March 23, 2015

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

RE: Proposal on Capital Planning and Stress Testing

Dear Mr. Poliquin:

BECU wishes to thank the National Credit Union Administration ("NCUA") for the opportunity to comment on the *Capital Planning and Stress Testing - Schedule Shift* proposed rule. As a credit union with over $10 billion in assets (a "covered credit union" for purposes of the rule), BECU has begun complying with the rule. To date, we have submitted our first capital plan pursuant to the requirements under the new rule and are awaiting NCUA's approval. Given that this is a new rule, with an effective date of May 30, 2014, and covered credit unions have only limited experience with implementation, we respectfully request that NCUA modify this proposal to include BECU's suggested changes. In this letter, we provide reasons why NCUA should reevaluate and change the proposal's shortened time frames under which covered credit unions submit their capital plans to NCUA.

Background and Summary

Under the current rule, NCUA requires covered credit unions to develop and maintain a capital plan that must be submitted by February 28 of each year. Covered credit unions are permitted to rely on financial data as of September 30 of the previous year (also referred to as the "as of date"). Effectively, BECU has five months in which to review, analyze, test, and submit its capital plan to NCUA for approval. During that five month period, NCUA provides covered credit unions the stress test scenarios (baseline, adverse, and severely adverse) by December 31 of each year. Covered credit unions then run the stress test scenarios for the purpose of determining a minimum capital ratio under stress. NCUA provides covered credit unions the results of the stress test scenarios within 90 days (May 31) of a covered credit union's submission of the capital plan. If the stress tests indicate that a covered credit union cannot maintain a stress test capital ratio of least five percent, the credit union must, within 90 days, provide NCUA with a stress test capital improvement plan that demonstrates how it will meet the target.

General Comments

Under this proposal, NCUA shifts the schedule of key dates to conform to the banking agencies' timelines. For example, the "as of date," the submission date for the capital plan, and the date NCUA releases the stress test scenarios have all been changed (or shifted). Under this proposal NCUA requires covered credit unions to develop and maintain a capital plan that must be filed by April 30 of each year (instead of February 28) that relies on data "as of" December 31 (instead of September 30). So instead of having five months in which to prepare and submit the capital plan, covered credit unions such as BECU will now have only four months to do so. As a result, BECU respectfully requests that NCUA change the proposed submission date of April 30 to May 31, thereby reestablishing the original timeline under which to submit the capital plan.

Having only four months to develop the capital plan when BECU relies on December 31 data can create some challenges for BECU because the December 31 data may not be ready for review until sometime toward the end of January and may therefore impact the quality of the plan itself. Couple this compression of time with a severely adverse stress testing scenario, and the time frame is even further truncated.

Correspondingly, under this proposal, NCUA shifts the date under which it would publish the stress testing scenarios from December 31 (current requirement) to February 28. This additional schedule shift effectively provides covered credit unions approximately only two months (61 days) from scenario release to plan submission for purposes of evaluating and incorporating the stress test results into the capital plan. Under the existing rule, BECU would have 90 days to incorporate the stress test results from scenario release to plan submission. We are compelled to bring this fact to NCUA's attention because when we receive the stress test results from NCUA, we will have to evaluate, compile, aggregate, review, challenge, and validate the scenario results for the purpose of incorporating them into the capital plan. This exercise is time-consuming and requires thoughtful planning and decision making in order for BECU to have confidence that the information BECU provides NCUA is accurate.

Additionally, as part of the validation process, BECU must rely on its governance process, which entails feedback from the board of directors, scheduling time to evaluate the analytics, and presenting and receiving approval from the requisite committee structures as well as the board of directors. BECU believes that having more time to validate the scenarios is a positive, rather than a negative, incentive and therefore, in the long run, would serve to promote the NCUA's objective of receiving accurate capital plans.

By aligning covered credit unions to the Federal Reserve and Office of the Comptroller of the Currency's ("OCC") timeframes, the NCUA is equating covered credit unions with those banks that have assets greater than \$50 billion. The OCC only requires banks with assets greater than \$10 billion but less than \$50 billion to conduct annual stress testing without a capital plan. The Federal Reserve requires banks with greater than \$50 billion in assets to conduct stress testing in conjunction with the submission of a comprehensive capital plan. Banks with greater than \$50 billion in assets have a greater capacity to handle this regulatory burden under a condensed timeframe.

NCUA's compression of the capital planning and stress testing window during a time period of already elevated resource consumption places an undue financial and regulatory burden on covered credit unions. For example, BECU is required to complete various end-of-year reporting such as gathering Call Report data, submitting audited financial statements, and preparing IRS forms at this time. As a credit union with limited staff resources, BECU will have to compete for these resources (or perhaps hire more staff) in order to meet NCUA's proposed requirement. This situation will create a bottleneck and undue burden on the staff beyond the staffing impact already imposed by the capital planning process itself.

Furthermore, the schedule shift envisioned in this proposal is inconsistent with NCUA's goal of conducting capital planning and stress testing commensurate with the Credit Union's size and complexity because the expectation is that credit unions with less than \$50 billion in assets must conform with standards and timelines established for larger and more complex banking organizations.

During the comment period under which this rule was initially proposed, NCUA recognized that the first few years of stress testing posed unique implementation challenges. By shortening the capital planning and stress testing timeframe, NCUA increases these implementation challenges and jeopardizes the quality of submission because the governance and quality control processes are constrained.

NCUA has the authority to review the assumptions and methodologies of the capital plan and determine if the underlying analysis, data, and level of detail are reasonable and appropriate. Given these expectations that NCUA has for an accurate capital plan, it would be appropriate to assume that adequate time and resources would be afforded to covered credit unions so that they can satisfy these expectations.

Developing assumptions, applying them through the capital planning and assessment process, analyzing results, creating the required details, and applying governance and quality controls takes several months, not 61 days as the proposed rule change envisions. The shortened timeframe proposed threatens the quality of the capital plan results and puts at risk the credit union's ability to meet NCUA's high expectations.

Because capital planning and stress testing are iterative processes that can evolve and become more complex over time, BECU requests that NCUA provide the stress testing scenarios as early as possible within the timelines prescribed. For example, NCUA acknowledges that its goal is to ensure that stress testing complement those of the banking agencies both in substance and in timing.

Under the banking agencies' schedule shift, the banking agencies now intend to release their stress testing scenarios by February 15 of each year. BECU requests NCUA to also release the stress testing scenarios by February 15 or very soon thereafter (instead of February 28). The addition of two weeks in which to run the scenarios will be helpful to BECU and other covered credit unions in light of the fact that the time frame for submission of the capital plan has been compressed.

Finally, BECU's goal is to conduct independent stress testing scenarios after three years' of successful stress testing from NCUA. Therefore, BECU requests that, for purposes of clarity, NCUA incorporate the relevant criteria (e.g. prior stress test results, current financial condition, CAMEL codes, and supervisory history) into the rule itself.

Conclusion

BECU recognizes the independent processes and timelines for the capital planning and stress testing pieces, but we are concerned that the shortened timeframe in which to submit the capital plan as well as the shortened timeframe in which to conduct the stress testing within the capital planning framework could put covered credit unions in the position of erring in the analysis phase of the data gathering. This leaves a covered credit union in the objectionable position of submitting an inferior capital plan that subjects it to NCUA's rejection.

Given that covered credit unions have had very limited opportunity to implement the new rule and identify potential operational and governance hurdles, BECU respectfully requests that NCUA incorporate BECU's comments when finalizing this proposed rule. BECU also requests that, at a minimum, NCUA provide the same amount of time in which to submit the capital plan and stress testing results as the current rule allows.

The current rule provides five months from the "as of" date to submit the capital plan and 90 days from release of the scenarios to incorporate them into the capital plan. Capital planning and stress testing will likely evolve over time. Relying on that assumption, BECU requests that NCUA change the proposed submission date of April 30 to May 31. Effectuating this change will allow BECU to manage the resource constraints identified and enable a more thorough review process.

If NCUA remains convinced that accelerating the submission timeframe is a good policy to enforce, BECU requests that any such acceleration be stayed until the agency has received a few years' worth of capital plans before changing the due dates.

As NCUA's demands increase and stress testing scenarios become more complex, we are concerned that the shortened time frames built into this proposal may ultimately create an acknowledgement that additional time will be needed to adopt and submit the capital plan. Without recognition that time frames impact a covered credit union's obligations, any additional scenarios and additional models contemplated in the future will have the potential to create risk and uncertainty into this process.

Thank you for considering our comments regarding this proposal.

Sincerely,

Kathy Elser
Sr. Vice President / Chief Financial Officer
BECU