Northwest Credit Union Association
Idaho • Oregon • Washington

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September 5, 2017

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

Delivered Electronically

Subject: Temporary Corporate Credit Union Stabilization Fund and Raising the Normal Operating Level of the Share Insurance Fund from 1.3% to 1.39%

Dear Mr. Poliquin,

On Thursday, July 27, 2017, the National Credit Union Administration (NCUA) Board issued a notice of intent with request for comment on closing the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) and distributing all assets and liabilities to the Share Insurance Fund (SIF). In addition, the Board proposed raising the Normal Operating Level of the SIF from 1.3% to 1.39% to ensure that the fund has sufficient equity to absorb risks.

To assist the NCUA in determining the best path for closing the TCCUSF, we sought input from our members through several avenues including hosting a call with 60 representatives from our Northwest credit unions. We agree with the NCUA that it is now possible for the remaining obligations of the Corporate System Resolution Program to be borne by the Share Insurance Fund without inordinate risk, provided additional equity is maintained *while* exposure to the remaining resolution program obligations exist. Therefore, the Northwest Credit Union Association (The Association) recommends the NCUA Board close the TCCUSF in accordance with the Helping Families Act of 2009. Specifically, we support:

1. Closing the fund prior to year-end 2017
2. Distributing overpaid assessments from TCCUSF proportional to what was paid in by individual credit unions
3. Temporarily raising the normal operating level to 1.34% in order to cover the new exposure risks that the legacy assets create to the SIF.

On behalf of more than 150 credit unions and their 6.5 million members, the Association appreciates the opportunity to provide input on this decision. We ask that the NCUA carefully consider our arguments detailed below, justifying our recommendations.

General Comments

The Association and our membership strongly support closing the TCCUSF in 2017, and appreciate Chair McWatters leadership on this important issue. This is a prudent action that will help credit unions avoid premium assessments. Premium assessments have the potential to cause earnings volatility for credit unions and negatively impact products and services available to credit union members. In addition, merging of the funds allows the NCUA to immediately restore the equity ratio to the Normal Operating Level.

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We strongly encourage the NCUA to have ninety-day comment periods going forward. This would provide needed time for members to disseminate and discuss proposals.

Raising the Normal Operating Level

The Association appreciates the National Credit Union Administration's detailed explanations and clear and concise arguments for raising the Normal Operating Level of the SIF from 1.3% to 1.39%.

The current Normal Operating Level is 1.3%, which was set by the NCUA Board in 2007. When establishing the 1.3% Normal Operating Level in 2007, the Board affirmed that the Share Insurance Fund would maintain a counter-cyclical posture. This means the Share Insurance Fund's equity should be built up during periods of economic prosperity and allowed to decline during periods of economic adversity. A counter-cyclical posture allowed NCUA to maintain the Share Insurance Fund at a level sufficient for it to remain viable even during economic stress conditions without having to charge a premium when credit unions can least afford it. This model was tested during the great recession and held up. The Share Insurance Fund had to charge a premium of 10.3 basis points in 2009 and 12.4 basis points in 2010 during the height of the worst recession in modern history. At that same point in time FDIC's DRR went to negative 93 basis points.

The current Normal Operating Level of 1.3% adequately accounts for insurance losses and insured share growth. In the rare cases that the equity ratio declines to a point where an assessment becomes necessary, Northwest credit unions indicated a preference for paying the assessment at that time. Northwest credit unions understand the scope of the potential losses at taxi cab medallion credit unions and recognize that the NCUA may need to charge an assessment, yet still would prefer a larger upfront distribution that could be used for the benefit of members. The Association is concerned that the NCUA does not intend to return the Normal Operating Level to 1.3% once the Corporate estates have been resolved, since insured share growth and insurance losses are in no way related to risks from the legacy assets. If the NCUA believes they have a compelling case to raise the Normal Operating Level based on risk not associated with the TCCUSF merger, they should make the case in a separate proposal. This would be less controversial since the NCUA is statutorily prohibited from charging assessments when the SIF equity ratio exceeds 1.3%.

The Association agrees that the NCUA should raise the Normal Operating Level and equity ratio of the SIF to account for exposure related to the legacy assets of the TCCUSF. Since raising the Normal Operating Level of the SIF is a Board-level decision, the NCUA should raise the Normal Operating Level of the SIF based on the legacy asset risk of decline at the time of the merger. Risk of decline should be based on the adverse stress test scenario provided by the Federal Reserve in 2017. NCUA's modeling should be verified by a third party such as BlackRock. We strongly encourage the NCUA to reevaluate the risk annually and reduce the Normal Operating Level of the SIF accordingly as risk associated with NGN performance declines over time. The NCUA was given the authority to increase the equity ratio in the Helping Families Act to cover risks associated with the TCCUSF. The only added risk of merging the funds is that the NGN values decline. Therefore, the NCUA is statutorily limited to increasing the equity ratio to risks directly related to the merging of the TCCUSF. The NCUA could require credit unions to set aside a portion of the distribution in their allowance accounts if they can demonstrate that economic risks justify this.

It is important to note that the not-for-profit credit union model is inherently less risky than the for-profit banking model. For-profit banks are driven by the shareholders' desire to take risks that yield high returns. For example, If the for-profit bank fails to deliver high returns, shareholders look for new options, causing the value of the share to decline and depleting capital. Alternatively, not-for-profit credit unions are not driven to take excessive risk and instead focus on securing members' financial futures.

How should TCCUSF rebates be distributed

The Association supports the NCUA giving rebates in proportion to the assessments credit unions paid into the fund relative to the amount being distributed. The Association specifically recommends that:

1. Surviving credit unions should receive a TCCUSF distribution based on paid TCCUSF assessments for credit unions they merged in.
2. If the surviving credit union did not take all of the insured shares in a merger, the surviving credit union should receive a rebate based on the insured shares that they absorbed from a credit union.
3. No distributions should be made to receiverships or non-natural person credit unions.
4. Future TCCUSF specific distributions from the SIF should be distributed to credit unions proportionately

The Association supports future equity distributions from the SIF based on the four-quarter average of insured shares rather than year-end.

Conclusion

Credit unions have been good industry participants who hope to continue offering higher returns on savings and low-cost, low-interest loans to their members. Returning the overpayments in assessments from the TCCUSF will support their efforts. The benefits of merging the TCCUSF and the SIF prior to the end of 2017 outweigh waiting until 2021.

Raising the Normal Operating Level of the SIF to account for new risks associated with merging the TCCUSF into the SIF is appropriate. However, the NCUA is proposing to utilize the TCCUSF to cover risks not associated with merging the fund. The NCUA has adequately supported a 4-basis point increase to the Normal Operating Level and equity ratio of the SIF.

The Association asks the NCUA to consider:

1. Merging the TCCUSF into the SIF prior to year-end 2017
2. Providing distributions from TCCUSF assessments proportional to what was paid in by individual credit unions
3. Raising the Normal Operating Level to 1.34% temporarily, to cover the new exposure risks that the legacy assets create to the SIF.

The Association appreciates the NCUA's commitment to improving the regulatory landscape for credit unions. We believe in the spirit of the proposal. With some refinement, the proposal should be adopted. Thank you again for the opportunity to comment on this issue. We would be pleased to answer any questions that you may have.

Respectfully,

John Trull