to meet could be developed by the NCUA and reviewed by examiners.

Second, when considering an emergency liquidity source, I would like to reiterate that the FHLB would be acceptable and is actually better than the CLF. The CLF has a five day wait period for an advance (FHLB 0), the funds are not guaranteed because you have to meet credit standards (same as anywhere), and you have to keep money on deposit (same as FHLB, except Dividend is not as good), and you have to pledge collateral (same as FHLB, except you can use Mortgage Loans with FHLB at no cost). Per the proposed rule, "Another key element of liquidity risk management, however, is reliable emergency funding. Institution-specific issues and market conditions can combine to quickly deplete a credit union's on-balance sheet liquidity reserve. In such situations, the Discount Window and the CLF stand ready to lend on pre-specified terms as long as a credit union meets minimal borrowing standards and possesses eligible collateral. The FHLBs can and do offer short-term loans, in addition to longer term advances. The Board recognizes, however, that the FHLBs are private institutions which are not obligated, and may not be able; to meet emergency liquidity demands in the same way the Discount Window and CLF are statutorily designed to do. Accordingly, the Board has not included FHLB membership as an emergency liquidity option in the proposed rule." Per the proposed rule, "The NCUA considers comments by the public on this proposed collection of information in enhancing the quality, usefulness, and clarity of the information to be collected." I would like some clarification as to how the FHLB option differs as an emergency liquidity option. In all options you must pledge collateral and have to meet credit underwriting? As I interpret the rule, a guaranteed liquidity source does not exist that meets this definition. It would seem no one can guarantee an advance completely. The only difference in the FHLB option is that it is a private institution. I would suggest due diligence be required if you use the FHLB as an emergency liquidity source and if there was a concern about the FHLB the NCUA could stop permitting its use.

In conclusion, I would like the NCUA to develop parameters, not based on assets, which a Credit Union could meet to be exempted from the emergency liquidity source requirement and if an emergency liquidity source is required that the FHLB should be an acceptable option.

Sincerely,
Gary Bruemmer
MECE Credit Union