



CREDIT UNION DEPARTMENT

Harold E. Feeney
Commissioner

Robert W. Etheridge
Deputy Commissioner

May 8, 2017

Sent electronically to: regcomments@ncua.gov

Gerard Poliquin, Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314

Dear Mr. Poliquin:

This letter is in response to the National Credit Union Administration's (NCUA) advanced notice of proposed rulemaking for supplemental capital. More specifically, NCUA is seeking input on several issues including a natural person credit union's potential use of supplemental capital to meet forthcoming complex credit union risk-based capital requirements.

The Department supports the efforts of the NCUA to allow supplemental capital to contribute toward a portion of a credit union's risk-based capital ratio. Access to supplemental capital will help ensure healthy credit unions can achieve manageable asset growth and continue to efficiently meet the demands of their members. Although there may be costs to supplemental capital in the form of interest and issuance and compliance costs, the benefits clearly outweigh these costs.

In implementing the regulatory framework, the Department encourages NCUA to provide sufficient latitude and flexibility for the marketplace to evolve and shape supplemental capital in ways that maximizes its utility to credit unions as well as its attractiveness to investors. Instead of regulating the boundaries between what is approved and what is forbidden, the Department would suggest that NCUA lay out broad but well-defined principles that focus on establishing characteristics consistent with the mutual nature of the credit union system, supervisory safeguards to mitigate risks to the safety and soundness of the participating institution, robust investor safeguards, and credit union policy and procedures.

Further, the Department urges NCUA to preserve the ability of states to offer varying, and sound, regulatory approaches to supervising supplemental capital. The state component of the dual-chartering system has been a tremendous benefit to the citizenry by, among other things, fostering a responsiveness to local needs, serving as laboratories of experimentation, and avoiding the dangers of industry stagnation. Diversity of regulation increases the chances that

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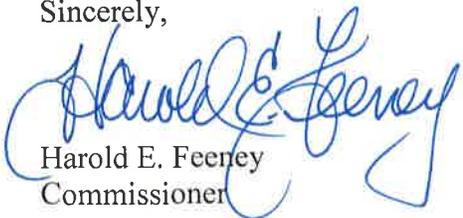
innovation will be accommodated in the new market being created.

The notice highlights many complex related issues. The Department would suggest that it is not practical or necessary for the NCUA to try to solve all those issues in a potential supplemental capital regulation. Many of these issues should be addressed in separate rulemaking processes. The approach for many of these related issues should likely be guided by the experience of other state and federal financial regulatory agencies.

As NCUA begins to develop a proposed rule, the Department would urge the Agency to consult and cooperate with state regulators in the process. The original implementing Prompt Corrective Action rules in Part 702 were successfully developed in a collaborative effort by NCUA and state regulators. Many of the Department's peer agencies have extensive experience with capital markets by way of their role supervising and regulating banks and securities.

Thank you for the opportunity to comment. If you have any questions about this letter, please contact us.

Sincerely,



Harold E. Feeney
Commissioner

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