

December 17, 2013

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

re: National Credit Union Administration; Capital Planning and Stress Testing; 12 C.F.R. Part 702; 78 Federal Register 65583, November 1, 2013

Dear Mr. Poliquin:

The National Credit Union Administration (NCUA) has requested comments on a proposal which would require large federally insured credit unions (FICUs) to have systems and processes in place to monitor and maintain capital adequacy. The proposal would require FICUs with assets of \$10 billion or more to submit capital plans annually to NCUA. If the supervisory stress test shows that a covered FICU does not have the ability to maintain a stress test capital ratio of at least 5 percent under expected and stressed conditions throughout a nine-quarter stress test period, NCUA will require the credit union to take steps to enhance capital and/or may take other supervisory actions against the FICU.

The American Bankers Association<sup>1</sup> (ABA) believes stress testing is an important and beneficial tool for both institutions and regulators in developing appropriate risk-management decisions and providing valuable information to both parties. Stress testing enables regulators and institutions to quantitatively assess how capital levels would fare in stressful economic and financial scenarios. For example, the supervisory stress testing of banks has provided valuable systemic information by revealing how significant economic or financial shocks would affect the largest banks collectively as well as individually.

Furthermore, credit unions with assets of \$10 billion or more offer the same banking and financial services and products as peer-sized banks. These credit unions act just like banks, and should be treated similarly to comparable size banks.

While ABA supports NCUA's proposal to conduct supervisory stress tests at the largest FICUs, ABA believes the proposed rule could be further improved by setting the minimum net worth ratio at **6 percent instead of 5 percent**, as proposed, and also by recognizing the importance of company-run stress testing. In addition, ABA believes that covered **FICUs should be subject to the same standards of public disclosure as banks** that are subject to stress testing.

---

<sup>1</sup>The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$14 trillion banking industry and its 2 million employees. Learn more at [aba.com](http://aba.com).

## **NCUA's Proposal**

The proposal would require FICUs with assets of \$10 billion or more to submit capital plans annually to NCUA. If the supervisory stress test shows that a covered FICU does not have the ability to maintain a stress test capital ratio of at least 5 percent under expected and stressed conditions throughout a nine-quarter stress test period, NCUA will require the credit union to take steps to enhance capital and/or may take other supervisory actions against the FICU.

Under the proposed rule, NCUA may reject a credit union's capital plan if there are material unresolved supervisory issues associated with the planning process. NCUA may also reject a capital plan if the assumptions, methodologies, or analysis underlying the plan are not reasonable or appropriate or if the data used lacks integrity or is not sufficiently detailed. In the event NCUA objects to a credit union's capital plan, the credit union must update and resubmit a plan within thirty days of receiving notification of the objection.

In justifying the proposal, NCUA notes that the size of these institutions relative to the National Credit Union Share Insurance Fund (NCUSIF) makes capital planning essential. NCUA further acknowledges that "losses by FICUs with assets of \$10 billion or more would likely require replenishment of the NCUSIF by all FICUs through assessments." Therefore, making this proposed rule applicable to the largest FICUs would protect the NCUSIF and the interests of all FICU members.

In addition, NCUA noted that the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) Section 165(i) requires large financial firms to conduct stress tests at least once a year. NCUA concluded that it was only logical to extend similar requirements to credit unions of comparable sizes.

The proposed capital plan and stress test would currently apply to just four FICUs.

## **ABA's Position**

The Dodd-Frank Act requires financial firms with over \$10 billion in assets to conduct stress tests at least once a year. While credit unions were excluded from this provision of the Dodd-Frank Act, it is only logical to extend the same requirement to credit unions of similar size. ABA agrees with NCUA that FICUs with \$10 billion or more in assets should be subject to supervisory stress testing ensuring appropriate capital planning at these FICUs.

ABA believes stress testing is an important and beneficial tool of both institutions and regulators in developing appropriate risk-management decisions and providing valuable information to both parties. Stress testing enables regulators and institutions to quantitatively assess how bank capital levels would fare in stressful economic and financial scenarios. The supervisory stress testing of banks has provided valuable systemic information by revealing how significant economic or financial shocks would affect the largest banks collectively as well as individually. ABA supports NCUA's proposal to conduct supervisory stress tests at the largest FICUs.

In addition, ABA agrees with NCUA’s calculation of net worth for the purpose of the stress test capital ratio, which excludes assistance provided by NCUA in order to ensure a more accurate measure of the impact of events on a credit union’s own capital. The proposal would exclude the following components from the definition of the stress test capital ratio: assistance through Section 208 of the Federal Credit Union Act; subordinated debt for low-income credit unions and; the credit union’s NCUSIF deposits.

ABA would like to make three specific comments.

- (1) ABA believes the minimum stress test capital ratio required to pass the stress test should be 6 percent, which is the mandated statutory level to be adequately capitalized; not the proposed 5 percent which is acknowledged to be undercapitalized.
- (2) ABA is concerned that the proposal does not recognize the importance of company-run stress testing.
- (3) ABA believes disclosures are necessary for transparency and provide valuable information to market participants while facilitating market discipline.

#### *Minimum Capital Level Required to Pass Stress Test*

The proposed rule requires a minimum stress test capital ratio at 5 percent be maintained in order to pass the stress test. In arriving at the required minimum stress test capital ratio of 5 percent, NCUA considered minimum net worth ratio requirements under the Prompt Corrective Action (PCA) regulation and also the minimum leverage ratio required for banks. In setting a required minimum stress test capital ratio above the leverage ratio for banks, NCUA acknowledged that most credit unions can only raise capital through the retention of earnings, which could be extremely difficult during times of stress.

While ABA agrees with NCUA that the minimum stress test capital ratio for FICUs should be set above the leverage ratio for banks, ABA believes the 5 percent ratio is too low. The proposal would allow a credit union to “pass” the stress test with a capital ratio as low as 5 percent, a level acknowledged, by law, as undercapitalized for credit unions. This is not consistent with maintaining an environment of financial safety and soundness.

ABA believes the minimum stress test capital ratio should be 6 percent, which is the *minimum* net worth ratio for being adequately capitalized by statute. A 6 percent net worth requirement would be comparable to the 4 percent leverage requirement under bank stress test requirements, which is the minimum leverage ratio for a bank being designated as adequately capitalized.

In addition, under the credit union industry’s statutory mandate, a credit union with a net worth ratio of less than 6 percent—undercapitalized by definition—would be subject to mandatory supervisory actions and could be restricted from certain activities. Once a credit union’s net worth ratio has fallen below 6 percent, the credit union may be unable to take significant corrective measures to avoid further deterioration in its net worth ratio.

### *Company-Run Stress Testing*

ABA is concerned that the proposal does not recognize the importance of company-run stress testing. ABA supports the use of company-run stress testing as a tool for management and the board to understand and manage risk.

As the proposal noted, the Federal Reserve, Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) require covered banks to conduct company-run stress testing based on agency-provided baseline, adverse and severely adverse scenarios.

ABA believes company-run stress testing is beneficial in that it allows each covered institution to develop stress testing programs commensurate with its size, complexity and familiarity with stress testing. Once again, credit unions should be treated similarly to banks.

### *Disclosures*

The NCUA Board is soliciting comments on the benefits and costs associated with credit union-specific disclosures, specific concerns about the possible release of a credit union's proprietary information, and alternatives to credit union-specific disclosures that could still provide useful information to the membership or the public.

The proposed rule acknowledges that the Federal Reserve, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation require their covered institutions to publicly disclose the results of their stress tests. ***ABA believes disclosures are necessary for transparency and suggests that credit unions be held to the same standards as banks in regards to disclosure of stress testing results.*** Credit union members/owners deserve to have the same information available to them. Credit union members have the right to this information so they may determine—with complete and consistently reported information—the best place for their money and business. In addition, public disclosures provide valuable information to market participants and aid in the facilitation of market discipline.

For example, banks received clear benefits when the results of stress testing in 2009 were publicly disclosed. The disclosures provided investors with credible, consistent and comparable information about banks' financial conditions, helped restore confidence in the banking system and enabled the banking industry to successfully recapitalize. Disclosures have continued to provide investors, analyst and bank customers with valuable financial information about their institution as well as an understanding of the institution's appetite for risk and its risk-management practices. In addition, the disclosure of this information has promoted market discipline.

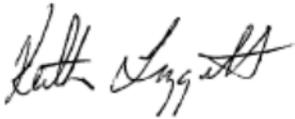
Failure to disclose stress testing results could raise questions and creates uncertainty about a credit union's financial health. Furthermore, failure to disclose could result in the public questioning of NCUA's ability to regulate these large FICUs and its level of openness as a regulator.

## Conclusion

ABA supports NCUA's proposal to conduct supervisory stress tests at the largest FICUs. However, ABA is concerned that the proposal does not recognize the importance of company-run stress testing and sets the minimum stress test net worth ratio too low at 5 percent. ABA believes the stress test minimum net worth ratio should be set at 6 percent, which is the minimum standard for being adequately capitalized. In addition, ABA believes that NCUA should adhere to the same public disclosure standards as the other banking agencies.

ABA appreciates the opportunity to share its views and would be happy to discuss any of them further at your convenience. If you have any question, please contact Keith Leggett at (202) 663-5506 (e-mail: [kleggett@aba.com](mailto:kleggett@aba.com)).

Sincerely,

A handwritten signature in black ink that reads "Keith Leggett". The signature is written in a cursive, flowing style.

Keith Leggett  
Vice President & Senior Economist