NEW YORK creditunion ASSOCIATION

strength in members.

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 New York Credit Union Association ("NYCUA") is grateful for the opportunity to comment on the NCUA Board's proposed plan to close the Temporary Corporate Credit Union Stabilization Fund ("Stabilization Fund") in 2017 and to raise the Share Insurance Fund Normal Operating Level ("NOL") from 1.30% to 1.39%, and respectfully submits the following comments for your consideration.

INTRODUCTION

The New York Credit Union Association ("NYCUA") strongly supports NCUA's plan to close the Stabilization Fund and urges NCUA to distribute excess funds back to credit unions as soon as possible.

NYCUA expresses concern regarding NCUA's proposed increase in the NOL, and asks for more transparency in NCUA's determination as to why such a significant increase is warranted. NYCUA notes that this dramatic increase would unnecessarily result in the return of far less money to credit union members than they are entitled to receive. NYCUA respectfully submits that NCUA must first and foremost be a good steward of credit union funds as it decides how to proceed, and needlessly increasing the NOL and consequently returning less funds to credit unions would appear to run contrary to its mission.

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DISCUSSION

Closure of the Stabilization Fund

New York's credit unions favor closing the stabilization fund in 2017.

The Stabilization Fund was created in 2009 to absorb losses incurred due to the failure of five corporate credit unions without depleting the Share Insurance Fund's retained earnings and putting the health of the credit union system at risk. While the Stabilization Fund is currently slated to close in 2021, it has achieved its goals ahead of schedule and NCUA has consequently proposed to close the Stabilization Fund and merge it into the Share Insurance Fund in 2017.

The expeditious recovery of the credit union system can be attributed to the convergence of multiple factors. First, NCUA secured $4 billion in net legal recoveries stemming from the settlement of lawsuits against large banks relating to the failure of the corporate credit unions. This greatly improved the net position of the Stabilization Fund.

In addition, the projected performance of legacy assets has improved markedly. The projected lifetime legacy asset defaults have decreased from $13.2 billion-$16.4 billion in 2011 to $10 billion-$10.4 billion at the time of this writing, as losses are anticipated to be less than initially modeled. As a result, the Stabilization Fund's net position is up to $1.6 billion from negative $7.5 billion in 2010. And after making its final payment in October 2016, the Stabilization Fund has no outstanding borrowings with the Treasury Department.

For the above reasons, there is broad consensus among New York's credit unions that the Stabilization Fund has served its purpose and is no longer necessary. NYCUA urges NCUA to promptly close the fund and distribute excess funds back to credit unions. Returning the excess funds to credit unions would strengthen their capital positions and foster opportunities for growth. But most importantly, it would return the money to its rightful owners: the credit union members who put their trust in their local credit unions.

NYCUA submits that further operation of the Stabilization Fund would be beyond the scope of NCUA's mission of stabilizing the credit union system and would make NCUA a hedge fund manager rather than a prudential regulator. Moreover, NYCUA is concerned that any delays in closing the Stabilization Fund could allow for a reallocation or co-mingling of excess funds and credit unions would be at risk of not receiving the distributions to which they are entitled.

NYCUA also speaks on behalf of many of our smaller credit unions, which have been especially harmed as a result of paying multiple premiums into the

Stabilization Fund and would benefit greatly from the earliest possible distribution of excess payments.

Accordingly, it is NYCUA's position that the Share Insurance Fund can safely absorb all remaining obligations and continued retention of legacy funds would be beyond the scope of NCUA's charge. NYCUA respectfully submits that the Stabilization Fund should be closed in 2017 and excess funds should be distributed back to credit unions as soon as possible.

<u>Increasing the Share Insurance Fund Normal Operating Level</u>

NYCUA supports maintaining the NOL at its current level of 1.3% of total insured shares and stands in opposition to an increase to 1.39%.

NYCUA submits that raising the NOL to 1.39% would be highly excessive and such an increase is not necessary to preserve the health of the Share Insurance Fund. The current NOL of 1.3% has been in place since 2007 and has proven to be a healthy operating level. In the face of the worst economic crisis since the Great Depression, the credit union industry has demonstrated an ability to respond quickly to adverse economic conditions and other shocks to the system. Through the creation of the Stabilization Fund and mitigation of systemic risk through restrictions on corporate credit unions, the credit union system is today much stronger and more resilient than it was a decade ago. The dangers that may have necessitated such an increase in the past simply no longer exist.

In addition, the impending transition to NCUA's new Risk-Based Capital framework in 2019 will provide a hedge against future economic downturns. In fact, the primary goal of the new Risk-Based Capital rule is to provide further protection to the Share Insurance Fund through increasing capital requirements so that credit unions are better positioned to withstand future economic downturns without government interference. This added layer of security for the Share Insurance Fund should further militate against such a sharp rise in the NOL. NYCUA urges NCUA to consider the impact of the new Risk-Based Capital framework in determining whether to increase the NOL.

While NYCUA opposes increasing the NOL to 1.39%, NYCUA also understands that the assumption by the Share Insurance Fund of some of the remaining assets and liabilities of the Stabilization Fund may introduce more volatility risk to the Share Insurance Fund's equity ratio. NYCUA would support a moderate increase above the current level if supported by a comprehensive analysis by NCUA to demonstrate the need for such an increase. To that end, should NCUA choose to proceed with an increase in the NOL, New York's credit unions ask that NCUA consider a more moderate increase, and provide more transparency regarding the reasons for which NCUA believes that such an increase is warranted.

Conclusion

The credit union industry has learned many lessons from the 2007 global financial crisis and the subsequent collapse of the corporate credit unions, but perhaps chief among them is to expect the unexpected, and to be prepared for it. But the credit union system's recovery in the intervening years demonstrates the strength and resiliency of America's credit unions, and it provides compelling proof of their ability to weather any storm.

NYCUA is proud that America's credit unions did not need a bailout to survive the challenges of the Great Recession. Rather, a prudent regulatory stabilization framework and the resiliency of credit unions yielded an industry-driven resolution to the collapse of the corporate credit unions at no cost to American taxpayers.

It is now time to close the Stabilization Fund and distribute excess equity payments back to credit unions so that the money can be restored to its rightful owners: the more than five million credit union members in New York and 110 million credit union members nationwide.

Thank you for your time and consideration.

Sincerely,

William Mellin

President/CEO
New York Credit Union Association

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