



December 24, 2013

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

Re: Notice of Proposed Rulemaking, 12 CFR Part 702, RIN 3133-AE27
Capital Planning and Stress Planning

Dear Mr. Poliquin:

We greatly appreciate the opportunity to comment on NCUA's proposed rule for "Capital Planning and Stress Testing". Elevations Credit Union ("Elevations") is located in Boulder, Colorado, and has over 100,000 members and \$1.3 billion in assets. We strongly support a modernization of the industry's capital requirements. An important lesson learned during the housing crisis is that "one size fits all" capital requirements are insufficient to preserve our industry's financial strength and ability to serve our collective membership. **We believe that the implementation of a credible stress testing process and a well-designed risk based capital system will help provide the industry with much needed capital reform.**

Overall, we see merit in much of what has been proposed. In the interest of brevity, we will limit our comments to those areas in which we believe the rule should be improved.

Impact of Interest Rate Shocks: Assumed Maturity for Non-maturity Shares

We agree that a meaningful capital stress test should incorporate the impact of an adverse interest rate scenario. We also believe it's critical to use credible assumptions, in order for the results of the stress test to be meaningful. Accordingly, we offer the following comments:

- The proposal's utilization of a maximum maturity of two years for non-maturity shares is arbitrary and overly conservative.
- Use of such an assumption greatly undervalues these funding sources and as a result materially taints the credibility of the stress test.
- Further, the utilization of such an assumption will dis-incent impacted credit unions from making prudent asset/liability management decisions. It will result in some combination of retaining assets which are too short or issuing liabilities (such as borrowings) which are too long.
- **The NCUA rightfully requires that credit unions support the assumptions utilized for non-maturity shares within their quarterly interest rate risk assessments. The NCUA should adhere to this same position when administering capital stress tests.** In short, the NCUA should develop an assumption that is based upon reliable data.

We advocate that the NCUA develop a credible, standardized maturity assumption by evaluating and incorporating the results of the core deposit studies performed by the four largest credit unions. These credit unions commit significant resources towards the development of these assumptions, and they rely on them in making important asset liability management decisions. The NCUA already reviews these assumptions for reasonableness during their routine examinations. **It would be inappropriate to ignore these assumptions when stress testing their capital position.**

Stress Test Capital: Exclusion of NCUSIF Deposit

The proposal excludes the value of NCUSIF deposits in calculating "stress test capital". This inappropriately lowers an institution's post-stressed net worth ratio, without adequate justification. Please note the following:

- A credit union's deposit in the NCUSIF is undeniably an asset under generally accepted accounting principles. And it's an asset that has significant value to a financial institution, in that it reflects the presence of federal deposit insurance.
- This asset would be refunded to a credit union if they withdrew from the fund and obtained private share insurance. And it would be an asset available to fund the liquidation of a credit union.
- Note that this asset is not written down, when an institution's net worth position falls below adequately capitalized status. And it's not written down when a troubled credit union is merged with another.
- The proposal refers to banks not having a similar asset on their books. The reason is that banks (unlike credit unions) do not have a claim on their insurance fund.
- To say that this asset has no value is tantamount to saying the NCUA will not take actions to preserve the insurance fund. That's clearly not the case, as demonstrated by the agency's prudent actions to protect the fund over the past few years. Any impairment of the fund would be restored through assessments on credit unions.

We advocate that the definition of stress test capital be modified so that a credit union's deposit in the NCUSIF is not deducted from net worth. This will result in a more accurate representation of the adequacy of a credit union's net worth position in a stressed scenario.

Specific Requests for Comments: Internal Stress Testing, Public Disclosure

You've requested comment on whether covered institutions should be required to perform their own stress testing. We believe they should, in order to best understand the process and be best equipped to reconcile and debate the merits of the version provided by the NCUA. **The validity of stress testing will be best served if it's performed by both the regulator and the regulated, particularly when the opportunity exists for open dialogue between the two parties in refining the process.**

You've also requested comment on whether the stress test results should be made publicly available. **Similar to Camel ratings (and for many of the same reasons), we advocate the**



stress test results should be treated as confidential between the NCUA, the credit union and its lenders (such as Federal Home Loan Banks or corporate credit unions).

We acknowledge that this approach would differ from the approach taken in the banking industry. But we believe it should differ, due to key distinctions between the two business models.

- The Federal Reserve System publishes stress tests for banks, in order to impose market discipline earlier and more effectively. Banks have sophisticated institutional investors with large, uninsured exposures in their equity and debt issuances. Providing these constituents with stress test results helps ensure that a bank's risks are reflected in the market price of its issuances. This serves to curtail inflows to riskier operations, which disciplines the bank's management team and limits the damage imposed by the bank's actions.
- Credit unions are cooperatives, with their members' financial exposures covered up to the limits of deposit insurance. Credit unions do not have sophisticated institutional investors with large credit exposures, who would take actions based upon the information provided. **Disclosing credit union stress test results to the public would not add any market discipline.** If anything, it would add confusion as only a very small percentage of a credit union's membership care about or understand the intricacies and ramifications of the test results.
- However, stress test results should be made available to institutional parties that lend funds to credit unions (such as Federal Home Loan Banks or corporate credit unions). This serves to provide a level of market discipline.
- **In summary, there are compelling reasons why stress test results are published for large banks. There is not a compelling reason to publish stress test results for credit unions.**

Distribution of Key Assumptions

The NCUA intends to commit significant resources towards establishing the stress tests, with first year costs estimated at \$4 million. We encourage the NCUA to achieve the highest possible return on this expenditure for the industry. For example, it would be beneficial for the NCUA to publish key learnings from the testing on a product by product basis. For example,

- What losses occur on second liens in a stressed scenario, stratified by loan to value and credit score?
- What losses occur on first mortgages in a stressed scenario, again stratified by loan to value and credit score?

Providing the industry with information of this nature would assist smaller institutions in evaluating the adequacy of their capital positions to withstand stressed scenarios. Elevations periodically performs stress tests of its capital position, and incorporates the results into a risk appetite statement approved by our Board of Directors. It would be extremely beneficial for our institution to be able to compare our loss assumptions with those resulting from the NCUA's stress testing process.



In closing, we believe stress testing can be a very important step forward in modernizing the industry's antiquated approach to capital management. However, it's critical that the assumptions utilized be credible in order to get meaningful results. We greatly appreciate your consideration of our comments.

Sincerely,

A handwritten signature in blue ink that reads 'Michael Calcote'. The signature is written in a cursive, flowing style.

Michael Calcote
Chief Financial Officer

Cc: Commissioner Chris Myklebust, Division of Financial Services, Colorado
Mark Robey, SVP Regulatory Affairs, Mountain West Credit Union Association
Gerry Agnes, Chief Executive Officer, Elevations Credit Union