



July 22, 2020

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

RE: Corporate Credit Union Rule; RIN 3133–AF13

Dear Mr. Poliquin,

The Ohio Credit Union League (OCUL) represents the collective interests of Ohio’s 255 credit unions and their more than three million members. Of those 255 credit unions, 140 are federally-chartered; 68 state-chartered, federally-insured; and, 47 state-chartered, privately-insured.

We appreciate the opportunity to comment on the proposed changes to 12 CFR Part 704 Rules and Regulations (Regulation 704) for corporate credit unions. OCUL believes that corporate credit unions are essential to promoting the vitality and stability of the credit union system. Corporate credit unions provide essential support to natural person credit unions nationwide. They also engender confidence in the credit union system by acting as a framework of stability and continuity during times of increased market uncertainty and risk.

To that end, OCUL supports regulations that seek to provide regulatory relief, consistency, and transparency for corporate credit unions. When rules are clear and predictable, regulators and credit unions alike benefit from the ability to navigate the examination process more easily and remain compliant. On the other hand, overly burdensome and inconsistent regulations have the opposite effect of creating uncertainty in the system and constraining corporate credit unions’ ability to serve their members and remain compliant.

In furtherance of OCUL’s commitment to reasonable regulations that provide relief and transparency to, but do not overly burden or restrict, corporate credit unions and their members, we support the following changes to Regulation 704.

Permitting Corporate Credit Unions to Make Minimal Investments in Natural Person CUSOs

OCUL supports the proposed changes to Part 704 that would allow a corporate credit union to make a de minimis non-controlling investment in a natural person (NP) credit union service organization (CUSO) without the CUSO being deemed a corporate CUSO. The proposed criteria for determining the nature of “controlling interest” is supported as it facilitates greater flexibility for corporate credit unions seeking to invest in NP CUSOs, thereby helping NP CUSOs attract additional capital without fear of more restrictive regulations.

704.5, 704.6, 704.7 & 704.11 - CUSO Definitions

OCUL understands NCUA’s reasoning behind the removal of the distinction between corporate and NP CUSOs for the purposes of defining the term “CUSO” under part 704. However, removing the distinction from the corporate CUSO rules of 704.11 creates more confusion than what we believe was intended. Removing the distinction between NP and Corporate CUSOs from 704.11 results in the inclusion of loans made to NP CUSOs pursuant to the requirements of 704.7 in determining compliance with the aggregate concentration limits for loans and investment limits to CUSOs contained in 704.11.

Corporate credit unions have been key sources of liquidity for NP CUSOs and this would be a material change that would result in a reduction in liquidity sources to NP CUSOs. We request that the proposed rule be amended to remove the inclusion of loans to both NP and Corporate CUSOs for purposes of determining compliance with the aggregate exposure limits of 704.11.

704.11(b)(d) - Due Diligence Requirements

OCUL opposes subjecting corporate CUSOs to the commercial loan policy and due diligence requirements of the NCUA's member business loan rule 723.4. The requirements of 723.4 are written for, and more closely align with, the lending activities and capital structure of natural person credit unions. We feel corporate credit union lending activities are adequately regulated by the requirements of 704.7 and, if there is a need for additional rulemaking regarding lending to CUSOs, that it would be better to make changes to 704.7 than to subject corporate credit unions to a rule that was written primarily for NP credit unions.

Expansion of the Categories of Senior Staff Positions Eligible to Serve on a Corporate Credit Union's Board

OCUL supports the proposed change to Section 704.14 that would no longer expressly limit the corporate credit union board of directors to individuals who hold explicitly prescribed senior management positions within member credit unions. Currently, only individuals that hold the position of chief executive officer, chief financial officer, chief operating officer or treasurer/manager of a member credit union are eligible to serve on a corporate credit union board. Broadening the list of senior credit union executives who may serve on a corporate credit union board will enhance the board's leadership and enable the corporate's board to acquire the expertise necessary to more effectively govern the corporate credit union.

Removal of Experience and Independence Requirement for a Corporate Credit Union's Enterprise Risk Management Expert

OCUL supports the proposed change to Section 704.21 that would remove the rigid requirements of experience and independence for the position of independent risk management expert (IRME). The more subjective criteria of requiring an IRME to have a level of experience commensurate with the size and complexity of its operations provides corporate credit unions with greater flexibility in terms of employing the best personnel for this important responsibility.

Codification of the List of Permissible Activities for a Corporate CUSO

OCUL opposes the proposed change that would replace NCUA's permissible activities list (published on NCUA's website) with a new appendix to Part 704. Part 704 does not currently list the permissible activities for corporate CUSOs in the regulatory text of the Code of Federal Regulations. Instead, it requires that a corporate CUSO must agree that it will limit its activities to brokerage, investment advisory, and other categories of services as preapproved and published by the NCUA.

The existing rule provides the flexibility needed for both corporate CUSOs and the NCUA to ensure activities may be given consideration for inclusion in the list of permissible activities. Inserting the permissible activities into an appendix to Part 704, and making future changes subject to rulemaking, would increase regulatory burden and make it more difficult for corporate CUSOs to obtain timely approval for requests for additions to the list of permissible activities. We therefore request that the proposed change to the list of permissible activities be rejected.

Additional Regulatory Flexibility

In addition to our above comments to NUCA’s proposed changes to Part 704, we support meaningful additional regulatory flexibility for corporate credit unions. To that end, we support the regulatory relief proposals outlined in Corporate One FCU’s comment letter to the NCUA dated July 8, 2020, including, but not limited to, the following recommendations:

- 704.6 Credit Risk Management: Clarify that the existing 15% limit on commercial mortgage-backed securities applies to “private” commercial mortgage-backed securities.
- 704.7 Lending: Clarify which type of loans would need to comply with all sections of Member Business Loan rule (Part 723) so that deposit accounts at a corporate credit unions are treated similarly to marketable securities for purposes of securing a commercial loan.
- 704.8 Asset and Liability Management: Provide regulatory flexibility to corporate credit unions that build capital above certain thresholds by making changes to the weighted-average life (WAL) requirements under Section 704.8 according to the following calculations:

Recommended change for 704.8 (f)	Retained Earnings Ratios	Leverage Ratio	WAL
	< 2.5%	<5.0%	2.0 years
	≥2.5%, but < 3.0%	≥5.0%, but <6.0%	2.5 years
	≥3.0%	≥6.0%	3.0 years

Recommended change for 704.8 (g)	Retained Earnings Ratios	Leverage Ratio	WAL
	< 2.5%	<5.0%	2.25 years
	≥2.5%, but < 3.0%	≥5.0%, but <6.0%	2.75 years
	≥3.0%	≥6.0%	3.25 years

- 704.9 Liquidity Management: (1) Extend the maturity limit on secured borrowing from 180 days to 1 year to cover a full cycle of seasonal cash outflows during times of stress, and (2) provide a more stable formula for corporate credit unions to utilize in their liquidity planning and management by changing the limit for secured non-liquidity borrowings from the Tier 1 capital in excess of five percent of moving DANA to 100 percent of total capital.
- Appendix B to Part 704 – Expanded Authorities and Requirements: Permit a corporate credit union with Part I expanded authority the flexibility to manage an investment portfolio with a longer WAL provided the corporate credit union maintains a higher retained earnings and leverage ratios. Furthermore, to enhance the liquidity management under expanded authority it is recommended that a corporate must demonstrate access to an emergency liquidity backstop. The following is the recommended change for the tiered WAL based on a corporate’s retained earnings and leverage ratios for Part I authority:

Recommended change for Part 1	Retained Earnings Ratios	Leverage Ratio	WAL
	< 2.5%	<6.0%	2.5 years
	≥2.5%, but < 3.0%	≥6.0%, but <7.0%	3.0 years
	≥3.0%	≥8.0%	3.5 years

Recommended change for Part 1 – 50% prepayment speed slowdown	Retained Earnings Ratios	Leverage Ratio	WAL
	< 2.5%	<6.0%	2.75 years
	≥2.5%, but < 3.0%	≥6.0%, but <7.0%	3.25 years
	≥3.0%	≥8.0%	3.75 years

Innovation, Collaboration, and Non-CUSO Investments

Much innovation in the financial services arena is occurring outside of the credit union system. OCUL requests the addition of a new section related to non-CUSO investments for the purpose of allowing corporate credit unions reasonable ability to invest a small percentage of their capital in entities outside the credit union system. The addition of such a section would allow corporate credit unions the ability to participate in innovation initiatives that could be beneficial to credit unions while preserving capital strength.

As institutional aggregators for the Credit Union Movement, corporate credit unions are unique in the fact that they value the goals of managing risk and maintaining transparency in the same fashion as the agency that regulates them. To that end, corporate credit unions should be afforded greater flexibility to innovate so that they can better serve their members, which includes flexibility in investment opportunities. Corporate credit unions are also a great resource for regulators seeking solutions to complex regulatory issues, as their position as sophisticated operational, financial, and technological aggregators of the industry has made corporate credit unions particularly attuned to the complexities of the system. NCUA should empower corporate credit unions to invest and innovate by permitting access to non-CUSO investment opportunities.

OCUL appreciates the opportunity to comment on the proposed rule changes related to 12 CFR Part 704 Rules and Regulations for corporate credit unions. Corporate credit unions will be better able to fulfill their mission, serve their members, and protect the credit union system if they are afforded greater regulatory flexibility and transparency in ways consistent with NCUA’s safety and soundness goals. If you have further questions or would like to discuss OCUL’s comments in more detail, please feel free to contact us at (800) 486-2917.

Respectfully,



Paul L. Mercer
President



Chris Noble
Regulatory Counsel