August 28, 2017

National Credit Union Association
1775 Duke Street
Alexandria, VA 22314-3428

Re: Proposal to Close Temporary Corporate Credit Union Stabilization Fund

Dear NCUA,

Thank you for the opportunity to comment on the proposal to close the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) in 2017.

I strongly disagree with all aspects of the proposal. The main objective of the TCCUSF will not be fully met if the funds are combined, namely keeping losses experienced at the five failed corporate credit unions from impacting the National Credit Union Share Insurance Fund (NCUSIF). The TCCUSF has NOT served its purpose.

The proposal has limited benefits, and by NCUA's own admission, has several disadvantages. Of the three benefits listed on slide 40 of the December 2016 presentation, the earlier rebate or offsetting of NCUSIF premiums is the only one that has slight merit. Another benefit listed was the reduction to some costs of maintaining two Funds, but that benefit is cancelled out by the initial costs of closing the TCCUSF. The third benefit listed was a perceived return to normal from the financial crisis, but that benefit is negligible at best.

If the only "benefit" is to avoid a current premium assessment, I would rather see credit unions pay a smaller premium assessment now in order to get the FULL refund of the TCCUSF that they will having coming in 2021. I don't think NCUA would have brought up this proposal at all if the NCUSIF equity ratio was 1.30% or greater and a premium assessment was not being considered.

However, the disadvantages listed on slide 40 are real. There would obviously be increased volatility for the NCUSIF equity ratio. There is a greater audit risk to the NCUSIF due to holding legacy assets. And the biggest disadvantage is the loss of transparency regarding the final costs of the corporate system resolution.

I would like to comment on the loss of transparency. Also, I would like to add other disadvantages in addition to the disadvantages previously mentioned.

Loss of Transparency

There are lots of moving parts in both the NCUSIF and the TCCUSF. Therefore, transparency is required for all NCUSIF and TCCUSF transactions. The closing of the Asset Management Estates (AMEs), the NGN Guarantor payments, and the allocation of the rebates of the TCCUSF should all come through TCCUSF, not the NCUSIF. Also by leaving the two funds separate, the need for the new complex language in the proposed regulations will not be needed.

While NCUA officials may have a good handle on all these factors, most natural person credit union officials do not. Even if the NCUA is being transparent with all the information, what use is that if the industry does not understand what is going on? At the July 2017 Board meeting, NCUA was being transparent with the information included on slides 22-34. But the information is so complicated that I could not understand it even after studying them for several hours.

Timing of Closure of TCCUSF

Much of the discussion in the proposed rule is based on projections. By waiting four short years until the scheduled closing of the TCCUSF, the NCUA would allow for almost all of these projections to become actual results. It would also give additional time for the orderly liquidation of the legacy assets. Further, the closing of the TCCUSF in 2021 would align perfectly with the timing of the maturity of NGNs (which were designed to coincide with the closure of the TCCUSF), the closing of the AMEs, the maturity of the US Central Capital note, and any equity refunds to the owners of the five failed corporate credit unions.

Since the AMEs cannot close prior to 2021, the distribution of deleted capital will be made in 2021. But bear in mind, the injection of capital into the AMEs without available capital will also occur in 2021. This injection should come from the TCCUSF, not the NCUSIF.

Benchmarking has become a valuable tool used by many credit unions. If credit unions are getting rebates over several years, that will make benchmarking more difficult. If some credit unions are getting a capital refund in 2021 and others are not, that again will make benchmarking more difficult. It is more systematic if the TCCUSF is closed in 2021.

If the two funds are combined in 2017, all future discussion of the NCUSIF will be clouded by including the assets and liabilities of the TCCUSF in the NCUSIF, or by having to break

out that activity from the normal operation of the NCUSIF. I foresee endless footnotes and asterisks in future disclosures of the activity of the NCUSIF.

After closing the TCCUSF, the legacy assets are transferred to the NCUSIF. By waiting until 2021, the amount of assets, and the related audit risk of those assets, will be much lower in 2021 than it would be in 2017.

Even waiting one more year to close the TCCUSF would bring more time for estimates to be more precise and would allow for more discussion and thought surrounding the closure.

Allocation of Rebates/Assessments to Individual Credit Unions

The NCUSIF insures the current member deposits in the credit union industry. Any additions to the NCUSIF, including any premium assessments needed, match the current level of usage of the NCUSIF by existing credit unions. In contrast, the TCCUSF assessments were based on past levels of member deposits. These assessments were paid by credit unions that may be out of existence. Also, all credit unions that are still in existence since the TCCUSF was funded have either grown or shrunk at different rates.

To be fair, the rebates from the TCCUSF should be paid to credit unions based on their **total** capitalization of the TCCUSF rather than their current share levels. This would alleviate the need for the complex LIFO or FIFO calculations.

Change in Operating Level of NCUSIF

The customary 1.30% operating level of the NCUSIF has functioned extremely well during its 30 years of existence, even through the Great Financial Crisis. The NCUSIF is not broke, and should not be altered in any way. In fact, with the changes to the corporate credit union regulations, the NCUSIF now has virtually no exposure to a loss resulting from the corporate credit unions. But if the TCCUSF is now closed into the NCUSIF, the NCUA would be introducing the "potential for significant volatility in the equity ratio of the share insurance fund".

In raising the Net Operating Level (NOL) of the NCUSIF to 1.39%, NCUA only considered the moderate and severe recession scenarios in setting the higher NOL, but did not consider the base case. But most importantly, would the NOL really ever be reduced to 1.30% again when the obligations currently held by TCCUSF are satisfied?

The things that credit unions would be giving up for a partial rebate in 2018 are certainly not worth it. The unintended consequences of raising the NOL to 1.39% and loss of transparency are too great of risks to take. By not passing this proposed rule, the NCUA

Board would be meeting one of their primary objectives: to maintain protection of the NCUSIF.

I understand the NCUA staff have done a great deal of work on this proposal so far, and there may be some hesitation to not use it fully. However, the proposal will cause a much greater amount of work for credit unions tracking the NCUSIF and accounting for partial rebates year after year.

Thank you for allowing me to comment. Please contact me at (402) 494-2073 if you have any questions.

Thank you,

Michael T. Horner, CPA
Chief Financial Officer
Siouxland Federal Credit Union