CATALYST
Corporate Federal Credit Union

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Gerard Poliquin, Secretary of the Board
National Credit Union Administration
Via email: regcomments@ncua.gov

RE: Comments on Proposed Rule – 12 CFR Part 704 – Corporate Credit Unions

Catalyst Corporate Federal Credit Union (Catalyst Corporate) commends the NCUA Board (Board) for proposing changes to 12 CFR Part 704.

We agree with the proposed changes in the following sections: 704.3 PCA, 704.5 Investments, 704.6 Credit Risk Management, 704.8 ALM, 704.11 Corporate CUSOs, 704.14 Representation, 704.15 Audit Requirements, 704.18 Fidelity Bond Coverage, 704.21 Enterprise Risk Management, Appendix A Model Disclosures Forms, Appendix B Expanded Authorities, and Appendix C Weighted Assets.

We have a couple of comments and recommendations to sections 704.2 Definitions, 704.7 Lending and 704.9 Liquidity Management to improve the rule and allow corporate credit unions to continue to provide critical investment, liquidity, payment, and other services to almost 6,000 credit unions. These recommendations will improve service to all credit unions without increasing exposure to risks.

<u>704.2 Definitions</u>

Tier 1 capital paragraphs 8 and 9: Catalyst Corporate's Board of Directors, ALCO, Supervisory Committee and management disagree that member credit union Perpetual Contributed Capital (PCC) should be deducted from any capital calculations and definitions beginning in 2016 and again in 2020. <u>We respectively request that these definitions be deleted.</u>

Almost 1,200 credit unions have an at-risk PCC investment with Catalyst Corporate. They made that investment to ensure Catalyst Corporate could continue to provide critical investment, liquidity and payment services, and operate with the capital needed to be financially strong well in to the future.

Catalyst Corporate is not suggesting that NCUA change the existing minimum requirements for capital ratios which are: 1) a leverage ratio of 4.0 percent or greater, 2) a Tier 1 risk-based capital ratio of 4.0 percent or greater, and 3) a total risk-based capital ratio of 8.0 percent or greater. To be considered well capitalized, the minimum requirements are: 1) a leverage ratio of 5.0 percent or greater, 2) a Tier 1 risk-based capital ratio of 6.0 percent or greater, and 3) a total risk-based capital ratio of 10.0 percent or greater.

Catalyst Corporate is asking NCUA to allow all capital, retained earnings and PCC, to continue to be used and counted for all regulatory requirements as it is allowed in the current regulation. Catalyst Corporate's long-term capital plan requires the building of retained earnings and to remain well above the 5.0 percent minimum leverage ratio to be considered "well capitalized".

PCC as defined in the regulation, are perpetual, non-cumulative dividend accounts that are available to cover losses exceeding retained earnings and are considered core capital and a form of equity under generally accepted accounting principles, or GAAP. Credit unions that invest in PCC understand these terms and conditions, which are disclosed by corporate credit unions upon purchase. This type of capital is the regulatory equivalent of non-cumulative perpetual preferred stock as defined by FDIC regulations, which is consistent with the definitions of "Tier 1" or "core capital" by the banking regulator, the Securities Exchange Commission, and the United State Treasury.

In addition to a corporate credit union's members, numerous non-member constituencies, including but not limited to the Federal Reserve Banks, the Federal Home Loan Banks, credit rating agencies, creditors, financial institution business partners, and auditors rely on reported regulatory ratios as opposed to GAAP capital, to evaluate their business relationships with corporate credit unions and their strength and financial stability. This has a detrimental effect on the necessary services received from these constituencies. No other financial regulator fails to include or requires partial exclusion of permanent capital or non-cumulative perpetual preferred stock or other similar permanently contributed capital, or discounts for any reason the inclusion of permanent capital into the calculation of core capital. Every corporate credit union will see its Tier 1 capital levels and ratios drop significantly in October 2016 and again in October 2020 even though total capital will be stronger after building retained earnings for several years.

NCUA's definition of PCC has adverse consequences to credit unions such as lessening the available liquidity a corporate credit union can access for its' members, increasing the uncertainly of the financial stability of the corporate credit union with other financial institutions and counterparties used for critical products, and causing confusion with credit union auditors when evaluating any potential impairment of PCC because of the change in reported capital ratios as result of discounting the PCC.

704.7 Lending

Catalyst Corporate, along with all corporate credit unions, are correspondents for the Central Liquidity Facility (CLF). In order for a corporate credit union to assist the CLF and member credit unions in a liquidity crisis, the authority should be allowed under regulation for a corporate credit union to provide CLF "bridge loans" above regulatory lines of credit limits to credit unions in situations where the CLF has approved advances to credit unions but are waiting for funding. The CLF "bridge loans" would not have a term longer than 10 days.

Section 704.9 Liquidity Management

While we commend NCUA for extending the maximum borrowing limit from 30 days to 120 days, we believe the limit should be extended to two years. Protracted seasonal liquidity needs and systemic liquidity scenarios will last well beyond 120 days, and could certainly extend beyond one year, as experienced recently during the financial crises. Corporate credit unions need the ability to borrow for up to two years to provide critical liquidity to credit unions during these extended periods of tight liquidity.

The request for longer term funding is to ensure corporate credit unions can provide the necessary liquidity to credit unions through matched term, allowing us to minimize interest rate risk. As the economy continues to improve, loan demand at credit unions continues to grow faster than deposit growth, payment processing settlement convergence gets closer to reality, and as rates rise, credit unions will no longer maintain large amounts of liquidity on hand and will use borrowings from corporate credit unions as an appropriate and frequent cash management tool. Corporate credit unions should be able to preposition liquidity in anticipation of an expected long-term liquidity event. Securing term funding in advance of an expected liquidity event is considered a best practice for liquidity management.

Thank you for the opportunity to comment on the proposed changes to 12 CFR Part 704 – Corporate Credit Unions.

Sincerely,

Kathy L. Garner
President/CEO