



Corporate Federal Credit Union

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 – 12 CFR Part 704 – Corporate Credit Unions

Alloya Corporate Federal Credit Union appreciates the opportunity to comment on the NCUA's proposed amendments to its Corporate Credit Union Rule, Part 704. Many of the proposed amendments and technical corrections will significantly improve the clarity of the rule. We believe the proposed regulation could be further improved and encourage the NCUA to consider the following suggestions before issuing a final rule.

We understand that one of the regulatory objectives is to encourage corporate credit unions to build retained earnings. However, we take exception to the future discounting of perpetual contributed capital (PCC) invested by our credit union members. We understand that discounting is to encourage corporate credit unions to build retained earnings instead of raising additional PCC from members. However, we believe specific retained earnings requirements would be a better tool to accomplish this objective without requiring the discounting of PCC for regulatory capital purposes.

As you are aware, PCC is a permanent form of investment made by credit unions in a corporate credit union. PCC is treated as equity under generally accepted accounting principles (GAAP), has no maturity and cannot be repurchased/redeemed by the corporate credit union without specific approval by the NCUA. We are not aware of any financial institution regulation (outside of the NCUA) that discounts this permanent form of GAAP equity. Discounting PCC for regulatory capital purposes places corporate credit unions at a competitive disadvantage to other financial firms. Business partners outside of the credit union system take a "bright line" approach when evaluating the financial condition of a corporate credit union. A corporate credit union could easily move from a "well capitalized" to an "adequately capitalized" position simply because a regulatory date passes and discounting of PCC becomes effective. The balance sheet has not changed, PCC remains outstanding and the risk profile has not changed. The only change is that a date passes and regulation requires discounting. We believe that the GAAP definition of Tier 1 capital should be utilized for regulatory purposes and that discounting of PCC should be removed before the final rule is issued.

It should also be noted that the discounting of PCC seems especially punitive when considering that the NCUA is also proposing to increase the risk weight that natural person credit unions must assign to their PCC investment. With the proposed changes to increase the assigned risk weight, the NCUA clearly recognizes that PCC is an at risk investment. Why would the NCUA discount PCC for corporate credit union regulatory calculations and simultaneously penalize natural person credit unions with higher risk weights?



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The proposed regulation should also further clarify when and how perpetual capital can be returned to members. The topic is briefly covered under section 704.3(c)3, but should be enhanced. NCUA approval is required before capital can be redeemed, however, there is limited information related to what specific requirements will be considered by the NCUA when evaluating a corporate credit union's request to repurchase a portion of PCC. The NCUA should consider including better defined guidelines that govern the callability of PCC in the final regulation. It could be as simple as allowing well capitalized corporate credit unions the ability to take Board action to repurchase a pro-rata portion of PCC as long as a well capitalized position is maintained post repurchase. The regulation should include quantitative measures rather than relying on subjective judgments, especially considering the discounting provisions discussed earlier. Furthermore, there needs to be more information related to what constitutes an "issuance class" of perpetual capital and whether multiple issuance classes are allowable.

The proposed regulation increases the borrowing maturity limit from 30 days to 120 days. While this represents an improvement over the current regulation, we believe that the maturity limit should be extended further. Liquidity cycles can last longer than the proposed 120 day maturity limit. Part of effective liquidity management includes assessing the future direction of liquidity conditions. If liquidity conditions are forecasted to remain tight for an extended period of time (for instance, during period of high credit union loan growth and slower savings growth), a corporate credit union should have the ability to lock-in longer-dated funding on behalf of its credit union members. We believe that the maturity limit should be extended to at least 2 years.

One final suggestion is to update the liquidity section of the regulation to improve the competitive position of the Central Liquidity Facility (CLF) as an emergency liquidity option for credit unions. Regulation should specifically authorize corporates the ability to provide "CLF bridge loans" above regulatory lending limits to credit unions that have been approved for advances. The CLF provides an important liquidity backstop for its members and funds its loans from a line with the US Treasury. However, the Treasury can take upwards of five to ten days to fund the loan advance requests from the CLF. CLF bridge loans can help to provide immediate funding to credit unions that are simply waiting for the CLF funds to be available. Given that the advances have already been approved by the CLF, the bridge loans do not represent any additional credit risk to the corporates and therefore, should not be included in the regulatory lending limits. Bridge loans would have terms of no longer than 10 days.

Thank you again for the opportunity to comment on the proposed regulation and your efforts to improve the current rule. Please feel free to contact me directly for more information on the suggested changes.

Respectfully submitted,

A handwritten signature in black ink that reads "Todd M. Adams".

Todd M. Adams
Chief Executive Officer