AlaskaUSA
Federal Credit Union®

December 31, 2013

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

Dear Mr. Poliquin:

Re: Large Credit Union Annual Stress Tests and Capital Plans; RIN 3133-AE27

Alaska USA appreciates the opportunity to comment on NCUA's proposed rule on annual stress tests and capital plans for credit unions with assets exceeding $10 billion. We recognize and support the concepts of capital planning and stress testing provided there is a single test model maintained by the credit union. This approach would be consistent with the current practice for Asset Liability Management and Allowance for Loan Losses.

Capital Planning and Stress Testing

Capital planning and stress testing are vital tools for understanding and managing risk across an entire organization as it relates to the impact of adverse conditions on capital and long-term financial health. However, we strongly believe that stress tests, in and of themselves, should not form the sole basis of how management and the Board of Directors operate the credit union.

Stress tests should be one factor among many used in assessing the adequacy of a credit union's capital levels and operating structure. Stress tests provide a hypothetical scenario that may not occur. Requiring a credit union to manage their capital levels based solely on the most adverse conditions could put those credit unions at greater risk in their respective markets. This is especially true if those stress test scenarios were based on only national or macro-economic factors, which might not be relevant to the community, SEG, or lending practices of the credit union. In any case, it would have an adverse impact on members.

Stress tests are most useful when they are customized to fit the unique characteristics of the individual organization and its market area. Relying on a "one size fits all" approach could force credit unions to create risk management infrastructure and framework practices solely to satisfy the capital guidelines. Likewise, a heavy reliance on stress tests by NCUA, as proposed, would eventually cause credit union management to operate the credit union to strictly maintain the stressed capital requirement, which creates another risk which we believe is easily avoidable.

We would recommend that the NCUA Board provide guidance to covered credit unions to conduct and maintain their own stress testing as a tool to understand the potential impact of adverse conditions on capital. We would further recommend the proposed rule include a standard set of baseline parameters to include interest rates, credit losses and operational losses, so there is a consistent foundation of baseline assumptions for stress testing.

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Capital Requirements

The proposed capital ratio of 5% required to meet the most severe of stress scenarios is overly limiting, especially given that under the Prompt Corrective Action, a credit union is considered "well capitalized" at 7% or above. This leaves only a 2% cushion under a severely adverse model scenario between being considered "well capitalized" and possible supervisory action under the proposed rule. This small buffer of 2% is further reduced under the proposed rule by eliminating the NCUSIF deposit from the capital calculation for stress test purposes. The rationale for eliminating the NCUSIF deposit is for comparative purposes with banks. Yet the comparison with banks was not used when establishing the 5% minimum stress test capital. We would argue that credit union assets and liabilities are generally less risky than banks and, therefore, shouldn't require a higher capital ratio than banks, even though credit unions cannot raise capital in the form of stockholder equity. The minimum leverage ratio for banks is 4%.

Credit unions' capital requirements, as provided by Part 702, have proven to provide an adequate buffer against severe economic stress. The proposed rule should be reclassified as guidance, with an expectation by NCUA that credit unions will follow that guidance. This can be routinely monitored and evaluated through the exam process, which we believe would be more effective and beneficial in the long term than the proposed rule.

Thank you for the opportunity to comment on the proposed rule. If you have any questions about our comments, please feel free to contact Alaska USA's Chief Risk Officer, Wayne Bailey, at (907) 786-2708 or me at (907) 786-2755.

Sincerely,

William B. Eckhardt
President