alloya®
Corporate Federal Credit Union

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September 12, 2012

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

Re: Alloya Corporate Federal Credit Union – Comments on Notice of Proposed Rulemaking for Part 741, Maintaining Access to Emergency Liquidity.

Dear Ms. Rupp:

We appreciate the opportunity to comment on NCUA's Notice of Proposed Rulemaking regarding Access to Emergency Liquidity. Alloya Corporate Federal Credit Union is a corporate credit union serving nearly 1,500 members.

The NCUA Board has invited comment on the proposed rule, including whether the asset thresholds within the rule are appropriate and whether specific measures such as an Emergency Liquidity Ratio should be utilized to determine the scope of the rule's application. Finally, the Board seeks comment on the costs and benefits of applying Basel III liquidity measures and monitoring tools to federally insured credit unions with assets over $500 million.

Asset Threshold and Specific Measures

As currently outlined, approximately 1,450 out of 7,100 credit unions (20%) representing approximately 88% of credit union assets would be required to obtain access to a federal liquidity source. If the asset threshold were changed from $100 million to $250 million, approximately 750 credit unions (11%) representing 77% of credit union assets would meet the requirement. The higher threshold would result in the number of credit unions required to have a backup federal liquidity source being cut nearly in half, easing the operational burden for those excluded. We believe the NCUA's objectives are still accomplished with this higher threshold.

As far as using a specific measure such as an Emergency Liquidity Ratio, while useful to determine similarities between credit unions of similar asset sizes, any such measure could be affected by individual credit union operating circumstances. Alloya believes it would be better for credit union management to determine an appropriate liquidity buffer and plan based on the operating needs of the credit union, which ultimately would be reviewed in subsequent examinations.

Applying Basel III Liquidity Measures

The NCUA Board has asked for comment on the costs and benefits of applying Basel III liquidity measures and monitoring tools to federally insured credit unions with assets over $500 million. Alloya does not believe that formal use of these measures is prudent at this time. Basel III remains in flux. The measures have been designed to utilize a Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio that are not scheduled to come into effect until 2015 and 2018, respectively. As recently as last month, banking regulators were looking to adjust the LCR a full two years ahead of implementation. Alloya recommends that formal use of any Basel accord be studied further, both in terms of effectiveness and cost.

General Comments on Proposed Rule

As defined by this rule, the only available options for a backup federal liquidity source would be the Federal Reserve Discount Window or the Central Liquidity Facility (CLF) either directly or through an agent.

The CLF provided a significant amount of funding both to credit unions and indirectly to corporate credit unions during the previous crisis. This source will not be available unless the CLF is recapitalized by a significant number of credit unions. Alloya surmises that most credit unions required to access a government source of emergency liquidity will choose the Discount Window due to its perceived low cost, ease of access and the fact that there is no capital requirement as with the CLF.

Alloya believes that in conjunction with this rule, greater emphasis and education should be put forth by the CLF and that structural changes to the CLF should be made to ensure it is desirable for credit unions to capitalize. This education should take the form of a Prospectus or a document similar to a Private Placement Memorandum, outlining the risks, benefits, structure, processes and details of capitalizing the CLF.

In addition to education, Alloya believes that various operational aspects of the CLF should be improved to make it a truly functional emergency liquidity source. Presently, depending on the amount of funding required, it could take up to ten business days for a loan request to be funded. In any liquidity emergency, this time frame would be unacceptable. Changes to internal CLF funding, liquidity policies and loan approvals need to be made so that immediate access to emergency liquidity needs can be met by the CLF.

With these changes, we believe the CLF would be a more viable option for credit unions that would be required to get emergency lines under the proposed rule. Further, credit unions will have access to a source of emergency funding that is administered and self-supported within the credit union industry and not reliant on sources that are traditionally bank-centric. As history has shown, an industry provided solution to the next liquidity crisis is far more desirable than relying on outside sources.

Future Considerations

The CLF was intended to be a credit union industry solution for individual credit union and system-wide liquidity needs. Essentially unchanged since its inception, the CLF could remain a valuable solution if modernized. Alloya believes that while liquidity remains abundant in the current economy, an industry directed solution involving the entire industry (the NCUA, credit unions, corporates and trade associations) should be undertaken after the final rule is issued. In addition to the opportunities for enhancement discussed above regarding education and the speed of advances that can be accomplished without regulation, statutory changes should also be advanced.

Among the recommended changes are:

- Eliminating the requirement that agents, such as corporate credit unions, provide capital for all members. This is duplicative in many instances where a credit union already has Discount Window access. This may allow corporates the opportunity to provide capital for a subset of members, such as small credit unions.

- Granting limited designated authorities to agents or correspondents to speed processing.

- Allowing corporate credit unions to capitalize and borrow from the CLF directly. This would provide a further funding source for credit unions that are under the rule threshold as corporate funding would be backstopped by emergency CLF borrowing.

Please feel free to contact me or Tim Bruculere, Vice President – Lending, if you have any questions or concerns.

Sincerely,

Charles W. Furbee

Charles W. Furbee
Chief Executive Officer