MEMBERS 1ST

Credit Union

August 30, 2017

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

Dear Mr. Poliquin:

On behalf of the Board and senior management team of Members 1st Credit Union in Redding, California, I am writing to you regarding the 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 NOL to 1.39 percent. The proposal will divert hundreds of millions of dollars from credit unions to the NCUA. This will amount to 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. I am concerned about 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%.

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, surpluses from the closing of the Stabilization Fund should be put where they will earn the most yield and build up the most reserves: The balance sheets of the credit union movement.

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 related to 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.

Lastly, making the rebate to credit unions as large as possible allows credit unions to further increase our net worth. Increasing credit unions' net worth assists us in doing the great work we do for our members and communities. It also strengthens net worth to weather future regulatory changes, such as the coming current expected credit loss (CECL) reserve methodology requirement.

I encourage NCUA to consider how to better control operating expenses. Doing so will decrease the perceived need of increasing the NOL from 1.3% to 1.39%. Putting the maximum rebate in the hands of credit unions is the best way to protect the industry because credit unions can earn much more on their assets than the NCUSIF. Returning the funds to credit unions will allow us to better serve our members and 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 about my comment letter please feel free to contact me at Tvanderpol@membersonline.org.

Regards,
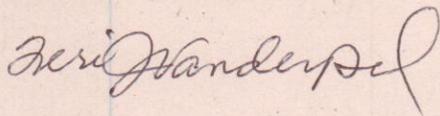
Teri J. Vanderpol, President/CEO
Members 1st Credit Union