RBFCU

September 5, 2017

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

RE: Closing the Stabilization Fund and Setting the Share Insurance Fund Normal Operating Level

Dear Mr. Poliquin,

On behalf of Randolph-Brooks Federal Credit Union (RBFCU), this letter is being submitted in response to the National Credit Union Administration's (NCUA) proposal to close the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) and raise the National Credit Union Share Insurance Fund's (SIF) normal operating level (NOL) from 1.30 percent to 1.39 percent. We greatly appreciate the opportunity to comment.

Introduction

In May 2009, President Obama signed into law the Helping Families Save Their Homes Act of 2009. This legislation amended the Federal Credit Union Act (FCU Act) and provided NCUA with the authority to stabilize the corporate credit union system. Acting under its granted authority, the NCUA Board created the Stabilization Fund to cover the costs of the Corporate System Resolution Program, a comprehensive measure to address the financial failure of five corporate credit unions. The purpose of the Stabilization Fund was to prevent the SIF from absorbing the losses of the failed corporate credit unions and to mitigate the assessment burden to insured credit unions by spreading stabilization costs over multiple years. Initially scheduled to close in 2021, NCUA now proposes to close the Stabilization Fund this year and merge its assets and liabilities into the SIF.

Closing the Stabilization Fund

RBFCU agrees with NCUA that the Stabilization Fund has fulfilled its intended purpose and can be prudently closed in 2017; however, we respectfully request NCUA to reconsider increasing the NOL by nine basis points as a result of the decision to close the Stabilization Fund. Regarding the current disposition strategy, NCUA estimates closing the Stabilization Fund and transferring its assets to the SIF will increase the equity ratio to approximately 1.45-1.47 percent. To the extent the equity ratio exceeds the NOL, the Board will effect a pro rata distribution to insured credit unions after the calendar year. At the current NOL of 1.30 percent, the Board would issue a dividend equal to 15-17 basis points of insured shares or $1.5-1.7 billion. However, if the NOL is raised to 1.39 percent as NCUA proposes, the dividend will equal 6-8 basis points of insured shares or $600-800 million. Therefore, an increase in the NOL of the magnitude proposed by NCUA will decrease the estimated dividend credit unions receive in 2018 by up to 60 percent, as well as extract $900 million of capital from the credit union system which could otherwise be used to further the mission of the credit union industry. For this reason, we hope NCUA will either maintain the current NOL of 1.30 percent or raise the NOL by fewer than nine basis points. Based on the analysis provided by NCUA, three to five basis points seems more justifiable.

Corporate System Resolution Program

An integral part of the Corporate System Resolution Program is the NCUA Guaranteed Note (NGN) Program which addresses a large group of distressed investment securities (referred to as Legacy Assets) from the failed corporate credit unions. To shield credit unions from realizing the full market loss of the Legacy Assets at liquidation, NCUA adopted a strategy to re-securitize those investments by transferring the Legacy Assets to NGN trusts and then issuing NGNs each collateralized by Legacy Assets. The NGNs have a NCUA guaranty for timely payment of interest and principal at maturity and are primarily funded by the Stabilization Fund.

The NGN program is scheduled to end in 2021, and NCUA has cited the program as a major factor in raising the NOL; however, there is no provision in NCUA's proposal for unwinding the increase in the NOL when the NGN program expires. Because the NOL is set at the sole discretion of the NCUA Board and it has authority to set the NOL as high as 1.50 percent, credit unions have no assurance the Board will decrease the NOL following termination of the NGN program. RBFCU believes it would be beneficial to add a provision which would require the NCUA Board to decrease the NOL following termination of the NGN program.

Conclusion

In closing, we thank you very much for the opportunity to comment, and we appreciate NCUA's dedication to returning funds to credit unions. While we support NCUA's decision to close the Stabilization Fund, we hope NCUA will consider keeping the NOL at its current level or increase the NOL by less than the nine basis points proposed. If the Board does increase the NOL, we believe a provision should be added which unwinds all or a portion of the increase when the NGN program expires.

Sincerely,

Robert Zearfoss
Executive Vice President
Chief Financial Officer