PENNSYLVANIA
CREDIT UNION
ASSOCIATION

4309 North Front Street Harrisburg, PA 17110 Phone: 800-932-0661 Fax: 717-234-2695

September 28, 2012

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

Re: Notice of Proposed Rulemaking, Emergency Liquidity

Dear Ms. Rupp:

The Pennsylvania Credit Union Association (PCUA) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's Notice of Proposed Rulemaking (NPRM), which has proposed to make final its rule to maintain emergency liquidity. PCUA is a statewide advocacy organization which represents a majority of the over 500 credit unions located in the Commonwealth of Pennsylvania. This comment letter will focus on the proposed regulation which, according to the NCUA Board's NPRM, would "require federally insured credit unions to maintain access to backup federal liquidity sources for use in times of financial emergency and distressed economic circumstances."

PCUA consulted with its Regulatory Review Committee and State Credit Union Advisory Committee (the Committees) to review and discuss the NPRM. The Committees are comprised of our member credit unions' chief executive officers and senior management who represent credit unions that include every asset-sized peer group. The comments in this letter reflect the views of the Committees and the PCUA staff.

The Committees recognize the importance and the necessity of liquidity in times of economic stress and financial emergencies. However, as maintained in PCUA's comment letter regarding Advance Notice of Proposed Rulemaking (ANPR), Emergency Liquidity dated February 21, 2012; the Committees do not support the addition of this new regulation. We maintain that the guidance within the Interagency Policy Statement on Funding and Liquidity Risk Management, which was distributed in March of 2010, remains sufficient. This policy gives guidance which would require that each credit union would maintain an emergency liquidity plan which would be commensurate with the credit union's specific institution's size and risk profile. The policy does not specify the required source for liquidity and we maintain that the policy is appropriate.

The Committees also find that while NCUA has not adequately justified its new proposed liquidity requirements; the Committees'credit unions have demonstrated that the access for emergency liquidity is not necessary, would be difficult to obtain, the proposed mandate will be expensive to credit unions, there remains no solution for smaller credit unions, and there are not enough reasonable federal sources of liquidity available.

Difficulty and Expense of Obtaining Emergency Liquidity

The Committees maintain that NCUA's solution for obtaining emergency liquidity would be difficult, expensive and time-consuming. As set forth in NCUA Rules and Regulations, in order to be a member of the Central Liquidity Facility (CLF), federally insured credit unions greater than $10 million in assets may submit a detailed and extensive application and subscribe to capital stock of the CLF. 12 U.S.C. 1795c (a), 12 C.F.R. 725.3(a). If a credit union cannot complete the requirements in order to be a member of the CLF, the credit union could become a member through a corporate credit union or could seek assistance from the Federal Reserve Discount Window (Discount Window). If the credit union wants to seek assistance from the Discount Window, it must file the required paperwork and pre-position collateral to borrow. While the Discount Window does not require credit unions to purchase stock, it would require onerous initial and periodic examinations from the Federal Reserve.

The Committees are concerned that the CLF may not be the most reliable source of liquidity in an emergency, at least in contract to the Discount Window. According to NCUA's Central Liquidity Frequently asked Questions, the CLF could take up to as much as five working days to either approve or deny an application and add an additional five working days for the funds to be received. So, if all circumstances worked out in the best case scenario and the application process is completed and approved, it could still take up to five working days for funds to be received. The Committees find this to be contrary to the NCUA's explanation for the need for emergency liquidity.

Smaller Asset Sized Credit Unions

The NPRM proposed specific regulations for medium and large credit unions, but the Committees found no valid support was proposed for smaller credit unions. Smaller credit unions would have to follow the same sources which would be available to medium and large credit unions. This would mean smaller credit unions would have to either seek assistance through the CLF directly or utilize a corporate credit union in order to obtain access to the CLF. The option of utilizing the Federal Discount Window would be too expensive for smaller credit unions and would not be an option.

Sources of Liquidity

Should the NCUA Board's proposed rule become final, the Committees recognize the NPRM has named the CLF and the Federal Discount Window as acceptable sources for emergency liquidity. We would suggest that a membership in a Federal Home Loan Bank (FHLB) should be an acceptable emergency liquidity source option.

The Committee is aware that the CLF and the Discount Window are designed to provide emergency liquidity during times of financial and economic emergency and stress. Specifically, the CLF and Discount Window are considered to be sufficient for emergency liquidity situations because of the statutory mandate for each entity to supply needed liquidity. The main reason offered for the prohibition of the FHLB is due to the lack of obligation as opposed to the CLF and the Discount Window. We would like to suggest that the FHLB should be considered as an equal source for funding. The Committees would like to suggest a memorandum of understanding which would essentially create a similar obligation for the FHLB to provide for credit unions. The FHLB should also be considered because it does provide short- term loans and long term advances and many credit unions are already members of a FHLB.

Conclusion

We do not support the NPRM in its current form. We also do not support the proposed regulation to require a "federal" source of liquidity. We do support the guidance in the Interagency Policy Statement on Funding and Liquidity Risk Management. Should NCUA decide to go forth with the proposed regulation, we would urge NCUA to consider a solution for smaller credit unions, options and access for emergency liquidity and the expense, difficulty and time involved.

Very truly yours,

PENNSYLVANIA CREDIT UNION ASSOCIATION

James J. McCormack
President/CEO

JJM:HMO:llb

cc: Association Board
Regulatory Review Committee
State Credit Union Advisory Committee
R. Wargo
M. Dunn