The Wisconsin Credit Union League

One League, One Focus - Your Success!

Submitted via email: *boardcomments@ncua.gov*

Sept. 5, 2017

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

Re: Closing the Temporary Corporate Credit Union Stabilization Fund & Setting the Share Insurance Fund Normal Operating Level

Dear Mr. Poliquin:

On behalf of Wisconsin's credit unions® and their nearly 3 million members, the Wisconsin Credit Union League (the League) is writing in response to the National Credit Union Administration Board's (the Board's) plan to close the Temporary Corporate Credit Union Stabilization Fund (the Stabilization Fund) and set the National Credit Union Share Insurance Fund's (NCUSIF's) Normal Operating Level (NOL).

We want to express our appreciation to the Board for creating the Stabilization Fund in May 2009 and successfully overseeing its operations, which has benefitted federally insured credit unions nationwide. By accruing the losses from five failed corporate credit unions and assessing insured credit unions for such losses over time, the Board avoided passing the loss on to the NCUSIF and exhausting its retained earnings. The fact that the Board can now propose closing the Stabilization Fund early, before its 2021 scheduled expiration date, speaks volumes about the Board's success in guiding the U.S. credit unions through the wake of the Great Recession and about the continuing strength of the credit union movement as a whole.

In its notice, the Board posed three questions:

1. Should it close the Stabilization Fund in 2017, at some future date, or as scheduled in 2021?

2. Should it set the NOL based on the Share Insurance Fund's ability to withstand a moderate recession, or should the Share Insurance Fund be able to withstand a severe recession?

3. Should it base the approach to setting the NOL on preventing the equity ratio from declining below 1.20 percent, or some other higher minimum level?

In response to the first question, The League urges the Board to close the Stabilization Fund this year and merge all of its assets and liabilities into the Share Insurance Fund as soon as possible. Then credit unions should receive a return of excess equity above the normal NOL in early 2018. We see no justification for waiting to close the Stabilization Fund, since it has now fulfilled is purpose of resolving corporate credit union failures.

Our credit unions have voiced strong opinions to us on the need for prompt closure and distribution, including the following comments:

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- "I think it is imperative that the board strongly consider closing the Stabilization Fund, as credit unions across the country need to be able to utilize our member's equity to offer additional services, products and attract new members. Although I understand the need for the original assessments, I think it would be incredibly short-sighted to not work to close the fund as expediently as possible."

- "Give the money back to the credit unions to help serve our members. We need it more than ever now. Yes, we have our capital, ROA and AFLL back in shape, but we need it to stay on top of R & D and technology and stay competitive."

That leads us to the Board's second and third questions, about the approach it should use to set the NOL. Wisconsin credit unions favor keeping the NOL at 1.30%. At most, the Board might consider raising the NOL by 4 basis points to 1.34% – but only if it expressly makes such an increase temporary. In no event should it increase the NOL to 1.39%.

We understand that the NCUSIF's assumption of the Stabilization Fund's "Legacy Assets" will introduce some additional volatility risk for the NCUSIF equity ratio. (The Stabilization Fund provided funding to resolve a portfolio of residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities, and corporate bonds, collectively referred to as Legacy Assets.) However, we agree with the position CUNA expressed in its comment letter: The risk is sufficiently contained, largely because the impact of a moderate recession on the post-merger NCUSIF's equity ratio would be only 4 basis points of current insured shares (according to the analysis by the NCUA and BlackRock).

As a result, if the Board declines to maintain the NOL at 1.30%, then we feel that it should only increase the NOL by 4 basis points (to 1.34%) <u>at most</u>, and even then, only do so on an explicitly <u>temporary</u> basis to insulate the NCUSIF from Legacy Asset volatility. The temporary NOL increase should be phased down as the risk exposure from the Legacy Assets declines and as total insured shares increase.

Even a temporary 4 basis point increase may be unnecessary, however, because if there is a moderate recession in the next two years, the 4 basis points may well be covered, at least in part, by increasing yields on the NCUSIF investment portfolio. Granted, the economy has experienced a sustained period of very low interest rates, and even if rates continue to rise, the immediate upside for the NCUSIF will be somewhat limited, since only a portion of its investment portfolio will reprice in the next two years. Still, it seems reasonable to expect at least some increase in investment returns. As one credit union pointed out to us, "The sustained period of low rates has hurt the fund, but rates are starting to rise finally, so some of this improvement will be made with higher earnings on the fund investments."

Additionally, if increased earnings are inadequate, any shortfall could be offset by <u>modest</u> annual premium assessments to credit unions if needed. It's one thing to set the NOL based on avoiding a <u>significant</u> premium assessments for credit unions in troubled economic times; however it's not necessary to use a forecasting model that anticipates absolutely <u>no</u> future assessments. Running a slight risk of having to impose modest assessments on credit unions is a better alternative than asking credit unions to pay substantial amounts up front in the form of a reduced distribution of past stabilization expenses. One Wisconsin credit union president put it this way in his comments:

> I am troubled by the belief of the board that they must add specific basis points protection in anticipation of uneven economic factors which in turn further penalizes credit union members by not refunding a larger amount to the natural person credit unions. …

> If adverse economic conditions happened 5 years from now wouldn't it make sense to simply require the standard regulatory assessment at that time rather than keeping resources out of credit unions hands for that long?

In any event, we strongly oppose the idea of raising the NOL by a total of 9 basis points, from 1.30% to 1.39%. The Board is proposing the additional 5 basis point increase (above the 4 points needed to address temporary Legacy Asset volatility) for two reasons, neither of which is even related to closing the Stabilization Fund:

- To address the expected decline the share insurance fund ratio over the next two years due to relatively strong insured share growth combined with low yields on NCUSIF investments (2 basis points), and
- To keep the equity ratio from falling below 1.2% over the coming five years assuming a moderate recession (3 basis points).

Such a drastic increase is unwarranted and overly cautious. "History has not shown the need for such a high level," as one Wisconsin credit union president told us, and she is right: Since the Board adopted its current policy for setting the NOL nearly a decade ago, it has remained at 1.30 % every year. Furthermore, since 2007, the Board's policy has been to assess the equity ratio based on two-year forecasts of stressed conditions without the need for premiums. The proposal now being considered would extend the forecast horizon out to five years but still aim to keep the stressed equity level above 1.20% with no premium. That is excessive, because 1) a five-year forecast is simply too unreliable, and a conservative analysis is likely to overstate future pressures on the NCUSIF's equity ratio, and 2) as mentioned previously, the NOL should be based on maintaining the stressed equity ratio above 1.20% over a two-year period with no premium (or with modest premiums); it should not be based on avoiding any assessments at all for five years. Another Wisconsin credit union president put it this way:

> The 5 year severe economic downturn does appear excessive, especially given that the 1.20% NCUSIF Equity Ratio was not breeched and does represent a non-earning asset to credit unions with insured deposits. Since ongoing assessments have been used to supplement funding of NCUSIF before the 1.20% threshold was reached, NCUA demonstrated a more conservative administration of the fund than was provided for by legislation establishing the fund.

In closing The League urges the Board to close the Stabilization Fund in 2017 and merge it into the Share Insurance Fund as soon as possible. Then credit unions should receive a return of excess equity above the NOL in early 2018. Wisconsin credit unions favor keeping the NOL at 1.30%. At most, the Board might consider raising the NOL by 4 basis points, but only if it does so on an explicitly temporary basis, phasing down the increase as the risk exposure from the Legacy Assets declines and as total insured shares increase. In no event should it increase the NOL to 1.39%.

Thank you.

Sincerely,

Paul Guttormsson
Legal Counsel
The Wisconsin Credit Union League