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August 31, 2017

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

Dear Mr. Poliquin,

I am writing on behalf of Agriculture Federal Credit Union in Washington DC regarding the National Credit Union Administration's (NCUA) proposal to close the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) and raise the National Credit Union Share Insurance Fund's (NCUSIF) normal operating level (NOL) to 1.39 percent.

While I support the NCUA's proposal to close the Stabilization Fund and merge it into the NCUSIF and the idea of rebates to credit unions I am concerned with NCUA's approach on this issue. Particularly, I do not agree with the NCUA's proposal to increase the NCUSIF's normal operating level (NOL) to 1.39 percent. The NCUA's proposal will divert hundreds of millions of dollars from credit unions to the NCUA and hundreds of thousands of dollars in the case of my credit union. I will outline below several reasons why I think this is very unwise.

First, the NCUA states that raising the NOL is necessary to mitigate any potential risk of loss from the closing of the Stabilization Fund. The truth has more to do with the NCUA's rising operating expenses. According to Callahan and Associates NCUA's operating expenses have risen from $82 million in 2008 to $209 million in 2016. That's an average annual increase of well over 15%. Transfers from the NCUSIF covered $79 million of NCUA's expenses in 2008 and had risen to $203 million in 2016. During the same time period the operating expense ratio of the credit union industry has fallen from 3.41% to 3.00%. In other words from 2008 to 2016 as credit unions have become much better at controlling their operating expenses the NCUA has been rapidly increasing their expenses and the transfers from the NCUSIF to cover those expenses. It's time for NCUA to take a page out of the credit union industry's playbook and get their operating expenses under control.

Secondly, credit unions earn more on assets than the NCUA. In 2016 the average yield on all assets for all credit unions was 3.29%. The yield on the assets of the NCUSIF was approximately 1.5%. To truly protect the industry against future problems put the surpluses from the closing of the Stabilization Fund should be put where they will earn the most yield and build up the most reserves. That's not in the NCUSIF. That's on the balance sheets of the credit union movement.

Agriculture Federal Credit Union
Mailing Address: PO Box 2225, Merrifield, VA 22116-9998 **Phone:** (800) 368-3552 **Fax:** (202) 479-3821
www.agfed.org

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A third point is that if the credit union industry should ever face another big crisis the NCUA could always assess another premium like it did for the issues revolving around the corporate credit union crisis. In other words, there is precedent and the NCUA has the statutory authority to do it again if necessary.

A fourth point is a look at the overall health of the credit union movement. At the end of 2008 total retained earnings of the credit union movement were approximately $82.6 billion. Fast forward to 2016 and total retained earnings are over $142 billion. The capital ratio of the movement has risen from 10.64% at the end of 2008 to 10.88% at the end of 2016. And this, in spite of robust asset growth from $776 billion in 2008 to over $1.3 trillion at the end of 2016.

One final point that is perhaps the most important point of all. Making the rebate to credit unions as large as possible allows credit unions to further increase their capital. Increasing capital of credit unions assists them in doing the great work they do for their members and their communities. For my credit union in 2018 we are planning to broaden our reach in our community through further community development. We are planning to expand the mortgage products we offer to our members including first time home buyer programs. And we will continue to reward our members who are savers and are the backbone of our credit union by offering them the highest certificate of deposit rates we possibly can. If the NCUA's proposal as it now stands is enacted it would mean a rebate check to Agriculture FCU of $176,000 give or take. That's because NCUA is proposing to raise the NOL to 1.39%. If it remains at 1.30% Agriculture FCU would get a check for approximately $420,000 which we can use to the benefit of our members.

If the industry ever experiences another financial crisis the NCUA can charge an assessment like they did during the corporate crisis. The credit union is much healthier now than it was back in 2008 and even then it was very healthy. And finally, giving the largest rebate possible back to credit unions allows them to give back to their members and their communities in the ways that make the credit union movement such a unique and wonderful financial model.

Thank you for letting me respond to your proposal. If you have any questions, please feel free to contact me at margiec@agfed.org 202-479-3867.

Sincerely,

Margie

Margie Click
CEO
Agriculture Federal Credit Union