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

Via email: regcomments@ncua.gov

Dear Mr. Poliquin,

Thank you for the opportunity to comment on the Requirements for Insurance, NCUSIF Insurance Fund Equity Distributions. Following are our point by point comments:

Increasing Equity Ratio from 1.30% to 1.39%:

On the surface, such an increase seems relatively modest. Nonetheless, we oppose an increase in the equity ratio for a number of reasons:

- With over a trillion dollars in insured shares, a 9 basis point increase in the equity ratio pulls nearly a billion dollars off of the balance sheets of credit unions and places it on the balance sheet of the fund.
- Raising the equity ratio also starts us down a slippery slope. Without substantial foreseeable threats to the fund, and even given some increase in volatility due to the ownership of legacy assets, there is not sufficient reason.
- The fund is assessable. Put another way it is an industry self-insurance fund and as many learned during the corporate crisis, the fund has a potential claim on every dollar of capital at every federally insured credit union in the industry. If the fund needs it, it can obtain it but there's a cost to taking it before it's needed.

Year End or Average of Four Quarter Method for Calculating Distributions:

For the reasons stated in the proposal, we recommend the four quarter method. It eliminates a good degree of seasonal fluctuation and does not punish credit unions who are growing. Because of the size of a potential distribution from the fund it seems unlikely that a credit union would grow its insured shares even on a temporary basis to obtain a larger distribution.

Liquidation Estates:

We encourage the Board to include to the extent possible liquidation estates. As is mentioned in the proposal, most of the beneficiaries of liquidation estates would likely be members who had deposits that exceeded insurance limits. In effect, these members subsidized the corporate stabilization and should be compensated to the extent possible.

FIFO vs LIFO:

When the financial crisis hit, many credit unions began to reduce assets to preserve their Net Worth ratios as loan losses and fund assessments depleted capital dollars. For this reason, a FIFO strategy would be preferred to a LIFO strategy in determining distributions as such a strategy wouldn't punish those credit unions who took action to maintain Net Worth and to reduce the risk to the fund. Utilizing a LIFO strategy would have the potential of having an unintended adverse consequence of encouraging credit unions not to manage their asset size in the next financial crisis if they felt that doing so would reduce the size of any potential future distribution of excess assessments.

Sincerely,

Brad Miller
SVP/CFO Kitsap Credit Union