From:	Althouse, Alan
To:	_Board Comments
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Subject:	Comment: NCUA Board proposal to merge the TCCUSF into the NCUSIF and distribute recovery surplus to credit unions.
Date:	Thursday, August 31, 2017 6:30:06 PM

August 31, 2017

Via: Electronic Mail

Gerard Poliquin
boardcomments@NCUA.gov
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3425

Dear Mr. Poliquin:

Comment: NCUA Board proposal to merge the TCCUSF into the NCUSIF and distribute recovery surplus to credit unions.

My name is Alan Althouse and I am President and CEO of TruWest Credit Union located in Tempe, AZ. Our credit union has 82,644 members and $1,026,000 in assets as of July 31, 2017.

During the corporate crisis, TruWest Credit Union paid premiums of over $5.5 Million to fund the losses in the TCCUSF. In addition, we wrote off $1.3 Million of capital in U.S. Central Corporate Credit Union (FirstCorp).

I appreciate the NCUA board soliciting credit union comments on the merger and related distribution of surplus funds, and ask you to consider our views before acting. This has not occurred in any of the previous board decisions regarding the TCCUSF or the NCUSIF's financial decisions and is a very positive change. **Thank You.**

We believe NCUA's proposal to merge the TCCUSF fund into the NCUSIF to accelerate payback of recoveries is a good first step. However, we have real concerns about the NCUA staff analysis regarding the amount and timing of the distribution of surplus funds.

1. **There is no reason to withhold any of the recoveries from the TCCUSF** as of December 2017 (estimated at $2.2-$2.4 billion). These are funds sent by us (and ultimately our members) for a specific purpose and should not be diverted to other contingencies or uses. This is in keeping with NCUA's own statements at the time that

recoveries would be returned to credit unions.

2. **There is no objective reason to retain any TCCUSF funds in the combined NCUSIF**. Just 9 months ago, in the December audit, the NCUSIF's Normal Operating Level (NOL) of 1.24% was determined to be sufficient to cover all required contingencies. Today that level is even higher at 1.26%, not including the allowance account of over $200 million (an allowance equal to 16 times the 2016 actual net cash loss). This after the NCUA staff recommended to the Board in late 2016 that another assessment might be required from credit unions in 2017.

   There is no basis for retaining any recoveries for contingencies for NCUA's guarantee of NGN notes collateralized with legacy assets. The KPMG audit of the TCCUSF looked at this issue and stated in part in an extensive footnote 8 that "there were no probable losses for the guarantee of NGN's associated with the re-securitization transactions" as of both December 2016 and 2015. Since the time of that audit, U.S. residential real estate prices have risen yet higher.

3. **Given the minimal losses from credit union failures, it would appear any decline in the funds level would be caused by the NCUA's operating expenses, not actual losses.** Today, <u>NCUA is charging over 72% of its operating expenses to the NCUSIF (up from 52% in 2008)</u>. This transfer of costs now uses up more than 90% of the NCUSIF investment income.

   Amazing as it sounds, the compound annual growth rate in NCUSIF operating expenses from 2008 to 2016 has been 11.1%, rising from $82 million to $209 million. The increase during the Great Recession was reasonable; its continued growth after the decline in the number of credit unions – and with 95% of all credit unions Camel 1 or 2 – does not. There is a real risk that these expenses will simply accelerate if funds raised for the corporate credit union failures are not repaid as soon as practical. If the fund's net operating level declines, requiring an assessment to stay within the normal operating range of 1.2-1.3%. then the board should then come to credit unions with the facts supporting such a request.

Returning the full TCCUSF isn't just the right thing to do based on all the latest data, it is also the proper action to keep faith with the credit union community. Funds taken for one reason should not be re-purposed for other ends. These are funds we need today to provide our members with the lowest possible loan rates, and highest possible dividend rates.

Most importantly, we believe the merger should be accounted for in such a way that the operations and income from the TCCUSF program are kept in separate accounts (as a payable to credit unions) and that the funds should be distributed as timely as possible. Mingling these revenue streams with the normal NCUSIF responsibilities and results will only confuse credit unions as to what the real problems are requiring their resources. We, in fact, routinely keep separate accounts in our records for losses and costs for different asset classes, as required by both accounting rules and our NCUA regulator.

Our credit union welcomes NCUA's initiative to windup a resolution that has now gone on for almost a decade. We hope that this will also facilitate a process where credit unions and NCUA can now begin to objectively assess what went well and what did not turn out as predicted.   For if we fail to learn from this largest of all credit union difficulties, then our losses will be even more than the monies lost.

Sincerely,

Alan Althouse

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