Indiana Credit Union League

The association of Indiana credit unions

September 1, 2017

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

Re: Comments on Requirements for Insurance; NCUSIF Equity Distributions

Dear Mr. Poliquin:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule regarding National Credit Union Share Insurance Fund (NCUSIF) equity distributions. The ICUL member credit unions represent 99% of assets and members of Indiana's credit unions, with those memberships totaling more than 2.4 million consumers.

ICUL does not agree with the proposed approach for determining a federally insured credit union's (FICU) proportionate share of an NCUSIF equity distribution. ICUL does not agree with the proposal to prohibit a FICU that terminates federal share insurance coverage during a particular calendar year from receiving an NCUSIF equity distribution for that calendar year. ICUL supports NCUA's proposed approach to distributing equity distributions related to the Corporate System Resolution Program; treating these differently than a normal equity distribution. The following provides additional detail on our positions.

Determining a FICU's proportionate share of an NCUSIF equity distribution

Currently, NCUA bases a FICU's proportionate share of an equity distribution on the FICU's daily capitalization deposit balance. NCUA is proposing changing the methodology to be based on a credit union's average insured shares based on quarter end call report data. We do not believe that this change would result in "greater fairness" to determining equity distributions. Insured shares are more representative of risk posed to the share insurance fund, not representative of the funds NCUA utilized throughout that calendar year in investments to generate income that resulted in the excess equity in the NCUSIF for distribution. We believe that the capitalization deposit represents a credit union's contribution to the NCUSIF that helped to generate income and the resulting excess equity.

In the proposal, NCUA argues that credit unions with $50 million or more in assets somehow gain an unfair advantage in the current calculation because NCUA adjusts the capitalization deposit twice a year for this group of credit unions. We argue that this does not create an unfair advantage. In reality, these credit unions have provided NCUA with additional funds to invest and generate income. We believe that using the current average daily balance methodology correctly reflects these additional funds made available to NCUA by these credit unions. The current approach correctly treats an equity distribution as a dividend on the capitalization deposit. We do not believe that the proposed insured shares approach creates a fairer process, but rather creates an approach that could have the opposite effect and would potentially reward a credit union for aggressively growing shares and increasing the risk to the NCUSIF.

Equity distribution: FICU that terminates federal share insurance coverage during a particular calendar year

NCUA is proposing that a FICU that terminates federal share insurance during any calendar year would not be eligible to receive any portion of an equity distribution related to that calendar year. Under the current approach, the credit union terminating federal share insurance would receive a share of the equity

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distribution pro-rated to the portion of the year federal share insurance was in place. Just as we do not agree with changing the methodology to base distributions on insured shares, we do not believe there is a need to change the current approach related to FICUs terminating insurance coverage. NCUA has use of the capitalization deposit of these FICUs for a portion of the year, generating revenue through investing these funds. This proposal appears to be intended as a penalty for terminating federal share insurance rather than an attempt to be fair.

NCUSIF equity distributions related to the Corporate System Resolution Program

NCUA is proposing to treat equity distributions that are directly connected to winding down the Corporate System Resolution Program (CSRP) differently than a normal equity distribution. The proposal would distribute CSRP distributions as repayments of prior assessments paid by FICU's for the CSRP. These amounts are known to NCUA, and combining amounts paid by merged credit unions with the amounts paid by the surviving credit unions can be managed. We support a methodology that would aggregate the total assessments paid in and determine a percentage of the total for each credit union that paid a corporate assessment. This credit union percentage would then be applied to the total distribution available to determine the credit union's proportionate share of CSRP related distributions.

NCUA is also proposing that any equity distributions related to calendar years 2017–2021 be deemed to be related to the CSRP. We do not oppose this approach. We encourage NCUA to determine a methodology for identifying any equity distributions after 2021 as either CSRP-related or as a general proportionate distribution as funds may continue to flow into the NCUSIF after 2021 that are related to the CSRP. This will be unnecessary should the full amount of prior corporate assessments be repaid to credit unions prior to that time.

Thank you for the opportunity to comment on the proposed rule regarding NCUSIF equity distributions. While we agree that it is important that NCUA establish rules related to equity distributions that are directly related to the CSRP, we do not agree that it is necessary to modify the existing approach to general equity distributions. If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,

John McKenzie

John McKenzie
President, Indiana Credit Union League