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 Stabilization Fund Closure

Dear Mr. Poliquin:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) plan to close the Temporary Corporate Credit Union Stabilization Fund (TCCUSF). 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 strongly supports NCUA closing the TCCUSF and returning as much money from the excess funds as soon as possible so that they can put the funds to work for members. We support NCUA's proposed timing of closing the TCCUSF in 2017 with a distribution in 2018. We do have concerns with some parts of the proposal that we believe will preclude returning as much as possible to credit unions. We believe that the change in the approach to setting the normal operating level (NOL) of the share insurance fund should not be included as part of closing the TCCUSF.

The following represents more detailed discussion of the questions posed by NCUA in the proposal.

1. **Should the Agency close the Stabilization Fund in 2017, close it at some future date, or wait until it is currently scheduled to close in 2021?**

   ICUL is in full agreement with NCUA's stated intent to close the TCCUSF in 2017 by merging it into the NCUSIF. We would like to see the TCCUSF closed as early as possible to facilitate a distribution of excess funds as early in 2018 as feasible. Given the improvements in the legacy assets from conserved corporates, the significant decline in the corporate resolution costs from the original estimates in 2010, and that those resolution costs have been fully covered, we believe that there is no need to consider continuing to have the TCCUSF exist. It is well within the authority of the NCUA Board to close the TCCUSF early, and we agree with doing so now rather than later.

   In the writeup accompanying the proposal, NCUA states that Blackrock's and NCUA's analysis indicates the impact of a moderate recession on the equity ratio of the NCUSIF after merging the funds would be only 4 basis points (bps) of current insured shares. As insured shares continue to grow, this impact becomes even less. This risk is based on the ongoing risk with the legacy assets absorbed into the NCUSIF balance sheet. We believe this risk is manageable within the existing NOL, and the current process for determining the NOL. We would not be opposed to a temporary increase in the NOL of the NCUSIF of 4 bps (1.30% to 1.34%) to account for this legacy asset risk as long as there are specific schedules that would reduce this additional 4 bps over the next four years. This would allow additional funds to be returned to credit unions as the legacy assets amortize and the overall risk to NCUSIF diminishes. We believe that if NCUA keeps these additional 4 bps (we are not convinced this is necessary), that the schedule developed needs to return these funds to credit unions as quickly as possible. We believe this is reasonable because NCUA does not relinquish the authority to assess premiums should there be negative economic developments impacting the NCUSIF making a premium necessary.

2. **Should the Agency set the normal operating level (NOL) based on the Share Insurance Fund's ability to withstand a moderate recession? Or, should the Share Insurance Fund be able to withstand a severe recession? And should the NOL be set based on preventing the stressed equity ratio from falling below 1.2% or some other level.**

We believe that the existing policy of setting NOL at a level sufficient to withstand a moderate recession and remain at or above 1.2% of insured shares over a two-year forecast horizon is sufficient. This approach has worked well through very difficult economic times since its inception in 2007. We strongly believe that this proposal should address any direct additional risk resulting from merging the two funds, and not include additional changes to the method for determining the NOL.

Under the proposal, the NOL would be increased to 1.39% in order to withstand a moderate recession and maintain an equity ratio above 1.20% over a five-year forecast horizon without the need to assess a premium. We believe that it is unnecessary to develop a methodology that is intended to over fund the NCUSIF to avoid potential future premiums. The current approach, we believe, is sufficient, and that credit unions would prefer to receive a greater distribution of excess funds in 2018, knowing that if there is a moderate or severe recession over the next five years impacting the equity ratio, it may be necessary to pay a small premium. Overfunding the NCUSIF today to avoid potential premiums in the future does not make sense.

The proposal describes three components of the 9 basis points increase from 1.3% to 1.39% under this proposed new policy:

- 4 basis points to account for legacy asset volatility.
- 2 basis points for the expected decline in the share insurance fund ratio over the next two years due to normal operating conditions (relatively strong insured share growth combined with low yields on the Fund's investments).
- 3 basis points to keep the equity ratio from falling below 1.2% over the coming five years assuming a moderate recession.

The second and third factors are unrelated to the merger of the TCCUSF into the NCUSIF. The existing policy for setting the NOL has worked, and we believe these additional factors for justifying a higher NOL are unnecessary and should not be considered as part of a proposal to close the TCCUSF.

NCUA estimates that the merger of the two Funds in 2017 will add between 20 and 22 basis points to what would otherwise be the Insurance Fund's equity ratio of 1.25% as of the end of the year. Under NCUA's proposal, these 20 to 22 basis points would be used as follows:

- 5 basis points to bring the year-end ratio to 1.3%, replacing what might otherwise have been a 5 basis points premium this year, as signaled by the Board last November.
- 4 basis points for legacy asset volatility.
- 5 basis points in total to cover likely Fund operations over the coming two years (2 basis points) and to extend the forecast horizon for three years (3 basis points).
- the remaining 6 to 8 basis points to be distributed to credit unions in 2018.

We strongly believe that an 11 to 17 basis points distribution to credit unions early next year by only raising the NOL at most to 1.34% to account for legacy asset volatility is appropriate. However, we still believe that the NCUSIF could manage the 4 bps risk associated with the legacy assets under the current NOL format. The rate of return that credit unions could earn on the funds over the coming several years is in most cases greater than what NCUSIF earns on its investments. Returning more of these funds to the credit union's balance sheet, essentially increasing capital, would strengthen the ability for credit unions to manage growth, enhance services to members, and strengthen the overall financial well-being of the credit union industry. Credit unions cannot leverage equity to grow if it sits in NCUSIF. That also does not reduce the NCUA's ability to take those funds back in a major financial crisis. It is more efficient for credit unions to hold and use these funds until they might be needed. We believe that credit unions would strongly prefer NCUA return the excess funds today, knowing that they may be charged small premiums in the future if necessary, rather than that surplus stay in the NCUSIF to avoid the potential for future premiums.

Thank you for the opportunity to comment on the proposal to close the TCCUSF. We believe that it is important that NCUA take this step as soon as possible and place an emphasis on returning as much of the excess funds as possible to credit unions as early next year as is feasible. 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