April 24th, 2017

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

Re: CU Capital Markets Solutions (CMS) - Comments on ***"Advance Notice of Proposed Rulemaking for Supplemental Capital"***

Sent by email: regcomments@ncua.gov

Mr. Poliquin,

I appreciate the opportunity to provide thoughts the NCUA's "Advance Notice of Proposed Rulemaking for Supplemental Capital" and some of the comments the agency has received from the public.

There seems to be a misunderstanding by some commenters regarding supplemental and secondary capital, the ability to leverage capital, and the application of the rules, regulations and limitations. These commenters appear to be community bankers, who seek to limit the ability of credit unions to serve consumers and use those limitations to unfairly gain market share.

One letter that appears to be a form letter used by many bankers, states that giving credit unions the flexibility to add leverage to their balance sheets adds tremendous risk. This is untrue. All financial institutions that make loans and take deposits are in the "risk-leverage" business. Credit unions already possess the ability to leverage their balance sheet. Furthermore, the principles of proper management and utilization of capital are the same whether the capital is classified as primary or secondary. The thought that a credit union can efficiently manage its primary capital, but would become reckless if that capital took the form of secondary capital, as the bankers assert, is absurd.

This letter also confuses supplemental and secondary capital and the ability to leverage that capital. Secondary capital is included in net worth. Supplemental capital is not. Secondary capital by definition is a non-share account and as such, should continue to be made available to well-capitalized low-income credit unions.

The bankers also press the ridiculous claim that access to supplemental capital would change the ownership structure of credit unions. This is a misguided, apples-to-oranges comparison. The ownership structure of a credit union is not affected by the issuance of a secondary capital loan. Credit unions that issue secondary capital remain as not-for-profit cooperatives with no equity shareholders. As such, there should be no question of tax status.

The bankers also attempt to compare credit unions to tax-paying banks, as if all banks pay taxes. Corporate entities structured as LLCs, Sub-S or other pass through structures, do not pay tax. This includes at least 2,000 banks. Taxable profits, or losses, are passed through to shareholders who are responsible for the tax obligation. Additionally, big banks are notorious for passing profits through off-shore accounts, which provide loopholes that allow them to pay little or no taxes. For banks to claim their tax status gives them higher moral standing is ridiculous.

The hindrance of credit union growth would limit the ability of consumers to access services credit unions currently provide. During the financial crisis, credit unions provided loans to more low- and moderate-income households than other institutions on a percentage basis, and also delivered higher quality financial service to these households. They also provided much needed capital to small businesses that stabilized America's fragile economy, during a time when banks couldn't or wouldn't lend. Failing to give all credit unions better access to capital puts consumers and Main Street at a disadvantage in the marketplace. Why would anyone want to limit the availability of financial services to these market segments, especially when they are crucial to the economy and banks fail to provide it?

Credit union executives and boards constantly strive to optimize and enhance their credit union's financial performance and condition for the benefit for their members. These credit unions should have the right to pursue their goals and mission without the impedance of those who endeavor to stifle growth for selfish reasons. The mission to provide the best financial products and services to members is a mission that is inherent among all credit unions. This is vastly different from the primary goal of banks, whose objective is to produce as much profit as possible for their equity stakeholders.

The NCUA board seeks to provide credit unions with the tools they need to provide services to their members. Irrational and false comments relating to perceived risk, mission, failure rates, ownership structure and tax status should be viewed as mere propaganda. Any effort that can provide better and more abundant financial services should be welcomed by all.

With best regards,

Lewis N Lester Sr.
Chief Executive Officer