CORPORATE CREDIT UNION
Alliance

January 5, 2015

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

The Corporate Credit Union Alliance (CCUA) appreciates the opportunity to provide comments to the NCUA Board regarding proposed changes to 12 CFR Part 704. The CCUA was formed by corporate credit unions with the primary purpose of advocating for the well-being of corporate credit unions across various constituencies including regulators and lawmakers, and fostering cooperation among corporate credit unions. All 14 corporate credit unions are presently members of the CCUA.

Generally, we concur with the proposed changes within the following sections: 704.2 Definitions, 704.3 Corporate Credit Union Capital, 704.5 Investments, 704.6 Credit Risk Management, 704.7 Lending, 704.8 ALM, 704.9 Liquidity Management, 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.

Our comments and recommendations for other sections of the proposed regulation are intended to improve its effectiveness by enabling corporate credit unions to provide more efficient investment, liquidity, payment, and other services to the credit union community without compromising risk management standards.

<u>704.2 Definitions: Tier 1 Capital</u>

Perpetual Contributed Capital (PCC) is defined in the regulation as perpetual, non-cumulative dividend accounts that are available to cover losses exceeding retained earnings and are considered tier 1 capital and a form of equity under generally accepted accounting principles, or GAAP. These are permanent capital instruments for a corporate credit union funded by its member credit unions. This type of capital is the regulatory equivalent of non-cumulative perpetual preferred stock as defined by the FDIC regulations, which is consistent with the definitions of "Tier 1" or "core capital" by banking regulators, the Securities Exchange Commission and the United States Treasury.

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Accordingly, ***<u>we strongly believe that, under the definition of Tier 1 capital (section 704.2), paragraphs 8 and 9 should be deleted from the regulation</u>***. These sections reduce the amount of PCC that can be counted as part of Tier 1 capital beginning in October 2016 (and then more severely in October 2020) despite their permanent nature, i.e. nothing about the structure of this capital account has changed. No other financial regulator fails to include any portion of permanent capital or non-cumulative perpetual preferred stock or other similar permanently contributed capital into the calculation of Tier 1 capital.

We foresee an unintended consequence of this action in how various constituencies e.g. member credit unions, potential member credit unions, Federal Reserve Banks, credit rating agencies, creditors, business partners, public news agencies, auditors, etc. view our capital strength. Many rely on regulatory capital measures as opposed to GAAP in order to gauge capital adequacy and counterparty strength. Every corporate will see its Tier 1 capital levels and ratios drop significantly in October 2016 and even more dramatically in October 2020 despite the fact that overall capital actually will be greater due to several additional years of building retained earnings. We do not view PCC discounting as beneficial to any constituency, and we respectfully request your reconsideration.

<u>Section 704.9 Liquidity Management</u>

We commend NCUA for extending the maximum borrowing limit from 30 days to 120 days, however, ***<u>we believe the limit should be extended to one year; three years if match funding a member term loan.</u>*** This would provide corporates an important tool in managing interest rate risk while providing member credit unions the ability to borrow on a term basis. Today, many larger credit unions have access to term funding through the Federal Home Loan Bank (FHLB) system; however, the majority of credit unions under $100 million in assets are not FHLB members, and many of these do not qualify for membership. Their most reliable liquidity source for term funding is corporate credit unions, and we would like to serve them properly by match funding their borrowing needs with comparable terms from our own funding sources. As we know from the recent financial crisis, seasonal liquidity needs and systemic liquidity scenarios often extend past 120 days. As the economy continues to improve, loan demand is expected to outpace deposit growth at credit unions, which will further tighten liquidity within the credit union system. In addition, payment processing settlement requirements continue to rise, which could put further pressure on liquidity, especially as interest rates begin to rise. Borrowings at corporate credit unions could easily become a regular occurrence and key cash management tool for credit unions. Corporate credit unions should have as many of these tools at their disposal as possible in order to assist the credit union system's liquidity demands. Corporate credit unions should be able to position liquidity in anticipation of an expected long-term liquidity event and/or match fund member credit union term borrowings. Securing term funding in advance of an expected liquidity event is considered a best practice for liquidity management.

704.7 Lending - Central Liquidity Facility (CLF) "Bridge Loans"

Corporate credit unions have been working with the Central Liquidity Facility for the past several years in an attempt to position the credit union system for efficient access to funding as needed through the CLF. Every corporate has agreed to serve as a correspondent for the CLF, meaning corporates will administer the collateralization of CLF funded loans to ensure the CLF is only loaning funds to its member credit unions on a secured basis. The CLF funds its loans by accessing funds available to it from the Federal Finance Bank (FFB), however, the FFB can take upwards of 5-10 days to fund the loan advance requests from the CLF. As another critical role for corporates in assisting credit union liquidity needs, ***we would request that the Lending section of the regulation specifically authorize corporates to be able to provide "CLF bridge loans," above regulatory LOC limits, to credit unions that have been approved for advances from the CLF, for the period during which the CLF funds are not yet available***. Bridge loans would therefore have terms of no longer than 10 days.

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

Jane C. Melchionda

Jane C. Melchionda, Eastern Corporate Federal Credit Union
On behalf of the Executive Committee of the Corporate Credit Union Alliance

Robert Fouch	Corporate Central Credit Union
Jay Murray	Mid-Atlantic Corporate Federal Credit Union
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