CUNA
Credit Union National Association

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January 5, 2015

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

Re: Comments on Proposed Rule—Corporate Credit Unions

Dear Mr. Poliquin:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments on the proposed notice of rulemaking on corporate credit unions. By way of background, CUNA is the nation's largest trade association representing state and federal credit unions which serve over 100 million memberships.

CUNA generally supports the proposed changes to part 704 as they appear to meet the agency's goals of clarifying the mechanics of the corporate credit union regulation while making technical amendments and removing provisions that are now inapplicable.

While not the subject of this proposal, there are several important issues regarding corporate credit unions that we urge the Board to consider in a timely manner as this year unfolds. These issues include the role of corporate credit unions in providing liquidity to natural person credit unions and the weighted average life treatment for government issued or guaranteed securities. We plan to follow up with the agency on these issues.

**Definitions**

The proposed rule would replace the current definition of "adjusted" or "core" capital with "Tier 1" capital; the revised definition would reduce the amount of a corporate credit union's perpetual contributed capital (PCC) that is counted as Tier 1 capital beginning in 2016 with increased deductions in 2020. CUNA urges NCUA to reconsider PCC as part of Tier 1 capital since the deductions that will begin next year will adversely impact working capital available to corporates.

PCC is perpetual and available to corporate credit unions to cover losses that exceed retained earnings on an ongoing basis. PCC is considered equity under generally accepted accounting principles (GAAP). PCC generally cannot be returned to an investing credit union. This type of capital is similar to non-cumulative perpetual preferred stock as defined by the Federal Deposit Insurance Corporation as additional Tier 1 capital. The FDIC regulation allows banks to count the functional equivalent of PCC towards core capital similar to NCUA's current corporate regulation.

Moreover, the deduction of PCC from Tier 1 calculations could create uncertainty regarding the financial stability of a corporate credit union simply due to the deduction of PCC creating the appearance of lower capital. We are also concerned that the deduction would cause confusion for credit union auditors when they evaluate any potential impairment of PCC.

NCUA should eliminate the deduction of PCC from Tier 1 capital allowing PCC to be counted for all regulatory capital requirements as currently allowed by the corporate regulation until next year. NCUA has not provided sufficient rationale as why the change starring in 2016 is necessary, and it could harm natural person credit unions if their corporate credit union finds it necessary to reduce services.

**Liquidity Management**

The proposed rule would in increase the secured borrowing maturity limits in section 704.9(b) from 30 to 120 days. We agree with the direction of this change but urge the agency to consider whether the limit can be increased even further. Extended maturities would allow corporate credit unions to provide additional liquidity to natural person credit unions when needed. This would enable corporate credit unions to provide greater maturity through matched terms loans. Matching terms also reduces interest rate risk.

**Credit Union Service Organizations.**

Section 704.11(e) would add CUSO reporting rules similar to those in place for natural person credit unions. These requirements would direct that a corporate CUSO provide to NCUA and, if applicable, the appropriate state supervisory authority (SSA) the kinds of informational reports required to be produced and submitted by natural person CUSOs pursuant to a recent revision to NCUA's CUSO rule. We object to these requirements which we believe oversteps NCUA's legal authority and are not necessary for the safe and sound supervision of CUSOs.

**Enterprise Risk Management**

Section 704.21 would require a corporate implement an enterprise risk management (ERM) policy, establish an enterprise risk management committee, and include an independent risk management expert on the committee and lists the minimum qualifications for the independent expert, including specific educational and background requirements. These requirements at most should be only be guidance provided to corporate credit unions. This is the approach that NCUA takes with natural person credit unions.

**Conclusion**

CUNA generally supports a number of changes made by the corporate credit union rule. We also urge the agency to address the issues in this letter to ensure that the corporate credit union system remains safe and sound while retaining the ability to provide liquidity and other essential services to natural person credit unions. If you have any questions about our letter, please do not hesitate to give me a call at (202) 508-6705.

Sincerely,

J. Lance Noggle

Lance Noggle
CUNA Assistant General Counsel