EECU
Your community credit union

September 5, 2017

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

Dear Mr. Poliquin:

EECU Credit Union appreciates the opportunity to comment on the proposed plan to close the Stabilization Fund and modify the Share Insurance Fund's normal operating level (NOL) from 1.30 percent to 1.39 percent.

EECU Credit Union is located in Fort Worth, TX, serving over 185 thousand members with $2.05 billion in total assets. During the corporate crisis, EECU paid Corporate Credit Union Stabilization Fund (TCCUSF) assessments of **$6.4 million**.

While we do support merging the TCCUSF fund into the NCUSIF to accelerate payback of recoveries and the proposed last-in-first-out method of distribution, we do have concerns with markedly increasing the NCUSIF's NOL from 1.30% to 1.39%. This increase would redirect hundreds of millions of dollars from credit unions to the NCUA, **with $1.38 million being diverted from EECU**. As outlined below, we believe there is not sufficient evidence to support an increase in the NOL at this time.

1. **There is no evidence to support retaining any TCCUSF funds in the combined NCUISF.** In the December 31, 2016 financial statement audit of the TCCUSF, KPMG determined the NOL of 1.24% to be sufficient to cover all required contingencies. Today the NOL is 1.26%, not including the allowance account of over $200 million. Furthermore, the audit states that "loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonable estimated." No such evidence of a loss contingency was presented to withhold over $400 million of the TCCUSF recoveries by raising the NOL to 1.39%.

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Strong credit union financials and favorable economic trends further support KPMG's determination outlined above. Over 95% of credit union assets are at least rated a CAMEL 2, which is the highest percentage in over a decade. Moreover, the NCUSIF equity ratio of 1.26%, plus the $208 million allowance account, is equity equal to sixteen times the net cash losses experienced in 2016.

2. **There is no evidence to support retaining recoveries for contingencies for NCUA's guarantee of NGN notes collateralized with legacy assets.** Again, the above referenced KPMG audit addressed this issue, stating in footnote 8 that "there were no probable losses for the guarantee of NGN's associated with the re-securitization transactions" as of both December 2015 & 2016.

3. **NCUA's rising operating expenses have significantly contributed to the decline in the NOL – not losses.** According to Callahan & Associates, NCUA's operating expenses have risen a massive 155%, from $82 million in 2008 to $209 million in 2016. Moreover, NCUA is currently charging over 72% of its operating expenses to the NCUSIF, up from 52% in 2008. This transfer of costs now consumes more than 90% of the NCUSIF investment income.

   While credit unions have become more efficient, NCUA has built an operating expense structure that is consuming nearly all NCUSIF income. Rather than the NCUSIF having a shortage of reserves or capital for loss contingencies, it seems the proposed NOL increase is to fund an excessive operating expense structure.

4. **NCUA's financial modeling for both the TCCUSF and NCUSIF has not been close to actual results.** The actual cash losses of the NCUSIF experienced during the Great Recession have only been a fraction of the reserves established at the prior year-end audit date. This over-reserving has not only charged credit unions unnecessary premium expense, but also demonstrated that its modeling is disconnected with actual results.

5. **Things have changed.** Of course, the NCUSIF did suffer a substantial loss in the financial crises; however, that loss did not stem from natural person credit unions. Instead, it arose from the conservatorship of four very large corporate credit unions, each with extremely high concentrations of private label mortgage backed securities. Since then, the corporate system has been modified so much as to be almost unrecognizable compared to a decade ago.

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Today, the corporate system is very healthy and much smaller than it was, with total assets now only 15% of their 2006 level, much more restrictive investment regulations, and an average capital ratio that is three times higher today than in 2006. These systemic changes have contributed to lower risk to the NSCUSIF, and more evidence to contradict the proposed increase of the fund's NOL.

Recommendations:

1. Refund all $2.2-2.4 billion to allow credit unions to put this money back to work for our members.
2. Re-affirm the 1.20% to 1.30% NOL range of the NCUSIF.
3. Increase transparency into how industry resources are managed, lower NCUA operating expenses, simplify the administration, and improve accountability.

We appreciate the opportunity to share our thoughts on this issue. We hope you will take our concerns seriously, and reconsider the current proposal.

Sincerely,

Bradley J. Schone
Chief Financial Officer

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