THE National Credit Union FOUNDATION

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April 23, 2015

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

RE: 12 CFR Parts 700, 701, 702, 703, 713, 723 and 747, Risk-Based Capital

Dear Mr. Poliquin:

The National Credit Union Foundation (the Foundation) appreciates the opportunity to submit comments on the National Credit Union Administration's notice of proposed rulemaking for the above-referenced parts of NCUA's regulations regarding risk-based capital. By way of background, The Foundation is a 501(c)(3) tax-exempt charitable organization governed by a volunteer Board of Directors comprised of executives from the credit union movement as well as an at-large representative and serves as the philanthropic arm for the nation's credit unions.

The Foundation's mission is to be a catalyst to improve people's financial lives through credit unions. The Foundation delivers on its mission by providing unique resources credit unions can use to create greater access to affordable financial services, provide widespread financial education, and empower more consumers to save, build assets, and own homes.

The Foundation's observations and recommendations regarding NCUA's proposed rule are limited exclusively to the treatment of Charitable Donation Accounts (CDAs).

Background:

In December 2013, the NCUA Board approved Parts 703 and 721, Charitable Donation Accounts. The Foundation strongly supported the creation of hybrid charitable and investment vehicles, and commended NCUA's willingness to develop a regulatory framework to support this structure. Such a mechanism permits credit unions more flexibility to effectuate charitable intent and, in this low interest rate environment, the mechanism can help charitable organizations seeking steady streams of funding for their impactful activities. The Foundation is no different in that regard.

The Foundation has three observations and recommendations regarding the risk-based capital proposal that it believes will balance the intent of credit unions to support charitable activities and the safety and soundness concerns that NCUA necessarily has in its role as regulator and deposit insurer as it crafts a risk-based capital approach for credit unions.

Observation 1: Exemption for CDAs from the risk-based capital proposal

NCUA originally passed the CDA regulation “to clarify that federal credit unions are authorized to create and fund a charitable donation account, a hybrid charitable and investment vehicle, as an activity incidental to the business for which the credit union is chartered, provided the account is primarily charitable in nature and meets other regulatory conditions to ensure safety and soundness.” (Federal Register, Vol. 78, No. 244, Thursday, December 19, 2013, page 76728). The parameters placed on CDAs effectively balance safety and soundness considerations with credit unions’ charitable intent. Imposing risk-based capital limitations on such investments contravenes the appeal for credit unions to put money into these investments to fund charitable activities.

Recommendation:

The Foundation respectfully requests that the NCUA Board provide an exemption for CDA from the risk-based capital rule.

Observation 2: Community Development Investments

The OCC Risk-Based Capital regulation recognizes the importance of Community Development Investments and assign a risk weight of 100% rather than a 300% weight. The public policy embraced by the OCC is to encourage these investments to support charitable goals and purposes.

Recommendation:

To embrace a similar policy, the Foundation respectfully asks NCUA to consider assigning a risk weight of 100% for any equity or corporate bond exposure in a CDA investment. This treatment for CDAs will support broader participation by credit unions with CDAs and enhance the goodwill and reputation of the credit union industry as it builds an investment resource to support charitable contributions.

Observation 3: Non-Significant Equity Exposure

Banks are permitted to apply a 100% percent risk weight to certain equity exposures deemed non-significant. Non-significant exposures means an equity exposure that does not exceed 10% of the bank’s total capital.

Recommendation:

The Foundation urges NCUA to adopt a similar treatment for credit unions. Thus, if the publicly traded equities and equity allocation within an investment fund (e.g., a CDA) are less than 10 % of a credit union’s total capital, a risk weight of 100% shall be applied to this equity exposure. This would reduce the complexity of the look through approach and simplify the overall risk weight process for non-significant equity exposure.

Thank you for the opportunity to comment on the proposal. If you have any questions about our letter, please do not hesitate to give me a call at (202) 824-6282.

Sincerely,

Christiane Gigi Hyland
Executive Director

cc: The Honorable Debbie Matz, Chairman, NCUA
The Honorable Rick Metsger, Board Member, NCUA
The Honorable J. Mark McWatters, Board Member, NCUA