OHIO CREDIT
UNION LEAGUE

September 28, 2012

VIA E-mail: regcomments@ncua.org

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

RE: Comments on Maintaining Access to Emergency Liquidity
RIN 3133-AD96

Dear Ms. Rupp:

The Ohio Credit Union League (OCUL) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) Proposed Regulation on Maintaining Access to Emergency Liquidity, 12 CFR Part 741.

OCUL is the trade association for credit unions in Ohio and advocates on behalf of Ohio's 370 federal- and state-chartered credit unions, serving 2.7 million members. The comments reflected in this letter represent the recommendations and suggestions that OCUL believes would be in the best interest of Ohio credit unions.

Background

Currently 6,019 federally-insured credit unions (FICUs) have access to the Central Liquidity Facility (CLF) through membership in corporate credit unions, which in turn are part of the agent group headed by the U.S. Central Bridge Corporate Federal Credit Union. U.S. Central Bridge is expected to close October 2012, which results in those credit unions no longer having access to the CLF as a source of backup liquidity.

Analysis

NCUA is proposing three tiers based on asset size to determine the extent a FICU must go in order to demonstrate sound management of access to emergency liquidity.

1. Credit unions with less than $10 million in assets would be required to have a basic policy that provides a framework for managing liquidity and a list of contingent liquidity funding sources.
2. Credit unions with between $10 and $100 million in assets must develop a full contingency funding plan (CFP) that sets out strategies for addressing liquidity shortfalls.
3. Credit unions with more than $100 million in assets must ensure that the credit union has immediate, established access to a federal backup by becoming a member of the CLF either directly or through an agent or by establishing borrowing access through the Federal Reserve Board Discount Window.

NCUA also asks if Basel III liquidity standards should be applied for the largest credit unions, defined as those with more than $500 million in assets.

Requirement of Liquidity Management Policies, Programs & Access to Sources

Safety and soundness concerns mandate that a FICU should have in place appropriate contingency planning commensurate with its risk profile should the need for emergency liquidity develop. However, NCUA has not demonstrated a need to institute additional regulations in this area. In 2010, NCUA was one of the agencies publishing the Interagency Policy Statement on Funding and Liquidity Risk Management. The guidelines in this document are sufficient to allow NCUA and each FICU to determine the extent a liquidity management program should be in place for each FICU without adding specific requirements based on its asset size. However, the interagency policy statement stops short of directing specific provisions be included in the liquidity plans and does not designate the sources of liquidity.

NCUA has not provided sufficient rationale or justification for issuing a new regulation. The Supplementary Information describing the agency's proposal states that depository institutions need to have access to sources of emergency liquidity, but that point is also stressed in the interagency guidance. The Supplementary Information specifically states that rulemaking was initiated because 6,019 credit unions will no longer have access to the Central Liquidity Facility when U.S. Central Bridge ceases to exist. However, NCUA has not addressed why a new rule on specific liquidity requirements is necessary to ensure that those credit unions find another source of emergency liquidity. For this reason, OCUL does not agree that a new regulation is necessary and opposes implementation of the proposed regulation.

Implementation of Tiered Approach for Liquidity Program Requirements

NCUA proposes a tiered approach to its requirements for emergency liquidity policies, programs, and access to sources based upon the asset size of the FICU. Smaller credit unions (those having less than $10 million in assets) would only be required to have a liquidity policy with a list of possible sources of emergency liquidity. Larger credit unions (between $10 and $100 million in assets) would be required to institute a full CFP, and the largest credit unions (those having more than $100 million in assets) would additionally be required to establish access to a federally-backed source of emergency liquidity.

This tiered approach is based upon recognition that the risk to the National Credit Union Share Insurance Fund, and to the credit union system in general, is not the same for all credit unions, with the smallest posing very little risk at all. A "one-size-fits-all" approach would not be appropriate, and would be unduly burdensome on these smallest credit unions.

OCUL applauds NCUA's recognition that liquidity management programs should be tailored to fit the risk profile of a FICU and encourages NCUA to continue fashioning its regulations with those considerations. However, in the case of smaller credit unions, OCUL also observes that, at its most recent meeting, the NCUA Board proposed expanding its definition of "small credit union" to those having less than $30 million in assets, and urges the agency to modify this proposed regulation similarly.

Federal Home Loan Banks as a Source of Liquidity

The Proposed Rule limits the potential sources of emergency liquidity to either the CLF or the Discount Window. Although NCUA considered whether the Federal Home Loan Banks (FHLBs) should be considered as an alternative source of emergency liquidity, it concluded "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 or CLF are statutorily designated to do."

This conclusion is contrary to the evidence that the FHLBs were important sources of liquidity during the recent Great Recession. Advances from FHLBs provided liquidity when the credit market became frozen. OCUL believes that the FHLBs should be included as a source of emergency liquidity for any credit union that has sufficient excess collateral so that even in adverse conditions it is able to meet FHLB collateral requirements for receiving necessary emergency liquidity.

Basel III Standards

NCUA requested comments on whether the Basel III liquidity measures and monitoring should be instituted for credit unions having more than $500 million in assets. The Basel III standards were intended to apply to the largest, interconnected, internationally-active bank, not to smaller financial institutions such as credit unions. Adding requirements under Basel III standards is an unnecessary extension of standards which add to the increasing regulatory burden. For this reason, OCUL urges NCUA not to implement Basel III.

Conclusion

Emergency liquidity management, including planning and the ability to quickly access sources of emergency liquidity, is an important part of risk management for a credit union. However, current guidance and regulations provide sufficient means for NCUA, as the regulator and examiner of federally-insured credit unions, to assure that those credit unions have adequate plans in place. Therefore, the additional regulations in this proposal are unnecessary and should not be implemented.

Should NCUA determine that it will implement regulatory requirements in this area, OCUL urges NCUA to coordinate its requirements with more recent moves to increase the threshold for defining a small credit union as one having less than $30 million in assets. OCUL further urges NCUA to add FHLBs as an additional potential source of emergency liquidity, as they have already served as such in the recent past. Finally, OCUL does not agree with the institution of Basel III liquidity measures and monitoring for larger credit unions, as those measures were not intended to be extended to financial institutions of their relatively smaller size and complexity.

The Ohio Credit Union League appreciates the opportunity to provide comments on the NCUA's proposed rule on access to emergency liquidity, and is available to provide additional comments or information on this proposal if so requested. If you have any questions, please do not hesitate to contact me at (800) 486-2917 or jkozlowski@ohiocul.org.

Respectfully submitted,

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