National Association of Federal Credit Unions
3138 10th Street North • Arlington, VA 22201-2149
(703) 522-4770 • (800) 336-4644 • Fax (703) 524-1082
www.nafcu.org • nafcu@nafcu.org
NAFCU

September 27, 2005

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on Proposed Rule Part 701, Secondary Capital

Dear Ms. Rupp:

I am writing on behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, in response to the National Credit Union Administration's (NCUA) request for comment on its proposal to allow low-income designated credit unions that offer secondary capital accounts to begin redeeming the funds in those accounts when they are within five years of maturity. The proposal would also require prior approval of a plan for the use of secondary capital before such accounts can be offered.

Low-income credit unions (LICU) are permitted to offer uninsured secondary capital accounts to non-natural members. (12 CFR 701.34(b) The purpose of these accounts is to provide LICUs with an additional means to build capital outside of the retained earnings process so that they may provide greater financial services in their communities and to absorb losses and prevent the failure of the credit union. To ensure the safety and soundness of the LICUs and to ensure that the funds are used for intended purposes, existing regulations impose multiple conditions. The proposed rule would modify one of these conditions.

Specifically, the requirement that the offering credit union discount the capital value (now called "net worth value") of its secondary capital accounts at the rate of 20 percent per year would be modified to permit a credit union to redeem the discounted value upon NCUA's approval, which § 701.34(b) now prohibits. The purpose of the modification is to prevent the required discounting of secondary capital from diluting the net worth of LICUs that offer secondary capital accounts. NAFCU agrees with the proposal and believes it will help alleviate unintended triggering of prompt corrective action (PCA) requirements. As a result, the proposal will enable LICUs to serve their communities and meet the needs of low income and underserved members.

The proposal would also require a LICU to request and receive approval to offer secondary capital accounts. Currently, a LICU needs only to submit a written plan to the regional director prior to offering the accounts. NAFCU supports NCUA's proposed approval process for the redemption of the discounted secondary capital accounts and believes an approved plan will more likely ensure the acquired capital is used for the purposes it was intended. Furthermore, the approval also will help ensure the safety and soundness of the credit union and prevent losses to the share insurance fund.

NAFCU would like to thank you for this opportunity to share its views on this proposed rule. Should you have any questions or require additional information, please call me or Bill Hall, NAFCU's Associate Director of Regulatory Affairs, at (703) 522-4770 or (800) 336-4644 ext. 266.

Sincerely,

Fred R. Becker, Jr.
President/CEO

FRB/whh