OHIO CREDIT
UNION LEAGUE

August 31, 2017

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

Re: Request for Public Comment Regarding 2018 National Credit Union Share Insurance Fund Equity Distributions

Dear Mr. Poliquin,

The Ohio Credit Union League (OCUL) welcomes the opportunity to submit comments on 2018 equity distributions as a result of the separate proposal to close the corporate stabilization fund ahead of schedule and merge it into the share insurance fund, in order to return excess equity from the stabilization fund to credit unions that paid into it through special assessments. We applaud National Credit Union Administration's (NCUA) willingness to contemplate equity distributions from the National Credit Union Share Insurance Fund (NCUSIF) as soon as possible so that credit unions can use the funds to serve their members.

NCUSIF Equity Distributions Related to the Termination of the Corporate Stabilization Fund Should be Based on an Equitable Method

OCUL requests that NCUA issue an equity distribution to credit unions as soon as possible in 2018 after the corporate stabilization fund is closed and merged into the NCUSIF. Credit unions have overpaid into the stabilization fund and can expect a rebate of assessments and a refund of capital depletion. The stabilization fund is currently at a net positive of at least $1.5 billion.

OCUL urges NCUA to base equity distributions on the total amount paid over the course of the assessments. OCUL appreciates NCUA's willingness to determine a method of equity distributions that is fair for all credit unions. We do not believe that either of NCUA's methods, the Last-In, First-Out (LIFO) or First-In, First-Out (FIFO), will be the most equitable method for all credit unions that have paid into the corporate stabilization fund.

NCUA proposes to adopt the LIFO method so that federally-insured credit unions can receive their equity distributions for their most recent corporate assessments first. We believe that a distribution method based on the aggregate credit union payment into the stabilization fund encompassing all special assessments will provide a more equitable basis for distribution across credit unions. Essentially, a credit union's rebate should be based on what it paid into the stabilization fund over time and its proportional share of total assessments paid by all credit unions.

Therefore, OCUL urges NCUA to base the distributions on the total amount paid over the course of the assessments, rather than basing the assessment on FIFO or LIFO. NCUA should calculate the total aggregate amount paid by credit unions over all assessments, not a singular-year period in succession forward or backward, and issue the equity distribution to each credit

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union based on its pro rata share. In addition, to the extent feasible, NCUA should account for the movement of credit union assessment dollars paid (during the fund assessment period, the fund operating period, and now the fund wind-down period) across credit union balance sheets through mergers. Given that credit unions are legally formed and operated as member-owned cooperatives, we view the stabilization funds in question as "the members' money"; to the extent possible, corporate stabilization rebates should follow a path back to the member-owners who initially financed corporate stabilization. We fully acknowledge the complexity and effort involved in factoring in this recommendation.

Methods of Equity Distributions Under Section 741.4(e)

OCUL believes that the four-quarter average of insured shares method is an appropriate formula for determining equity distributions and meets NCUA's stated goals. We agree with NCUA that the four-quarter average determination is the most equitable, as it does not favor one type or size of credit union over another. Additionally, this method better captures seasonal fluctuations and does not incent credit unions to inflate year-end insured share levels. While NCUA notes this method requires the most complex calculation, we believe the administrative burden is manageable, especially in regard to the benefit of having a method that ensures fairness for all credit unions.

Termination of Federal Share Insurance Should Not Prevent an Equity Distribution

Currently, if a federally-insured credit union terminates federal share insurance coverage during the calendar year the credit union is entitled to receive an equity distribution. This distribution is based on the insured shares as of the last day of the most recently ended reporting period and then reduced by the number of months remaining in the calendar year. We applaud the simple and fair logic of this approach.

NCUA states that the proposed change is more in line with general corporate practice regarding shareholder equity distributions. We struggle to understand how this comparison is relevant given the unique nature of credit union share insurance and the choices thereof afforded to many credit unions. Historically, NCUA has attempted to recognize the contribution of a departing credit union and should continue to do so.

Federally-insured credit unions should not be prohibited from receiving an equity distribution if a federally-insured credit union decides to terminate federal share insurance and opt for private share insurance. Simply put, if a credit union (who at the time was federally-insured) paid into the NCUSIF, the credit union should receive their respective equity distribution for the corresponding time frame, regardless of a future choice to switch to private share insurance.

Further, this aspect of the proposal is concerning because any equity distribution in the years 2017-2021 will be deemed related to the corporate resolution program under the rule proposal. OCUL seeks clarification on whether a credit union also would be precluded from receiving an equity distribution if the credit union terminates their federal share insurance, even though the credit union has previously paid assessments into the corporate resolution program. Additionally, we are aware that several Ohio credit unions that paid into the corporate stabilization fund subsequently converted to private share insurance with American Share Insurance; we see no reason why these credit unions should be precluded from participating in stabilization fund rebates on an equitable basis along with their peers who also funded the program. In fact, precluding these credit unions seems to us contrary to NCUA's commendable emphasis on applying the most equitable process possible at each key step

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of corporate stabilization wind-down. Our position is that all credit unions that paid into the corporate stabilization fund should, regardless of subsequent share insurance choices, be eligible to participate fully in the rebate process as the excess equity of the corporate stabilization fund is returned to credit unions (and their member-owners) through the fund merger-and-rebate methodology.

Conclusion

To summarize our view, we encourage NCUA to proceed in the following manner:

- Equity distributions related to the corporate stabilization fund should be based on the total amount paid over the course of all assessment years as a proportion of the total of all special assessments for corporate stabilization purposes.

- Equity distributions in the future (in the form of fund dividends) should be based on the four-quarter average of insured shares in order to promote equitable distributions across credit unions.

- Federally-insured credit unions should not be precluded from receiving an equity distribution if they terminate their federal share insurance coverage. All credit unions (not just federally insured credit unions) that paid special assessments into the corporate stabilization fund should participate equitably in the rebate of the fund's excess equity.

We respectfully request NCUA to consider our rule suggestions and implement appropriate changes to NCUA's proposal on equity distributions and the termination of share insurance coverage. On behalf of Ohio's 287 credit unions, we welcome the opportunity to continue the dialogue so that Ohio's credit unions can receive an equity distribution resulting from their overpayment to the stabilization fund. If you have further questions or would like to discuss OCUL's comments in more detail, please feel free to contact us at 800-486-2917.

Respectfully,

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Ohio Credit Union League

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Manager of Policy Impact
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