May 03, 2017

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

RE: Comments on Alternative Capital

Dear Mr. Gerald Poliquin,

I am writing on behalf of Kinecta Federal Credit Union (Kinecta), one of the nation's largest low-income designated credit unions, with approximately $4 billion in assets, serving over 290,000 members.Kinecta appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) proposed amendments to supplemental capital regulations. Generally, we believe granting credit unions options for raising capital beyond retained earnings is important, and we support it; however, we do have some concerns about which types of capital are permitted and the potential rules and regulations supporting these.

As a low-income designated credit union, Kinecta has the limited ability to issue secondary capital. Although we have not issued secondary capital, we have researched the potential market at some length. Based upon our review, no viable market currently exists; however, one might form if credit union interest and activity in secondary capital develop further. We are somewhat skeptical about this prospect though because despite a significant increase in the number of LICU's in recent years, credit unions and potential investors remain largely disinterested and there is still no market. It is our view that secondary capital as currently structured is not worth the expense or effort for the majority of LICU's, and it should be augmented with workable options for supplemental capital that are available to all credit unions.

We encourage the NCUA to adopt an approach to supplemental capital that appropriately considers the cooperative nature of credit unions, the safety and soundness of the issuing institution, matters of consumer protection and credit union principles of governance. Further, we believe that the availability of supplemental capital should be subject to a regulatory approval process. Finally, although there are valid arguments to consider both member-based and market-based forms of capital, we believe the potential political, reputational and operational pitfalls of market-based capital might outweigh the benefits and encourage NCUA to focus on member-based alternatives.

Member-based capital is already a reality in the industry. Corporate credit unions raise capital from their members, natural person credit unions, in various forms and subject to NCUA rules and regulations. In our view, member-based capital has not altered the cooperative nature of corporate credit unions nor has it impacted their principles of governance. Further, during the financial crisis, it became abundantly clear that such instruments adequately perform the role of capital and serve to protect the NCUSIF.

The structure of member-based capital for natural person credit unions might follow this proven framework but necessarily include additional elements to ensure appropriate consumer protections. For example, credit unions could have the option to require non-refundable capital deposits as a condition of membership like minimum shares. Additionally, member-based capital could be achieved through separate issuance of uninsured and restricted member shares or certificates. Credit unions already have a long and successful history of offering members uninsured investment products through CUSO's, and there is little reason to believe that they could not responsibly do the same with uninsured shares. We are not convinced that such instruments would require registration as securities; however, this should be fully vetted before proceeding as registration and reporting requirements could make it economically unfeasible.

Regardless of form, member-based capital products should be supported by clear suitability, disclosure and marketing requirements. If consumer protections are needed beyond these, prudent limits may be set on the amounts available to any one member or household; however, regulations should be structured to allow the largest possible portion of the membership to participate in some way which is consistent with our cooperative nature. One potential method of determining a maximum permissible amount invested would be to limit it to a percentage of income, net worth and/or debt-to-income. Another might be to limit investment to a percentage of a member's rolling twelve-month average of insured household deposits. Conceivably, investment could be limited to only those members who are accredited investors, but this would unnecessarily exclude the majority of credit union members and severely restrict the potential market.

Irrespective of the source of supplemental capital, once approved or otherwise qualified, it should be included in the calculation of risk-based capital. We believe this to be equitable with the adoption of the final risk-based capital rule effective January 1, 2019 and aligned with the Board's consideration of institutional risk and potential losses to the share insurance fund.

The Federal Credit Union Act specifically exempts credit unions from taxation by the United States or by any State or local taxing authority. This exemption was granted due to their cooperative nature, not-for-profit status and the special mission that credit unions serve for their members. It has little to do with their ability or inability to raise capital, but we understand the perceived political implications. In our view, member-based supplemental capital does not alter the credit union structure or mission. Credit unions remain member-owned, member-governed not-for-profit institutions with missions focused on member benefit over shareholder enrichment. Additionally, we believe capital formation among the membership is perfectly consistent with the cooperative nature of credit unions and should offer minimal if any political risk provided consumer protections are appropriate.

Thank you for allowing Kinecta the opportunity to comment on this advanced proposal and for your consideration of our comments. If you have further questions or would like to discuss this letter in more detail, please feel free to contact us.

Sincerely,

Keith Sultemeier

President & CEO

Kinecta Federal Credit Union

310.643.5565

CC: CUNA, CCUL

Sincerely,

Linda Landis
FVP Enterprise Compliance
Kinecta FCU

cc: CUNA, CCUL