CORNING CREDIT UNION

Gary A. Grinnell, President and Chief Executive Officer

November 14, 2017

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

Re: Request for Comment on NCUA's Proposed Regulatory Reform Agenda

Dear Mr. Poliquin:

On behalf of the Board and Management of Corning Federal Credit Union (CCU), I would like to take this opportunity to comment on the National Credit Union Administration's (NCUA's) recently proposed regulatory reform agenda, based on the recommendations of its Regulatory Reform Task Force (Task Force). We thank the NCUA Board for this opportunity.

By way of background, Corning Federal Credit Union is a $1.4 billion asset institution serving over 105,000 members. Our charter is multiple common bond, and as such we currently have numerous select employee groups (SEGs) and associational groups within our field of membership. We also serve several underserved areas in our geographic markets in New York, North Carolina, and Pennsylvania.

Overall, we are very supportive of the Task Force's proposal, and we appreciate the agency's intent to reduce the regulatory burden on credit unions. We believe these positive changes will help provide credit unions with significant expense savings and relief from the onerous burden of overreaching, duplicitous, and at times contradictory regulations.

Following we comment on several of the proposed changes we feel are most significant or noteworthy.

Revisions to the Chartering and Field of Membership Manual—Community Charters

We support the Task Force's common sense proposal to revise the chartering and field of membership (FOM) rules to allow credit unions to submit a narrative application for a community charter. Credit unions should have the opportunity to justify an area as a well-defined local community based on common interests or interaction among residents of that area, regardless of whether the area is considered a presumptive community based on its status as a Combined Statistical Area (CSA), Metropolitan Statistical Area (MSA), or a portion thereof.

We also fully support the Task Force's proposals to remove the arbitrary 2.5 million population cap on a community consisting of a statistical area or a portion thereof and to allow credit unions

the opportunity to designate a portion of a statistical area as its community without regard to metropolitan division boundaries.

We are concerned, however, by the Task Force's proposed requirement of holding public hearings for determining well-defined local communities with populations above 2.5 million. Such hearings, although potentially contentious and time-consuming, may be warranted in the case of a narrative application. However, in the case of a well-defined presumptive community application based on a CSA or MSA, this requirement seems particularly capricious. To require a credit union to undergo the onerous and expensive public hearing process on a presumed community application solely because it encompasses an area containing 2.6 million, instead of 2.4 million residents, would potentially submit the credit union to a multitude of competitor, reputational, and legal risks in exchange for no rational benefit to the credit union or the SIF.

For these reasons we recommend the NCUA eliminate the arbitrary 2.5 million population cap and forgo any public hearing requirement for presumptive community charters of any population size.

Revisions to the Chartering and Field of Membership Manual—Emergency Mergers

As stated in our previous comment letter dated September 29, 2017, we are very supportive of NCUA's recently proposed changes to the emergency mergers section of the Chartering and Field of Membership Manual. Specifically, we support revision of the definition of "in danger of solvency" to extend the time period of two of the three current net worth based categories in which a credit union's net worth is projected to be rendered insolvent or drop below two percent from 24 to 30 months and from 12 to 18 months, respectively. We feel strongly that the increased time horizons as proposed will bring much needed flexibility to the emergency merger process. This will in turn help to preserve vital member services and protect the SIF.

NCUA has also proposed adding a fourth net worth based category to include credit unions that have been granted or received assistance under section 208 of the Federal Credit Union Act within the last 15 months. The data provided by NCUA in its proposal offers clear evidence that credit unions receiving Section 208 assistance are at high risk of insolvency, and we support this recommendation. However, given the Section 208 program's poor track record in preventing credit unions from falling into insolvency, we also urge NCUA to explore ways to either improve this program's success rate or to seek more effective remedies to help struggling credit unions while maintaining the strength and soundness of the SIF and the system as a whole.

Enhancements to Lending Regulations

We support the Task Force's proposal to combine loan maturity limits as well as single and associated borrower limits for federal credit unions into a single regulatory section. This will improve regulatory consistency and help reduce confusion and difficulty in locating applicable maturity limits for different types of loans. We also agree that NCUA should explore increasing the maturity limit on 1-4 family real estate loans.

Just as importantly, we support the Task Force's proposal to allow credit unions the flexibility to structure senior executive compensation plans to incorporate lending as part of a balanced set of

organizational goals and performance measures. Structured properly, such compensation plans will help credit unions to compete more effectively for talent and align the organization's goals more closely with individual incentives.

Regarding loan participations, an important tool for many credit unions to help manage concentration risk and exposure, we welcome the Task Force's recommendation to remove the prescriptive limit on the aggregate amount of participations that may be purchased from one originating lender. This proposal is well-reasoned in that the credit risk associated with an individual loan and the concentration risk from a high aggregate single borrower exposure are risks more significant to the SIF than those associated with overexposure to a properly vetted originating lender. The current limitation on aggregate exposure to one originator has the adverse and unintended effect of forcing credit unions to pursue loans from new, unfamiliar, and in some cases less qualified and experienced originators simply to avoid this arbitrary cap. Such pursuit results in an inefficient use of internal resources to conduct proper and ongoing originator due diligence, which if not done properly will result in additional risk within a credit union's portfolio.

Allowing each credit union to establish its own, sensible policy limit on the aggregate amount of loan participations purchased from a single originating lender will bring needed flexibility and encourage cooperatives to customize their participation loan program to their own size, needs, and appetite for risk.

The Task Force also recommends "exploring" the raising of appraisal thresholds outside of the current interagency process. This makes sense as the NCUA does not distinguish between different types of loans secured by real estate in its appraisal regulations as other agencies do. Specifically, the Task Force proposes increasing the appraisal threshold from $250,000 to $400,000 for "commercial real estate loans," in line with interagency task force recommendations as well as increasing the appraisal threshold of "qualifying business loans," or those loans not dependent on the sale of, or rental income derived from, real estate as the primary source of income to a level in line with thresholds already established by other financial regulatory agencies. We support this recommendation and urge NCUA to move forward with the exploratory stage as expeditiously as possible.

Lastly, the Task Force is recommending enhancing the preemption of state laws for federal credit unions that lend in multiple states. As a credit union with service areas in several states including New York, Pennsylvania, and North Carolina, CCU has long faced regulatory burdens due to the overlap of various federal and state laws in these different jurisdictions. Any opportunity to ensure and clarify for credit unions the supremacy of federal lending laws over those of the states where they operate is welcome and long overdue.

Changes to Capital Adequacy Regulations

The Task Force also proposes several changes to current capital planning and stress testing rules. These include exploring raising the asset size threshold for credit unions required to conduct stress testing to an amount greater than the current $10 billion, assigning the responsibility for such stress testing to the individual credit unions, and delaying the implementation of the risk-based capital (RBC) rule past the current January 1, 2019 date. This delay in implementation is especially

important considering the concurrent timeline for implementation of the new current expected credit loss (CECL) accounting standard.

The Task Force also proposes various amendments to the RBC rule including allowing exemption of credit unions with high net worth ratios and simplifying the overall risk category and weighting scheme. We support these proposed changes as positive steps toward simplification of a highly complex process that burdens many resource-strapped credit unions unnecessarily.

Additionally, the Task Force has made several recommendations related to the January 2017 ANPR on Alternative Capital, in which the NCUA Board sought comment on whether to make changes to the secondary capital regulation for low-income credit unions and whether to authorize credit unions to issue supplemental capital instruments that would only count toward the risk-based net worth requirement.

As per our previous comment letter dated May 9, 2017, we fully support the expansion of authorization for credit unions of all designations and charters to offer secondary and alternative forms of capital. Specifically, CCU recommends creating a pilot program for alternative capital, similar to what the NCUA Board implemented for the derivatives rule. By piloting supplemental capital with a select group of well capitalized, well-managed credit unions, NCUA would be able to efficiently monitor the effectiveness of the program and glean best practices that could benefit the entire industry.

Examination and Audit Process

The Task Force has made several recommendations related to current Supervisory Committee audits and the NCUA examination process. These include revising current regulations to remove the specific "120 days from the date of calendar or fiscal year-end under audit (period covered)" reference and replacing it with a more open-ended target date so that the "credit union can meet the annual audit requirement," removing the reference to NCUA's Supervisory Committee Audit Guide, and expanding and formalizing a supervisory review appeals process to review material supervisory determinations through an expansion of the authority of the Supervisory Review Committee.

CCU supports all of these recommendations along with the Task Force's recommendation to consolidate and streamline procedures allowing credit unions to appeal adverse NCUA examination determinations to the NCUA Board.

Expansion of CUSO Authority

The Task Force recommends an examination of current credit union service organization (CUSO) regulations and an evaluation of the permissible activities under the FCU Act. We support this review and recommend expanding such permissible CUSO activities to include the authority to make, purchase, or sell any types of loans that credit unions can make on their own.

Remove Unnecessary Restrictions on Investment Activities

We support the Task Force's proposal to remove restrictions on investment authorities not required by the FCU Act, moving from the current prescription-based approach and to a principles-based approach for such activities. If the Act allows a certain type of investment, a credit union should be able to consider its purchase based on its balance sheet needs, risk appetite, and safety and soundness position.

Conclusion

Thank you again for your consideration of our comments and those of others in the credit union industry on the National Credit Union Administration's (NCUA's) recently proposed regulatory reform agenda. Overall, we are very supportive of these proposed enhancements and believe they will provide much needed flexibility, reduce the significant regulatory burden faced by credit unions, and help protect the SIF. We urge the Board to implement these changes and continue to seek ways to provide credit unions with regulatory relief.

Should you have any questions or require additional information in support of our comments, please feel free to contact me at 607-962-3144, ext. 5292.

Sincerely,

Gary Grinnell
President and Chief Executive Officer

cc: The Honorable J. Mark McWatters, Chairman
The Honorable Richard Metsger, Board Member