January 5, 2015

Via Email to recomments@ncua.gov

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

RE: Comments on Proposed Rule – 12 CFR Part 704 – Corporate Credit Unions

Dear Mr. Poliquin,

We appreciate the opportunity to comment on the proposed rulemaking for Part 704, Corporate Credit Unions. As background, Kansas Corporate Credit Union (KCCU) is a state-chartered corporate that was chartered in 1951. KCCU has a national field of membership, and we currently serve approximately one hundred and seventy members credit unions and twenty credit union organizations located primarily in Kansas, Montana and Nebraska.

KCCU is a member of the Corporate Credit Union Alliance (CCUA) and we support all of the comments and recommendations included in the CCUA's comment letter.

In general, KCCU supports and concurs with all of the changes included in the proposed rule. However, there are a couple of specific areas that we'd like to submit comments to the NCUA Board for consideration. These items are not considered in the proposed rule, but request consideration as we believe they would improve our ability to better serve members without significantly increasing risks.

Section 704.2 Definitions – Tier 1 Capital: Perpetual Contributed Capital (PCC) is defined in the regulation as perpetual, non-cumulative dividend accounts that are available to cover losses exceeding retained earnings and are considered equity under Generally Accepted Accounting Principles (GAAP). PCC is considered permanent capital and is funded by member credit unions that desire to receive financial services in a cooperative fashion from an entity they own instead of utilizing a competitor for similar services. This capital is the regulatory equivalent of non-cumulative perpetual preferred stock as defined by the FDIC regulations, which is consistent with the definitions of "Tier 1" or "core capital" by banking regulators and the Securities Exchange Commission and the United States Treasury.

Included in the definition of Tier 1 Capital are paragraphs eight and nine which reduce the amount of PCC that can be counted as part of Tier 1 Capital. Paragraph eight requires that a portion of PCC be deducted from Tier 1 Capital beginning in October 2016 and paragraph nine requires a more severe reduction beginning in October 2020. These deductions are required despite the fact that 100% of PCC remain at risk and available to cover losses exceeding retained earnings. No other financial regulator requires the deduction of any percentage of similar permanently contributed capital. As a result, every corporate credit union will see their Leverage Ratio (which includes Tier 1 Capital in its calculation) decline from September 2016 to October 2016, despite no decline in the amount of PCC or any change in the composition of risks in their balance sheets. To put this into perspective, based on our projections, we'll still meet the regulatory requirements but our Leverage Ratio will fall dramatically in October 2016 and October of 2020 while our overall GAAP capital levels will be significantly higher due to years of equity accumulation. In our view, and we hope in NCUA's view as well, retained earnings is another form of member contributed capital from patronage and usage of our products and services. It may be classified differently as retained earnings, but it's member contributed, and ultimately belongs to the membership.

In every other section of the regulation, corporate credit unions are required to follow GAAP, except for in paragraphs eight and nine when 100% of PCC isn't considered as Tier 1 Capital. It could potentially occur, that institutions with GAAP equity ratios of seven to nine percent could be considered undercapitalized by the Part 704 regulations. We think it would be difficult at best for the NCUA Board to explain to outside third parties, including legislators, how Leverage Ratios can decline for corporate credit unions despite no change in total capital or the structure of the balance sheets.

We don't foresee how the PCC deductions are beneficial to any constituency and we respectfully ask that the NCUA Board consider eliminating paragraphs eight and nine in the definition of Tier 1 Capital.

Section 704.9 Liquidity Management: We recognize and commend NCUA for extending the maximum borrowing limit from thirty to one-hundred and twenty days, but feel that the limit should be extended to one year, and three years if matched to funding a member term loan. One of the primary reasons corporate credit unions were chartered and exist today is their ability to provide liquidity to members versus members having to access liquidity from competitors. This remains true today as for many of our members their most critical and reliable liquidity source is KCCU.

KCCU could better serve our membership if the borrowing term limit is extended further than the proposed one-hundred and twenty days. It would also benefit both KCCU and our members, by extending the limit to three years on borrowing that is one hundred percent matched by term lending to members. This would allow KCCU to hedge the interest rate risk of making term loans to members funded by term liabilities versus short-term or overnight funds. This would benefit members as KCCU could lend more on a term basis if properly hedged and members could then more efficiently manage their own interest rate risk. This would especially be beneficial for members that don't have access or qualify for membership in the Federal Home Loan Bank (FHLB) system and rely on KCCU for term borrowings. Approximately fifteen percent of KCCU members are also members of the FHLB system. This doesn't necessarily mean the remaining eighty-five percent have chosen not to join the FHLB system, but for many members, they simply don't qualify for membership and therefore look to KCCU to fulfill all their liquidity needs. The NCUA Board has consistently cautioned the credit union industry about managing interest rate risk, and in a rising interest rate environment, securing longer-term funding (whether from member deposits or borrowings) is a prudent risk management tool, and allowing corporate credit unions to extend term borrowings to provide matched funding on term loans to members will be beneficial overall to the credit union industry especially in this anticipated rising interest rate environment.

This risk of extending borrowing term limits is limited and effectively managed by the two-year weighted-average life requirement that corporate credit unions comply with as well as the Net Economic Value required testing and limitations. The concern about corporates borrowing to fund arbitrage activity can be easily managed and verified by NCUA's ONES during both the annual examination and through the monthly call report process.

As lending growth continues to remain strong in the credit union industry, borrowings could easily become a more regular occurrence and it would be best if corporate credit unions had the necessary flexibility to meet members' liquidity demands. Therefore, we respectfully request that the NCUA Board consider extending the borrowing limit to one year and three years if match funding a member term loan.

Thank you for the opportunity to comment on the proposed rule and we urge the NCUA Board to consider our comments as revisions are made to the final rule.

Sincerely,

Larry Eisenhauer, President/CEO
Kansas Corporate Credit Union