NAVY FEDERAL Credit Union

Office of the President

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

17 November 2017

Re: NCUA Regulatory Reform Agenda

Dear Mr. Poliquin,

Navy Federal Credit Union is pleased to provide comments on the National Credit Union Administration's (NCUA) Regulatory Reform Agenda. Although NCUA was not required to comply with President Trump's Executive Order, we appreciate NCUA's willingness to reduce unnecessary regulatory burden so credit unions can better focus their time and resources on meeting the financial needs of their members.

We support NCUA's goal of reducing regulatory burden however, we urge NCUA to accelerate their timeline, particularly for those areas that have broad industry benefit. **A two to four year timeframe is far too long to provide relief**. As proposed, many of the more meaningful changes are slated to occur near the end of that timeframe. NCUA has acted quickly when it created new regulations; we ask the agency to act with the same urgency when providing relief. Specifically, we recommend NCUA re-prioritize the following areas:

- **Variable Rate Cap:** NCUA should amend the interest rate ceiling from a fixed rate to a fixed spread over Prime. Specifically, NCUA should amend the ceiling to a 15% spread over Prime. NCUA has urged credit unions to be vigilant in identifying and managing interest rate risk; this action would go a long way towards helping credit unions reduce risk. Adjusting the interest rate cap so it floats with the level of Prime provides regulatory relief to the entire industry because it benefits any credit union that makes variable rate loans to its members. Absent this relief, credit unions will either absorb margin compression which places more capital at risk, or, scale back lending to certain segments of the population. As such, providing the industry with this relief enables credit unions to remain competitive, serve a broader spectrum of their members, and, better manage risk and capital. This action not only provides relief for credit unions, it also reduces risk to NCUSIF because the industry would be better positioned to absorb rising interest rates. We support the Task Force's recommendation; however, NCUA has slated this item to be completed within four years. Given we are already in a period of rising rates, and the Federal Reserve is expected to continue to raise rates in 2018, we urge NCUA to accelerate the timeline and make this the Agency's top priority.

- **Risk-Based Capital:** We support the Task Force's recommendation to delay the implementation of Risk-Based Capital (RBC) beyond January 1st, 2019. The Task Force recognized broad changes to the call report are necessary to adopt RBC, and shortly thereafter, additional large-scale changes would be required to support the adoption of the new Current Excepted Credit Loss (CECL) accounting standard. We support the Task Force's recommendation to delay the implementation of RBC to align with other changes that will materially impact the call report. We urge NCUA to act quickly on this matter because credit unions are starting to develop the capabilities to report and track capital under the RBC framework. In order to provide meaningful relief, NCUA should act quickly. Additionally, we recommend NCUA use this time to further study whether RBC should be applied to natural person credit unions; in particular, whether credit unions with high net worth ratios should be exempt from the RBC requirements.

- **Supplemental Capital:** We strongly support providing natural person credit unions the ability to raise alternate forms of capital. To be effective, supplemental capital should: transfer risk outside of the credit union system, be scalable and appropriate to the size and complexity of the credit union, and, provide sufficient parity with the banks so as not to negatively impact investor interest in credit union supplemental capital instruments. In addition to allowing credit unions to use supplemental capital for RBC requirements, we urge NCUA to allow supplemental capital to be counted towards the current PCA capital requirements. The ability to raise supplemental capital not only serves the broader interests of the credit union industry by providing additional layers of protection against unexpected losses, it also benefits NCUA by providing additional layers of protection for NCUSIF.

- **Securitization:** NCUA has issued a letter authorizing federal credit unions to issue and sell securities. This authority however requires additional guidance from NCUA as to the specific conditions and parameters under which a credit union can take advantage of this incidental power. We urge NCUA to work with the industry to develop this guidance on an accelerated timeline. Building an effective securitization program takes time and real investment in people and systems; it is vital to have a clear understanding of any limitations on the type of activities a credit union can undertake. As part of this guidance, we recommend NCUA set guidelines which would allow well qualified credit unions, or their CUSOs, to serve as loan aggregators. Loan aggregation is a natural and necessary role within the financial services industry and it should be extended to credit unions.

- **Preemption of State Laws:** The Task Force recommended NCUA review overlapping laws and regulations and enhance Federal preemption where possible and appropriate. Navy Federal is a multi-state lender which can create regulatory overlap and additional burden. Providing greater clarity through regulation where Federal law applies would provide regulatory relief. We support the Task Force's recommendation.

- **Purchase of Assets:** The Task Force recommended giving credit unions greater authority to purchase loans, or assume liabilities, from market participations other than federally insured credit unions. We support this recommendation. Credit unions already have broad authority to make investments or raise funds from the general market. Purchasing loans or assuming liabilities (e.g., deposits) from other market participants are functionally equivalent to the current authorities for investments and borrowing. NCUA's current requirement to seek prior approval is an unnecessary regulatory burden for both the Agency and the credit union.

- **Non-Member Deposits:** These types of transactions are functional equivalents to borrowings and should be subject to the same limits. As such, we support the recommendation that the limit be raised from 20% to 50% of paid-in and unimpaired capital and surplus.

We recommend NCUA classify these Task Force recommendations as Tier 1 and accelerate the process to provide meaningful regulatory relief as soon as possible. However, we also noted the Task Force recommended *adding* a regulation covering third-party due diligence. There was not sufficient information on this recommendation to provide meaningful commentary. Navy Federal already has a robust due diligence program and does not support additional regulatory burden aimed at reinventing the landscape for third-party services. Such an addition would run contrary to the purpose of the Executive Order to *reduce* regulatory burden.

Lastly, the Task Force recommended raising the threshold required for stress testing to an amount greater than $10 billion and assigning responsibility for conducting the stress tests to the credit unions. Since then, NCUA began the process of evaluating this regulation through the NPR issued on October 2nd, 2017. **Navy Federal supports regulatory relief for stress testing.** The process of stress testing has become overly burdensome adding unnecessary cost to the Agency and the affected credit unions; particularly considering the overall financial strength of the credit unions impacted by the rule. We will provide more specific comments as part of our response to NCUA's Proposed Rule – Capital Planning and Supervisory Stress Testing (Part 702).

In summary, Navy Federal supports NCUA's efforts to reduce regulatory burden. We urge NCUA to reprioritize the findings of the Task Force to address those issues that will have broad impact to the credit union industry, in particular those that provide benefits to credit unions and NCUA such as: adjusting the variable rate cap, delaying the implementation of RBC, and authorizing secondary capital. We look forward to working with NCUA on these revisions through the notice and comment process.

If you have any questions, please feel free to contact Vince Pennisi, Chief Financial Officer at (703) 255-8740.

Sincerely,

Cutler Dawson

Cutler Dawson
President/CEO