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April 21, 2017

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

RE: Hanscom Federal Credit Union Comments on Advanced Notice of Proposed Rulemaking (ANPR) on Alternative Forms of Capital

BY E-MAIL ONLY - [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Dear Secretary Poliquin:

I am writing on behalf of Hanscom Federal Credit Union to comment on the National Credit Union Administration (NCUA) advanced notice of proposed rulemaking (ANPR) relative to alternative forms of capital. Hanscom Federal Credit Union serves approximately 72,000 members and has total assets of approximately \$1.2 billion.

We applaud NCUA for taking this initiative to expand access to capital for credit unions and welcome the opportunity to provide additional input. Our comments include our overall opinion of the proposed rule as well as specific feedback on questions outlined in the proposed rule.

**Overall Opinion of the proposed rule:**

Hanscom Federal Credit Union is currently well capitalized. While we do not plan to issue supplemental capital even if this becomes permissible under the proposed rule, we strongly believe having the option to do so is vital to safeguarding our future safety and soundness. Unforeseen circumstances that may potentially be beyond our control could strain our capital position to a point where having the ability to quickly raise supplemental capital would be a valuable option. Our only current option to raise capital by increasing our retained earnings balance may not be sufficient in a severely stressed situation. The ability to issue supplemental capital would also provide an additional source of protection for the National Credit Union Share Insurance Fund.

Allowing supplemental capital to count toward meeting risk based net worth requirements only partially meets the capital needs of credit unions which must also meet statutory net worth regulations. We view the proposed rule as a good first step that will allow NCUA and credit unions to gain experience with issuing supplemental capital. With this experience, credit unions and the NCUA would have a stronger argument to convince Congress to update the Federal Credit Union Act to also allow supplemental capital to be counted toward meeting statutory net worth requirements as well.

**Feedback on questions outlined in the proposed rule:**

1. Who will purchase supplemental capital?

We believe institutional and sophisticated investors would be very interested in purchasing credit union supplemental capital.

2. How should regulations address cost while maintaining adequate protection for investors and the NCUSIF?

The cost issue should be left to the capital markets to decide. Sophisticated investors have the skills necessary to evaluate the risk and reward of potential investments and their required rate of return. Since supplemental capital would be in a first loss position as defined in the proposed rule it would provide additional protection to the NCUSIF regardless of cost.

3. Could non Low Income Credit Union use of supplemental capital affect the availability of secondary capital for Low Income Credit Unions?

Creating a market for supplemental capital would most likely expand the market for secondary capital by creating a larger overall market for alternative capital for credit unions. A larger market would be more visible and attractive to potential investors who would have a greater ability to diversify their risk.

4. Is there any provision in the Federal Credit Union Act that could authorize Federal Credit Unions to issue any form of supplemental capital other than subordinated debt?

The Act gives Federal Credit Unions the authority to borrow in accordance with rules and regulations prescribed by the NCUA Board. We cannot identify any other provision that would allow Federal Credit Unions to issue supplemental capital other than subordinated debt.

5. Should NCUA issue a more comprehensive borrowing rule for Federal Credit Unions?

Current borrowing rules are sufficient and additional borrowing rules are not needed.

6. One justification for the credit union tax exemption is the lack of access to capital markets. If all credit unions, not just low income credit unions, can access alternative capital, will this justification be eliminated?

Limiting supplemental capital to subordinated debt falls within existing borrowing authority for credit unions and should not eliminate the justification for the tax exemption. Other potential forms of alternative capital could jeopardize the justification.

7. What, if any, restrictions should NCUA impose on voting and covenants to minimize control by investors that would jeopardize the mutual ownership and ownership structure of credit unions?

Limiting supplemental capital to subordinated debt would eliminate the need for restrictions on voting and covenants. Investors in credit union subordinated debt would have no more rights than any other creditor leaving ownership rights with credit union members.

8. Should NCUA mandate disclosures of the terms of supplemental capital?

Existing SEC requirements should provide sufficient protection for investors and eliminate the need for duplicate NCUA regulations.

9. Should purchasers of supplemental capital be limited to institutional and accredited investors?

To avoid confusion over the lack of NCUSIF insurance purchasers of supplemental capital should be limited to institutional and accredited investors. As the market for supplemental capital grows it is likely that

individual investors would be better served by investing in institutional funds that could diversify investment risk through pools of investments in supplemental capital of multiple credit unions.

10. For loss absorption, interest must be cancellable on a permanent, noncumulative basis, without constituting default and must not contain incentives to exercise a call option. How will this affect the cost and marketability of alternative capital?

Loss absorption restrictions are identical to the restrictions that have been in place for subordinate debt issued by banks for many years. As a common feature in the marketplace this should have no impact on the cost or marketability of alternative capital.

11. Should NCUA require credit unions to deduct the amount of cross holdings of alternative capital in other credit unions?

NCUA should require credit unions to deduct the amount of cross holdings of alternative capital in other credit unions to avoid the creation of fictitious capital.

12. Should NCUA change the rule that in a merger of a low income credit union other than into another low income credit union that secondary capital must be redeemed?

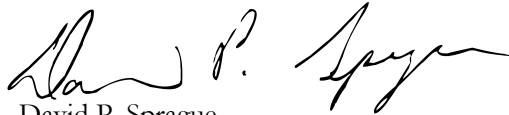
NCUA should change this rule to provide greater flexibility for credit unions to seek the most appropriate merger partners. Such a change would also provide greater protection to the NCUSIF.

13. Should NCUA prohibit investor approval of a voluntary merger?

NCUA should prohibit investor approval of voluntary mergers.

Thank you for considering our comments.

Sincerely,

  
David P. Sprague  
President/CEO