



**National Association
of Federal Credit Unions**
3138 10th Street North
Arlington, VA 22201-2149

NAFCU | Your Direct Connection to Education, Advocacy & Advancement

December 30, 2013

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Notice of Proposed Rulemaking – Capital Planning and Stress Testing

Dear Ms. Rupp:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the National Credit Union Administration's (NCUA) notice of proposed rulemaking (NPRM) regarding capital planning and stress testing for federally insured credit unions with assets of \$10 billion or more (covered credit unions).

I. Introduction

The NPRM, generally, would require annual stress testing for covered credit unions, conducted by an independent third party and financed by the National Credit Union Share Insurance Fund (NCUSIF). In addition, the NPRM would require covered credit unions to submit, on an annual basis, capital plans with certain mandatory elements and analyses. Covered credit unions failing the stress test or submitting an insufficient capital plan would need to take steps to correct such deficiencies or else be subject to supervisory action by the NCUA.

NAFCU would first like to express its support for the notion of stress testing and advanced capital planning. The health of the NCUSIF is essential for the credit union industry, and stress testing and capital planning are important tools for credit unions to assist in proper management. However, the NPRM, if adopted, would do little to enhance the security of the NCUSIF yet would add additional regulation to credit unions. Accordingly, NAFCU opposes the NPRM in its current form and recommends the NCUA not adopt it. NAFCU is concerned about the potential impact of bifurcating the credit union industry through this rule, and the precedent it would set for future rulemakings. Further, the NCUA's efforts to achieve parity with other financial industry regulators with respect to stress testing are neither necessary nor designed in a way that reflects the unique nature of credit unions. Should the NCUA adopt the NPRM, NAFCU asks that it modify or provide greater clarity on certain aspects of the NPRM, as described below.

II. Industry Bifurcation

The proposed stress testing and capital planning rule will bifurcate the industry into credit unions above and below \$10 billion in assets. This sets a poor precedent. Credit unions face an ever increasing regulatory burden, as well as pressure from other segments of the financial services industry. The size of a credit union's assets does not change its fundamental nature as a cooperative, mutual, and non-profit entity with a distinctly different mission and way of doing business than other depository institutions. Accordingly the NCUA should not pursue policy that would unnecessarily divide the industry.

III. Cost-Benefit Analysis

The costs of the NPRM would significantly outweigh any benefits it might confer. There are currently only four covered credit unions that would be subject to the NPRM. To NAFCU's knowledge, all four of the covered credit unions already engage in some form of stress testing and capital planning and have all the necessary incentives to continue to do so. At an estimated cost of at least \$1 million per stress test in the first year and \$500,000 each year thereafter, the NPRM would result in an expensive and unnecessary duplication of efforts by the NCUA. Further, the NCUSIF would bear the cost of such stress testing, reducing the available funds to protect all credit unions, not only the credit unions covered by the NPRM. Given that the covered credit unions survived the recent financial crisis without the need for additional NCUA stress testing and oversight, the NCUA has not demonstrated that the stress testing would be worth the cost and risk to the rest of the credit union industry.

IV. Regulatory Parity

Although NAFCU understands the NCUA's desire to seek regulatory parity, the NCUA should consider several factors that weigh against it in this case. Unlike the financial institutions regulated by the Board of Governors of the Federal Reserve (Fed), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), credit unions did not cause the financial crisis. In addition, credit unions in general have unique, often qualitative, attributes that differentiate them from other financial institutions. Directly applying requirements based on those promulgated by the Fed, FDIC, and OCC fails to recognize that credit unions have a different mission and relationship with their members than other institutions, and that credit unions are both mandated to and choose to make more prudent investments. Finally, Congress had the ability and opportunity to include a mandate in the Dodd-Frank Wall Street Reform and Consumer Protection Act that the NCUA perform stress testing alongside the Fed, FDIC, and OCC, but notably chose not to do so. The NCUA should acknowledge Congress' decision and not force regulatory parity where it is not necessary.

V. Requested Modifications and Clarifications

If the NCUA decides to adopt the NPRM, NAFCU proposes the following modifications to the stress testing component. Instead of selecting a third party to conduct expensive stress testing

that would duplicate the individual efforts of covered credit unions, the NCUA should allow covered credit unions to continue to conduct their own stress testing. At regular intervals the NCUA could select independent consultants to review the assumptions and processes used by covered credit unions to verify their soundness and validity. Alternatively, after receiving input from the industry the NCUA could promulgate a set of stress testing standards and requirements. Each covered credit union would incorporate these standards and requirements into its own stress testing process and thereby ensure that it addresses the NCUA's concerns. Covered credit unions could then submit the results of their independent stress testing to the NCUA and, if the NCUA deems it absolutely necessary, the NCUA could audit the results to ensure compliance with its standards and requirements. In either of these ways the NCUA could ensure the continuing health of the NCUSIF without diminishing its resources in the process.

NAFCU also proposes several modifications to the capital planning component of the NPRM. Under the NCUA's proposed rule, covered credit unions will be required to submit capital plans showing projections of revenue, losses and capital for at least three years. To achieve parity with other prudential regulators, NAFCU recommends NCUA's capital plan requirements align with those of the Federal Reserve, which is nine quarters.

As a general matter, NAFCU disagrees with the NPRM's use of net economic value (NEV) as a key metric. There is only a weak and theoretical correlation between current changes in NEV and future net worth, and its use is inconsistent with other regulatory regimes' stress testing requirements. Further, individual covered credit unions' NEV results may vary widely based on just a few basic underlying assumptions, the application of which would be highly theoretical to begin with. To the extent the NCUA wants information on credit unions' interest rate risk, it should seek this information as a part of the regular examination rather than as a part of its stress testing program.

If the NCUA decides to keep NEV testing as a part of the NPRM, the NCUA should alter the interest rate shocks component so that it remains consistent with prevailing economic conditions rather than requiring a specific number of basis points. Further, the requirement for the interest rate shock should not assume that the shock would be instantaneous and constant throughout the evaluated period, but rather realistically reflect a ramp up period or similar change over time.

In addition, the NCUA should alter the two-year final maturity assumption for core deposits. The current assumption does not reflect historical data or credit union members' practices, and should be reevaluated to apply statistically supported, weighted average lives to different types of deposits. Core deposit maturity likely varies depending on individual credit unions' membership bases and the NCUA proposed one-size-fits-all approach is inappropriate in this instance.

In addition, if the NCUA insists on pursuing stress testing and capital planning, it should allow credit unions at least two full reporting cycles to evaluate the necessary resources and identify any potential implementation issues. Only after assessing the results from these cycles should the NCUA promulgate final stress testing and capital reporting requirements. The NCUA should also refrain from making a decision regarding public disclosure until after making such

NCUA

December 30, 2013

Page 4 of 4

assessments. Banking prudential regulators make these results public because this information could be pertinent to the banks' investors, and therefore, increased transparency is necessary for the public investment markets to function properly. Credit unions on the other hand have members-owners, not investors. Given that there may be potentially sensitive confidential exam information in the stress testing results, the NCUA should not disclose these results without finding of a compelling reason to do so or examining the issue further.

VI. Conclusion

NAFCU appreciates the opportunity to provide our comments. Should you have any questions or concerns, please feel free to contact me at chunt@nafcu.org or (703) 842-2234 or Angela Meyster, NAFCU's Regulatory Affairs Counsel, at ameyster@nafcu.org or (703) 842-2272.

Sincerely,

A handwritten signature in cursive script that reads "Carrie R. Hunt".

Carrie R. Hunt

Senior Vice President of Government Affairs/General Counsel