November 20, 2017

National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Attention: Mr. Gerard Poliquin, Secretary of the NCUA Board

Re: Comments on Proposed Regulatory Reform Agenda; Proposed Comprehensive Improvements to NCUA Regulations

Thank you for the opportunity to comment on the NCUA's proposed Regulatory Reform Agenda and the proposed changes to NCUA Regulations contained within 12 CFR Chapter VII. I applaud the Board for its efforts to ensure the spirit of Executive Order 13777 is carried out, recommending repeal of regulatory requirements that the NCUA's Task Force determined to be outdated, ineffective, and/or excessively burdensome. I support many of the proposed changes. I also support efforts to clarify provisions that provide for the use of common sense financial tools to manage risk, such as the liquidity and concentration risk management tool that the securitization of assets may provide, as well as the benefits of secondary and alternative capital.

I have concerns regarding the classification of certain Tier 2 items which are high impact and/or low effort, and are important to ensuring credit unions have access to all of the reasonable tools available to compete on the financial stage. Allowing three years to pass on some of these items would cause undue strain and serve only to impede growth.

Tier 2 items such as 701.22 loan participations, 701.23 eligible obligation purchases, 701.32 nonmember shares, and aspects of the suggested 703 changes (Subpart A, specifically numbers 1, 5, 7, 9, and 16), require relatively low effort, involve removing prescriptive limits or otherwise streamlining requirements, and would help to allow credit unions to manage their balance sheets more effectively. Removing unnecessary prescriptive limits and elements that are contrary to modern holistic balance sheet funds management theory would provide certain credit unions risk management options that may be too late three years down the line when the market environment may have changed further. I recommend that these items be moved to Tier 1, and their priority re-examined.

Expedite Removal of Prescriptive Limits

1. The number of credit unions looking to take advantage of the economic opportunities of Secondary Capital is expanding. Although it is a comparatively small field now, having a regulatory rework could offer a new avenue for low-income designated credit unions that are hesitant due to regulatory barriers to find new sources of capital and help to provide services for chronically underserviced communities. The impact of improving regulatory clarity and reducing the burden of the regulatory approval process could benefit not just low-income credit unions but also the communities and members that they can serve.
2. I support the removal of the blanket limitations on municipal security exposure that serves only to hamper credit unions that are able to appropriately measure, understand, and deal with the risks specific to these investments, which are quite common in other financial institutions. The ability to take some credit risk in the investment portfolio allows credit unions the opportunity to maintain needed earnings while reducing other portfolio risks, such as interest rate risk. We are aware of some credit unions that have suffered material losses and/or lost revenue due to this unnecessary limit. As we commented when it was first proposed, the limit does not factor risk considerations for general obligation versus revenue securities as is considered in the Federal Credit Union Act (revenue issues having a limit versus general obligations having none), nor does it consider the effect of other credit enhancement factors, such as sinking fund provisions.
3. The proposal of removing the prescriptive limit on loan participations, and allowing credit unions themselves to establish their own limits, places the authority with the individuals best prepared to make day to day determinations on their own risk limits, as opposed to a cookie cutter approach. Limitations that currently exist to purchasing eligible obligations on certain credit unions

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that are struggling for earnings and/or risk diversification may only exacerbate their challenges and take away much needed opportunities that could otherwise be part of a strategic aspect to cure concerns. Although waivers may be applied for, they take precious time and rely on the examiner to recognize the strategic importance/appropriateness of the request.

4. Concerns raised by credit unions regarding the 20% limit on non-member deposits have caused many to shy away from or unnecessarily limited a strategic source of liquidity. As is the case for loan participations, the use of the national wholesale market on both the liability side of the balance sheet as well as the asset side allows credit unions to manage certain risks with greater precision and provides for the ability to take advantage of liquidity sources that may allow for expansion of services for members while competing on a level playing field.

In closing, I thank you for the opportunity to comment on the proposed Reform Agenda and I thank you for improving the transparency and objectivity of this ongoing process. Overall, I believe that identifying certain prescriptive requirements to be removed has already gone a long way into making those regulations prime for Tier 1 treatment, and I am supportive of expediting proposed removals which would allow credit unions to determine limits that best fit them and their own particular balance sheets, instead of taking a one-size-fits-all approach.

I am hopeful that the NCUA finds my comments useful and they will be given due consideration. If you have any questions, I can be reached at 1-800-335-5371 or pford@bsmservices.com.

Respectfully Yours,

Prescott Ford

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