September 5, 2017

Attn: NCUA Board and Staff
c/o of Gerald Poliquin, Secretary of the Board
Delivered via email to boardcomments@ncua.gov

Re: Proposal to Close the Temporary Corporate Credit Union Stabilization Fund

Dear Sirs,

Thank you for the opportunity to comment on the proposal to close the Temporary Corporate Credit Union Stabilization Fund (“Stabilization Fund”) and raise the National Credit Union Share Insurance Fund's (“SIF”) normal operating level (“NOL”) to 1.39%. We appreciate the Board’s desire to provide rebates from the Stabilization Fund to credit unions as quickly as possible, so that they may better serve their members.

However, we are concerned with the NCUA’s proposed approach to this issue, as we believe it reduces transparency and potentially diverts millions of dollars that should be returned to the industry. Our specific concerns are as follows:

- Closing the Stabilization Fund and merging it into the SIF reduces transparency and makes it more difficult to identify the funds flow and ultimate distribution of stabilization-related funds. While we understand there may be legal challenges to directly distributing funds to credit unions from the Stabilization Fund, it does not appear that this option or other options that allow more direct transfer of funds back to the industry have been thoroughly explored.

- Increasing the NOL to 1.39% diverts stabilization-related funds away from its rightful credit union owners. Based on NCUA estimates, closing the Stabilization Fund and transferring its assets to the SIF would increase the equity ratio to approximately 1.45% - 1.47%. At the current NOL of 1.30%, that would mean that 0.15% - 0.17%, or $1.5 - $1.7 billion should be returned to credit unions. However, this proposal would reduce that amount by more than half, and only return to credit unions $600-800 million of funds paid. Even assuming that 0.04% is needed for the uncertain future disposition of the Stabilization Fund assets, $1.1 - $1.3 billion should be returned. A partial rebate of these funds based on uncertain future events is not acceptable, as this fund was specifically related to the past financial crisis. Credit unions have already paid for the past crisis and are now entitled to a full rebate.

- The required NOL estimate of 1.39% appears overly conservative. In deriving the estimate, NCUA assumed that three of the four driving factors (share growth, fund losses, and investment performance) worsened, at least initially, before getting better in the later years. While this was the case in the last financial crisis, factor performance in previous economic cycles do not appear to have been adequately considered. This places undue reliance in the estimate on what by all measures, was an extreme event. In addition, the assumptions omit the positive impact the NCUA could have on the fourth factor, fund expenses, by improving efficiency, consolidating offices and reducing its budget, especially given the rapid consolidation occurring in the industry.
Further, even the estimated net insurance loss expense appears conservative, in comparison to the extreme losses taken during the financial crisis. During the six-year period from and including 2008 to 2013, the fund suffered net insurance loss expense of $992 million. In the estimated period from and including 2017 to 2022, the adverse scenario assumes insurance loss expense of $1.267 billion, or 28% more. While credit union assets have grown during the intervening years, the industry is undoubtedly in better shape, with stronger capital levels, minimal corporate credit union risk and a marked reduction in higher-risk organizations. Given these considerations, it appears unlikely that a moderate recession would create higher net insurance loss expense than the extreme losses taken during the financial crisis.

- Once the NOL is set at 1.39%, there is no guarantee that it will ever return to the 1.30% level currently set. The 1.20% to 1.30% current range has effectively served the industry, even during the financial crisis. Raising it now risks a permanent increase in the NOL that would draw critical resources from credit unions and the members they serve.

Based on these concerns, we would encourage the NCUA to reconsider its proposal by:

1. Conducting additional research to determine if a direct or more transparent distribution of Stabilization Funds to credit unions is possible. If so, this would be the most transparent and effective way to return the funds, and we strongly encourage the NCUA to consider this approach.

2. If the funds are merged, distribute all funds in excess of the 1.30% NOL, or at a minimum, in excess of 1.34%, which includes the 0.04% potentially required to offset the uncertain future performance of Stabilization Fund assets. In this scenario, as certainty about the performance of these assets is determined, we encourage the NCUA to commit to reducing the NOL back to 1.30%.

3. If the funds are merged, develop an accounting and disclosure framework that maximizes transparency and separates stabilization-related activities from normal SIF activities, so that the industry can effectively monitor these activities.

4. In distributing the funds, ensure equity to the industry by distributing funds in proportion to the stabilization contributions made, instead of in relation to the current insured deposits of the credit unions. Credit unions that contributed, but have not grown, should not be penalized by the distribution formula for lack of growth.

We would be happy to discuss our concerns and requests further with you.

Thank you for your review and consideration of our comments.

Respectfully,

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