



*League of Southeastern
Credit Unions & Affiliates*

December 31, 2014

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

Re: Comments on Proposed Rule – Large Credit Union Annual Stress Tests and Capital Plans

Dear Mr. Poliquin,

Thank you for the opportunity to comment on the pending 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. This letter represents the views of the League of Southeastern Credit Unions & Affiliates (LSCU), a credit union trade organization representing 285 state and federal credit unions located throughout Alabama and Florida.

LSCU has long been supportive of NCUA efforts to ensure safety and soundness among credit unions and address deficiencies found during the course of performing required examinations. We also applaud NCUA steps taken to develop enhanced methods and procedures aimed at enhancing its ability to oversee the activities of federally insured credit unions. Nonetheless, after reviewing the proposal involving required annual stress testing among large credit unions, we have concerns regarding the proposal.

We know of no valid argument against the largest credit unions operating in a manner that would enable them to determine they have sufficient capital to withstand a range of economic conditions and that NCUA occupies a critical position in working cooperatively with these large credit unions, our concern is that we cannot support yet another new regulation requiring these credit unions to conduct the stress tests and comprehensive capital planning they are likely already performing.

We do not see sufficient evidence in the financial performance among the largest credit unions that would be covered by the new rule to warrant another new regulatory requirement. NCUA has also not sufficiently made the case for a new regulation.

Aside from the lack of an apparent weakness in performance among the largest credit unions that would warrant testing like that present in the proposal, we are concerned about the cost estimates the agency has said would be associated with the final rule. Early agency estimates place the cost at approximately \$4 million, or \$1 million per covered credit union, to implement. We have not seen information released by NCUA as to how it arrived at the \$4 million level, and we would like to have access to more information regarding these estimates. If history tells us anything, it tells us to be prepared by even higher costs than those announced at this point in the process. We consider the limited information related to the cost is sufficient reason to reconsider the rule and revisit its applicability among large credit unions.

To lower costs for large credit unions and the agency itself, we urge the agency to avoid cumbersome, counterproductive regulations and their associated penalties in favor of agency guidance that address key factors in the proposal. We reject the application of sanctions against credit unions as a motivating factor in improving capital planning and stress testing. The issuance of agency guidance, as opposed to a new regulation and possible penalties, would remove this major threat. The use of an agency guidance approach would also be less costly for credit unions and the agency to implement and would provide additional flexibility for credit unions to develop their own procedures and processes.

In order to expedite the process for large credit unions and agency examinations, we recommend the agency to consider the following steps: NCUA should review the stress testing data that covered credit unions have conducted, either directly or through a reliable third party, covered credit unions should not be sanctioned for failure to meet capital planning or stress test goals, NCUA should establish very clear steps for rejecting a credit union's capital plan, NCUA should not publicly disclose the results of the stress tests since the results could be misunderstood or misreported by media sources, and NCUA should avoid any perception that the authority of state regulators to work with a state credit union to identify the adequacy of their capital planning and stress testing has been diminished. The proposal calls for the agency to conduct annual stress testing but does not require the sharing of the results with state regulators. While the provisions require NCUA to "consult" with the relevant state regulator, they are not clear as to how extensive the consulting must be or the information to be shared between agencies. This could be especially troublesome when NCUA initiates action against a state credit union.

If not amended prior to final adoption, the content of the proposal makes it clear that the rule would have a very negative impact on state agencies and credit unions as well as on the ability of state regulators to supervise their state chartered institutions covered by the final rule.

We have strong concerns about the proposal's impact on state chartered credit unions and state regulators in Montgomery and Tallahassee. A review of the proposal indicates the agency would, if the proposal is adopted, make the sole determination as to the adequacy of a credit union's capital plan. We oppose this practice. We strongly urge the agency to work cooperatively with state regulatory agencies to ensure their authority over state chartered credit unions.

Even though we disagree on many points within the proposal, we do agree that capital planning, including testing for capital sufficiency under stressed conditions, comprises a significant set of management and supervisory skills that when used properly can benefit both credit unions and regulators. With that in mind we urge the agency to work cooperatively with state agencies and industry leaders to revise the proposal in a manner beneficial to all. We urge the agency to consider new guidance that addresses our concerns and to work with affected credit unions through the examination process to achieve a robust testing process. We believe this approach will provide the agency with a viable vehicle to meet its oversight obligations and help credit unions avoid sanctions and allow for flexibility in implementing their capital planning processes.

We remain concerned with a number of specific issues regarding the proposal and we urge the agency to consider our issues in the final rule. We appreciate the opportunity to comment on this proposal. Thank you for your consideration of our views. Please do not hesitate to contact me if you have any questions.

Sincerely,



Scott Morris
Director of Regulatory Advocacy