Indiana Credit Union League

The association of Indiana credit unions

April 16, 2015

The Honorable Deborah Matz
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Chairman Matz,

We are writing to encourage the NCUA Board to not pursue the legislative strategies outlined in the recently released September 2013 NCUA white paper titled *National Credit Union Share Insurance Fund Improvements*. Specifically, we do not see a need for NCUA to seek an increase in the NCUSIF equity ratio from 1.3% to 2%, or to develop, in a vacuum, a risk-based premium structure for the NCUSIF. The white paper also recommends basing assessments on all deposits, shares and liabilities instead of only on insured shares. We believe that if the legislative changes proposed were to be sought by NCUA, this would be an extreme overreaction to perceived risks that have not manifested themselves. We ask NCUA board members to communicate their current views regarding the conclusions of this white paper, and urge a specific position that legislation based on it will not be pursued.

Corporate credit unions were the primary source of the risks to the system in 2006. NCUA and the credit union system have dealt with the losses from the corporate system, with credit unions maintaining financial strength in absorbing those losses. NCUA rewrote the corporate regulations so stringently that assets in the corporate network have declined from $130 billion in 2006 to $20 billion today. The white paper references $8 billion in losses from the corporate credit union system as a basis for needing the proposed changes to the fund. It is our belief that potential for losses of a similar scope is not a reality in the current credit union system. Credit unions absorbed those losses, and today have net worth ratios equal to or higher than they were when the economic and financial crisis began in 2008. The share insurance fund has remained strong throughout.

Since 2008, credit unions have paid additional premiums to NCUSIF necessary to maintain the existing equity ratio at 1.20% to 1.30% during an economic cycle that was possibly the worst credit unions have ever experienced. With these additional premiums, the NCUSIF remained well capitalized, and was able to absorb the losses from natural person credit unions that occurred during this time. NCUA continues to report improved financial conditions of credit unions as a whole and lower potential losses to the share insurance fund. We do not agree that increasing the equity ratio to 2% is necessary given the current financial condition of credit unions. CUNA estimates that an increase in the equity ratio to 2% over a 10-year period would require premiums of 8 to 9 basis points each year, totaling $850 million in the first year alone. We do not believe that the "benefits" outlined in the white paper of increasing the equity ratio are sufficient to warrant credit unions losing at least $850 million dollars per year that would otherwise go to increasing their capital.

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We do not agree with the recommendation to base premiums on assets less net worth rather than basing it on insured shares. The premium should be tied to what the fund is intended for, and that is to insure shares. This appears more as an attempt to increase the funds received by increasing the base that the premium is applied to. The current formula utilizing insured shares has worked in recent times when premiums were necessary.

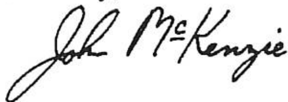
Over the past five years, NCUA has implemented multiple new or modified regulations based on eliminating the risks perceived to be in the credit union system so that what occurred during the financial crisis would not happen again. These rule changes were made in the normal process, which includes comment periods, revisions, and then final rules. We are concerned that during this same time frame, NCUA underwent the research and development of this white paper, but did not seek input from the credit union industry, and did not share the results publicly until now. While we are pleased that it appears that NCUA has not pursued these legislative changes with Congress, we are concerned that in a footnote to Larry Fazio's written testimony to the Senate Banking Committee in February 2015 there is a reference that seeking legislation to allow for risk-based premiums is a "legislative priority" of the NCUA. This does not reflect having the open and candid conversations with credit union constituents before adopting positions that could have significant financial ramifications on the system as a whole.

Too often NCUA uses as a reason for actions being considered that the actions are in line with what the FDIC is doing with banks. Credit unions are not banks and do not operate like banks. The NCUSIF has a superior financial track record to that of the FDIC over the past 25 years. During this same period the NCUSIF has never been even close to the insufficient ratio problems encountered by the FDIC, and maintained an equity ratio between 1.2% and 1.3% with only two NCUSIF premiums. NCUA should not want the NCUSIF to be more like the FDIC.

We believe that this whitepaper and the recommendations in it are looking for solutions to a problem that does not exist. NCUA should focus on how improving or eliminating existing regulations can be accomplished to reduce the regulatory compliance burden faced by credit unions today. The onerous regulatory environment in which credit unions have to operate presents a far greater challenge to the ongoing success of the credit union industry than revising the current structure of the NCUSIF. The NCUA Board and staff can have a far greater positive impact on credit unions through regulatory relief, and we encourage NCUA to focus on providing that relief to credit unions.

If you would like to discuss this matter further, I am available at (317) 594-5320 or by email at johnm@icul.org.

Sincerely,



John McKenzie
Indiana League President