



OHIO CREDIT  
UNION LEAGUE

January 5, 2015

Mr. Gerard Poliquin  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Re: Corporate Credit Unions  
12 CFR Part 704  
RIN 3133-AE43

Dear Mr. Poliquin:

The Ohio Credit Union League (OCUL) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) Proposed Rule on Corporate Credit Unions.

OCUL is a state trade association and advocates on behalf of Ohio's 327 federal- and state-chartered credit unions, serving 2.8 million members. The comments reflected in this letter represent the recommendations and suggestions that we believe would be in the best interest of Ohio credit unions.

We applaud NCUA's efforts to clarify some of the mechanics of its rules on corporate credit unions, as well as making several non-substantive technical corrections. These clarifications are welcome as necessary to detail firm ground rules for the safe and sound operation of the corporate credit unions providing important payment, liquidity, and investment services to their member credit unions. We concur with the overall implementation of these rules. However, there are some concerns with certain aspects of the agency's corporate credit union rules, which are outlined below.

### **Weighted Average Life (WAL) Treatment for Government-Issued or Guaranteed Securities**

Although not specifically part of the current proposal, we raise the issue of the treatment of government-issued or guaranteed securities under the rules regarding asset and liability management. Under current rules, the WAL of investments that are issued or fully guaranteed by the U.S. Government, its agencies, or sponsored enterprises (including those insured by the National Credit Union Share Insurance Fund and Federal Deposit Insurance Corporation) must be multiplied by a factor of .50 for the purposes of conducting the WAL tests under the regulation. This affords them a small WAL benefit.



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This treatment is not warranted in the case of such securities backed by the full faith and credit of the U.S. Government, which can serve as a buffer in economic stress scenarios due to their highly liquid nature. Although longer WAL government-guaranteed securities may exhibit more interest rate risk (IRR), measures to control such risks are outlined in other portions of NCUA's regulations (Part 704.8(d)) and combining measures to control both credit risk and interest rate into a single WAL factor multiplier muddles the effect of the credit rate risk rules in Part 704.8(h).

We urge NCUA to modify its WAL treatment of U.S. Government-issued or guaranteed securities and allow them to be weighted as cash equivalents.

### **Requirement to Deduct PCC in 2016 and 2020**

In the new definition of "Tier 1 capital" as the sum of retained earnings, perpetual contributed capital (PCC), retained earnings of any acquired credit union, and minority interests in the equity accounts of credit union service organizations that are fully consolidated, less certain deductions, NCUA aligns its definitions to be consistent with the definitions of "core capital" or "Tier 1 capital" used by other regulatory agencies.

However, two of the items (#8 and #9, reducing the amount of PCC that can be counted as part of Tier 1 capital in 2016 and 2020, respectively) are troubling. No other financial regulator excludes a similar portion of permanent capital in the calculation of "core capital." The unintended consequence is that this reduction calculation will affect the view of the capital strength of the corporate credit unions by third parties, such as the Federal Reserve Banks, the credit rating agencies, and auditors. We therefore urge NCUA to remove the requirement to reduce the amount of PCC in the Tier 1 capital calculation in 2016 (#8) and 2020 (#9).

### **Investments – GSE Mortgage-Backed Securities**

Corporate credit unions are permitted to invest in Government-Sponsored Entity (GSE) mortgage-backed securities under the Federal Credit Union Act. However, due to the exact wording of NCUA Part 704.5, these investments are limited to "obligations of the United States of America, or securities fully guaranteed as to principal and interest..." While this definition of a permissible investment in securities issued by the GSEs was accurate in the past, as the GSEs are going through a restructuring as a result of the Great Recession, it appears very likely that in the future, all GSE mortgage-backed securities will have some form of credit-sharing with investors. As the rule is currently written, corporate credit unions would be prohibited from investing in GSE mortgage-backed securities structured in this manner, severely limiting their access to a very important type of investment.

While the exact nature of future changes to GSE mortgage-backed securities is not yet known, we urge NCUA to take this opportunity to modify the rule to continue to allow corporate credit unions to invest in GSE mortgage-backed securities, in whatever the form they take in the future.

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## Conclusion

We applaud NCUA's efforts to clarify some of the mechanics of its rules on corporate credit unions, as necessary to detail firm ground rules for the safe and sound operation of the corporate credit unions. The corporate credit unions are a key part of the credit union system, providing important payment, liquidity, and investment services to their member credit unions.

We concur with the overall implementation of these rules, but urge NCUA to consider further modifications, in particular:

1. Allow U.S. Government-issued or guaranteed securities to be treated as cash equivalents for WAL purposes;
2. Remove the requirement to reduce the amount of PCC in calculation of Tier 1 capital in 2016 and 2020; and
3. Modify the restriction on investments to allow for possible changes to the structure of GSE mortgage-backed securities.

The Ohio Credit Union League appreciates the opportunity to provide comments on the NCUA's proposed rule modifying its rules for Corporate Credit Unions, 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, ext. 262 or via e-mail at [cmccallister@ohiocul.org](mailto:cmccallister@ohiocul.org).

Sincerely,



Paul L. Mercer  
President



Carole McCallister  
Manager, Regulation & Compliance

cc: Barry Shaner, OCUL Chair  
OCUL Board of Directors  
OCUL Government Affairs Committee