Connex
CREDIT UNION

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Improving the Lives of Our Members...
One Member at a Time

September 5, 2017

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

Re: Comments on Stabilization Fund Closure

Dear Mr. Poliquin:

On behalf of Connex Credit Union, I appreciate the opportunity to submit this comment regarding the National Credit Union Administration's (NCUA) proposal to close the Temporary Corporate Credit Union Stabilization Fund and raise the National Credit Union Share Insurance Fund's (SIF) normal operating level (NOL) to 1.39 percent.

I fully support the closure of the Stabilization Fund in 2017 and the decision to merge it into the SIF. This measure will rightfully transfer millions back to Credit Unions, ultimately benefiting the customers we serve. While I approve of the Stabilization Fund closure, I am deeply concerned with the proposal to increase the NOL to 1.39% from the current 1.30% operating level. When Corporate Credit Unions were failing back in 2008-2009, natural person credit unions were there to stand in and contribute to support those losses, and we all remember that as a painful time in our history. Connex Credit Union contributed almost $2M in additional assessments to care for those losses, and we respectfully would like to have those funds back so that we can continue to serve the 50,000 members in our community.

At the current NOL, credit unions would stand to gain up to $1.7 billion in refunds; however, with the proposed NOL of 1.39%, the rebate would decline by more than half to a stated range of $600-$800 million. Credit Unions have paid their fair share since the implementation of the Stabilization Fund and they should be refunded the rebate amounts noted in full. Those payments were more than "good faith" efforts to support our CU system; they were substantive demonstrations that when CUs need to act, they will stand up and pay their fair share. The NOL of 1.30% has proven to be a sufficient benchmark for the SIF's equity requirements.

Barring a catastrophe, the equity ratio will end the year above 1.20%, and will also benefit from the mid-year one percent capitalization deposit adjustment for CUs over $50m in assets. The closure of the TCCUSF will raise the equity ratio above the 1.30%. Since 1998, when the requirement to charge a premium if the equity ratio falls below 1.20% was established, the agency has never charged a premium when it was not a statutory requirement. Buffers put in place to support this proposal seem to be premature at this point, attempting to care for anticipated declines related to 2022 adverse scenario declines in stress analysis, declines in receivables under an adverse scenario, and general declines in base case scenarios for 2018-2019.

Premiums should be assessed when capital levels in the SIF warrant such action. The proposal to increase the NOL would penalize Credit Unions now when an assessment may never actually be needed. The latest requests in 2017 supporting the increase in NOL have been based on "adverse or severely adverse" economic stress analysis, and appears not to be supported by current "base case" assumptions, which were not provided by the NCUA in its recent 2017 proposal. Credit Unions are gladly willing to participate in the fund and ensure that it is adequately funded, but this should occur when capital is needed.

Additionally, while the SIF equity ratio has declined in the past few years, this largely appears to be the function of increasing share growth, increase in NCUA operating expenses, and lackluster performance on investments. While increasing share growth has been a positive for our industry, the NCUA operating expense budget has continued to increase year over year, and we are concerned that there is no governor to continued budgetary restraint in the future given an increase in NOL to 1.39%. Similarly, investment yields should be modeled to care for current expected levels of investment earnings.

Thank you again for the opportunity to comment on this proposal. I would like to commend the NCUA on its decision to close the Stabilization Fund and to disperse rebates to the Credit Unions. While I appreciate the agency's dedication to return funds to credit unions, I believe a full rebate is critical to a Stabilization Fund disposition strategy. For Connex Credit Union, that would mean the difference in receiving approximately 15% of the amount assessed, to over twice that level if the current NOL of 1.30% was maintained. There is no doubt that the Stabilization Fund was critical in helping Credit Unions and the industry achieves a healthy recovery. In order for Credit Unions to fully realize their contribution for participating in the Stabilization Fund, I ask that the NCUA reconsider its proposal to increase the NOL to 1.39%. I am confident that the SIF will continue to maintain a sufficient level of capital at an NOL of 1.30%, and if the NOL should be put at risk in the future, I am equally confident that our industry will step up to that challenge as it demonstrated back during the crisis a decade ago.

If I can be a source of any further information on this comment letter, please do not hesitate to contact me at fmancini@connexcu.org or by phone at (203) 603-5706.

Sincerely,

Frank Mancini

Frank Mancini
President & CEO
Connex Credit Union