



MISSOURI CREDIT UNION ASSOCIATION

December 31, 2013

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

RE: Don Cohenour – Comments on Proposed Rule- Capital Planning and Stress Testing
RIN 3133-AE27

Dear Mr. Poliquin:

On behalf of the 1.3 million credit union members, the Missouri Credit Union Association (MCUA) appreciates the opportunity to comment regarding the proposal from the National Credit Union Administration Board to conduct annual stress tests of federally insured credit unions (FICUs) with assets of at least \$10 billion and to require those credit unions to develop and maintain capital plans that would be reviewed annually by the agency. Covered credit unions could be subject to sanctions if the minimum level of stress test capital is not met or material issues regarding a credit union's capital plan arise.

MCUA is a supporter of strong safety and soundness principles. We urge the agency to issue guidance that covers key points addressed in the proposal and to administer the guidance through the annual examination of the largest credit unions under the auspices of NCUA's Office of National Examinations and Supervision. Covered credit unions should not be subjected to sanctions under a new stress testing and capital planning rule. The guidance would be less costly for credit unions and the agency to implement and would provide additional flexibility for credit unions to develop their own models and plans.

The proposed definition of "planning horizon" covers a period of time over which relevant projections extend, but must be at least three years. We are concerned that this period is too long for covered credit unions to have to contend with and would likely result in analyses that are weighted by data that obscures current trends. The bank regulators have chosen to use a nine-quarter planning horizon. We feel that this approach would be less wieldy for credit unions and would result in analyses that are more useful to each institution as well as to NCUA.

A covered credit union would have to develop and maintain a capital plan that is submitted to NCUA each year by March 31, unless NCUA directs a later date. The plan would reflect financial data as of September 30 of the previous year. We believe NCUA should consider moving the reporting date to June or allowing a process under which a credit union could have a reasonable amount of some additional time if needed to meet all of the requirements of the capital plan for a particular year.

We also question whether a quarterly assessment of the expected sources and levels of capital over the planning horizon, as the proposal would require the capital plan to include, is necessary in every situation for every covered credit union. We believe there should be a process under which less frequent assessments, such as covering two quarters, could be permitted following consultation with the credit union's examiner.

The proposal details the elements that must be included in the capital plans. However, it also states that the plan "must contain at least" the provisions listed in the proposal. We urge the Board to drop the words "at least." We are concerned that by adding the words "at least" credit unions will be unsure that their plans are complete and examiners will feel emboldened to add requirements that are not included in the rule. It is unclear why the agency is requiring covered credit unions to conduct a net economic

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valuation using an IR shock of +/- 300 basis points. As others have noted, this exercise seems out of place in determining the likely level of actual capital under a variety of adverse scenarios, as opposed to the theoretical value of capital under potentially inconsistent interest rate scenarios. Other methods of interest-rate risk analysis are more appropriate for capital planning and analysis. We agree with the recommendation that IR shocks should be part of general safety and soundness reviews but should be excluded from the mandatory elements of the capital analyses, noting that this is not required by the bank regulators.

We are concerned that the requirement to model deposits assuming a two-year maturity will under value credit unions' core deposits, a number of which, such as savings and regular money market accounts, have longer weighted average lives than two years. We strongly urge NCUA to drop this provision from the list of mandatory capital evaluation elements.

The proposal would require NCUA to notify the credit union in writing regarding the reasons for a rejection. However, it does not provide a time frame for providing the reasons. Since a rejected plan must be resubmitted within 30 days, we feel NCUA should provide the written reasons within two business days. We also think that credit unions should have 30 business days rather than calendar days to resubmit their plans.

A credit union that operates without an approved capital plan after September 30 would be subject to NCUA supervisory sanctions. However, we think that provision should add language to allow NCUA to permit flexibility for credit unions that have resubmitted plans that may be not approved yet.

We have concerns about the proposal's impact on state chartered credit unions and state regulators, which stem from the fact that the agency would be the sole arbiter of whether a capital plan is acceptable. We urge the agency to work with state regulators to ensure their authority over state credit unions is not eroded.

Under the proposal, NCUA would provide a description of the scenarios, baseline, adverse and severely adverse, by December of a calendar year, using September 30 financial data. We urge that the proposal be changed to specifically require the scenarios be provided to the covered credit unions and that the agency will be specific in providing the scenarios and results of the stress tests to affected credit unions.

The proposal would require a 5% net worth ratio stress test floor under adverse conditions, which is a full percentage point higher than the minimum leverage ratio for banks. NCUA states that this higher minimum is necessary because credit unions do not have access to additional forms of capital, and because of accounting for credit unions' 1% share insurance fund deposits. NCUA believes the stressed minimum net worth ratio for large credit unions should be set at the same 4% level that applies to banks.

Though not included in the proposal, NCUA is seeking comments on whether the results of the stress tests could be made public. We do not think such disclosure is appropriate for credit unions.

As always, we appreciate the opportunity to respond to this proposal. We will be happy to respond to any questions regarding these comments.

Sincerely,



Don Cohenour
President

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