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January 5, 2015

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

RE: Comments on Proposed Rule Regarding Corporate Credit Unions

Dear Mr. Poliquin:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing to you regarding the National Credit Union Administration's (NCUA) proposed rule to amend Part 704 of the agency's regulations on corporate credit unions.

NAFCU has consistently maintained that the health and safety of the corporate credit union system is vital to our industry as a whole. According to NCUA's most recent publically-available Call Report data, over 70% of federally insured natural person credit unions are either members of corporate credit unions or have lines of credit at corporate credit unions. With this in mind, it is critical that NCUA ensure the safety and soundness of the corporate credit union system, so that it can continue to provide liquidity and payment system function to the industry.

In 2010, NCUA promulgated a comprehensive overhaul of the regulatory requirements governing the corporate credit union system. NAFCU generally supported the changes, especially stricter capital requirements, limitations on corporates' investment authority, and requirements related to corporates' asset portfolios. NAFCU and our members believe these changes not only mitigate risks to natural person credit unions, but they also protect the National Credit Union Share Insurance Fund (NCUSIF) from potential losses.

In this proposed rule, NCUA seeks to make a number of changes to the 2010 Final Rule. A few of the changes under the proposal are reasonably termed as technical, while others are more substantive in content. The agency's proposal seeks to make the following technical changes to Part 704: (1) eliminate long passed implementation dates; (2) modify a number of definitions to provide greater clarity or to make them more consistent with other NCUA regulations; and (3) update the expired Model Forms in Appendix A.

NAFCU supports each of these proposed changes as they are purely technical changes that clarify Part 704.

In addition, however, the agency's proposal would also make the following, more substantive, changes or clarifications: (1) specify how to value investments when calculating aggregate amounts under Section 704; (2) increase in secured member lending from 100 percent of capital to 150 percent of total capital; (3) incorporate flexibility for corporate credit unions to resolve balance sheet breaches of the net economic value (NEV) requirements within 10 days; (4) remove the 50 percent of capital and shares restriction on a corporate credit union's borrowing limit; (5) increase the secured borrowing limit from 30 to 120 days; (5) add additional requirements for corporate CUSO written agreements to provide parity with natural person credit unions' CUSO requirements; (6) clarify board member eligibility; (7) modify the fidelity bond coverage measurement to incorporate the proposed change of definition from "core capital" to "total capital"; and (8) remove the minimum requirements for independent risk management experts. NAFCU offers the following comments with respect to these proposed changes.

Section 704.2- Definitions

NAFCU strongly supports the proposed changes to the definition of "Retained Earnings" because we believe they will clarify that when two corporate credit unions merge, the surviving institution can count the retained earnings of the merged institution toward its net worth. NAFCU was a champion on this issue for all credit unions when it was instrumental in helping to get the *Net-worth Amendment For Credit Unions Act* enacted in 2006. Therefore, we support NCUA's action to implement this provision in its corporate credit union rule.

Section 704.5- Investments

NCUA's proposal would make changes to Section 704.5(j), which governs grandfathering of investments that were permissible at the time of the purchase but later became impermissible because of a regulatory change. Those proposed changes would add language to Section 704.5(j) to explicitly explain that the investment would still be subject to all other sections of part 704 that apply to investments, including those pertaining to credit risk management, asset and liability management, liquidity management, and investment action plans. NAFCU supports this clarification as it represents increased oversight by NCUA for investments by corporate credit unions that are no longer permissible.

Section 704.7- Lending

NAFCU also supports expanding the level of secured lending for corporate credit unions. Currently corporate credit unions are restricted to 50 percent of capital and its secured member lending to 100 percent of capital. This proposal would amend this requirement to allow for higher levels of secured lending of up to 150 percent of total capital. NAFCU supports these changes as they represent efforts by NCUA to give corporate credit unions much needed flexibility while continuing to be vigilant in balancing safety and soundness concerns.

Section 704.9- Asset and Liability Management

Further, NAFCU supports increasing corporate credit unions' secured borrowing limit. Section 704.9(b) currently restricts a corporate credit union's borrowing to the lower of 10 times capital or 50 percent of capital shares. It also limits a corporate credit union's borrowing on a secured basis for liquidity purposes to 30-days. The proposal, however, would remove the 50 percent of capital shares restriction, and would increase the secured borrowing maturity limit to 120-days.

While NAFCU supports these changes, we believe the secured borrowing maturity limit should be increased more. A 120-day secured borrowing limit still undermines the ability of corporate credit unions to serve as a source of liquidity, particularly during times of economic distress. By imposing such a stringent timeframe, NCUA severely restricts a corporate credit union's ability to meet its members' liquidity needs. Accordingly, NAFCU recommends that NCUA increase the secured borrowing maturity limit to 2-years. We believe a 2-year timeframe would give corporate credit unions much-needed flexibility to fund seasonal outflows of liquidity.

NAFCU also urges the NCUA Board to amend Section 704.9(b) to provide itself with the ability to suspend secured borrowing limitations during times of severe economic or network distress. Corporate credit unions continue to be critical partners for their members to maintain liquidity and they must have the ability to remain reliable sources of funding during stressed market conditions. NAFCU believes it is vital that corporate credit unions have the ability enter into longer borrowings during these distressed times in order to meet their members' funding needs. We therefore recommend that the NCUA Board provide an exception to Section 704.9's borrowing limitations under which it may suspend the rule to allow for longer secured borrowing periods during times of severe economic or network distress.

Corporate Resolution

NAFCU would also like to take this opportunity to reiterate our concerns with other aspects of the corporates resolution. Since the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) was established in 2011, natural person credit unions have paid more than $4.8 billion in assessments. Corporate credit unions also experienced losses relative to the write-down of US Central capital. While NAFCU commends NCUA for its vigilant and aggressive pursuit of legal recoveries, we believe that credit unions deserve to be repaid for the hefty assessments they paid to cover the cost of the corporate losses on mortgage-backed securities. Further, we believe there needs to be more clarity as to the disposition of the assets held by Asset Management Assistance Center (AMAC). Because NCUA has indicated that the agency is unable to refund credit unions for their assessments until the fund has repaid all of its obligations, NAFCU believes it is of paramount importance that NCUA transparently communicate the agency's strategy and timeline for satisfying the TCCUSF's deposit and borrower guarantees.

Thank you for your continued commitment to listen to feedback from credit unions. Should you have any questions or would like to discuss these issues further, please feel free to contact me at pjhoffman@nafcu.org or (703) 842-2212.

Sincerely,

PJ Hoffman
Regulatory Affairs Counsel