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Public Comments on Alternative Capital: =====

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

RIN:  
Docket ID: NCUA-2017-0007  
FR #: 2017-01713

Subject: Comments on Advance Notice of Proposed Rulemaking for Supplemental Capital  
Dear Mr. Poliquin:

If a credit union is going to act like a bank, they should be treated like a bank. We are being bombarded with these mega credit unions. They are making a living off of the perception that they are a better deal and that they take care of the under-served. This couldn't be further from the truth. We see countless customers come to community banks because community banks serve the community. However, with the tax advantage credit unions have, we can't compete with the amount of money they spend on advertising.

And whatever happened to a field of membership? Even the credit union employees joke that anybody can be a member as long as they have a pulse. Credit unions are growing and expanding into multiple states. They are even sponsoring college football bowl games and running national commercials. How does that better serve their members? This needs to be stopped.

Just think about how much our communities and our nation would benefit if credit unions above a certain asset size (like \$1 billion) would benefit with the increased tax revenues from treating them like a bank because they act like a bank? The extra revenues would benefit everyone.

If credit unions are allowed bank privileges, they should have to pay what banks pay. That is equal and fair treatment.

Thank you for the opportunity to provide comments on the National Credit Union Administration (NCUA) proposal for alternative capital for credit unions. Giving credit unions the flexibility to add leverage to their balance sheets adds tremendous risk to financial institutions that are chartered to serve stakeholders of limited means in limited geographical areas and fundamentally changes their mutual ownership structure. One of the reasons federal credit unions are exempt from taxation is because of their mutual ownership structure and their inability to access the capital markets. This proposal, if implemented, would result in credit unions having an ownership structure similar to most taxpaying banks with a category of investors whose interests are inconsistent with those of its mutual owners. No longer will there be any legal justification for credit unions to remain tax-exempt.

Not only are credit unions not positioned to issue alternative capital instruments

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through their mission, they have a proven inability to properly manage alternative capital in the form of secondary capital as it exists today. The secondary capital that is outstanding today is concentrated in four low income-designated credit unions. By the NCUA's own admission, the failure rate of low income credit unions with secondary capital is 3.5 times the rate of failure of low income credit unions that do not have secondary capital issued. This is a strong indicator that the issuance of alternative capital by credit unions will eventually lead to an entire category of financial institutions collapsing under the weight of improper leverage resulting in widespread failures and taxpayer bailouts. Furthermore, allowing credit unions to issue supplemental capital raises federal and state securities law issues that will put credit unions at risk for being sued for anti-fraud claims and other securities law violations.

The NCUA should focus on the intended mission of credit unions which is to serve people of modest means through a mutual ownership structure. It is not the mission of credit unions to issue subordinated debt instruments to wealthy investors. If the NCUA allows credit unions to raise alternative capital, then Congress should reexamine the tax exempt status of federal and state credit unions.

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