

From: [Ludwig Munevar](#)
To: [Regulatory Comments](#)
Subject: Ludwig Munevar - Comments on Advance Notice of Proposed Rulemaking for Supplemental Capital
Date: Monday, May 08, 2017 6:33:14 PM

Dear Mr. Poliquin,

Thank you for the opportunity to comment on the National Credit Union Administration's (NCUA) advanced notice of proposed rulemaking regarding the inclusion of supplemental capital in the NCUA's risk-based capital net worth requirements. USC Credit Union, a low-income designated credit union (LICU), is well aware of the inherent benefits that gaining access to secondary capital can provide to a credit union's under-served communities segment. While the proposed rule on alternative capital does not address the overall PCA net worth requirements, the risk-based capital inclusion benefit is an important first step in opening the door to sources of capital outside of retained earnings.

The credit union system's dependence on retained earnings capital accumulation exclusively has resulted in a number of detrimental impacts on our members, potential members and under-served communities:

- **Resulted in credit unions holding excess capital thereby depriving members of the cooperatives benefits**
- **Recoveries from financial crises are deeper and place greater risk on deposit insurance fund**
- **Limits growth of membership and ability to serve under-served communities**
- **Credit Union to bank/thrift conversions deprive members of the unique credit union benefits**

Holding of Excess Capital

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Since rebuilding of capital in the case of a financial downturn is a slow process through retained earnings growth, many credit unions have adapted by making the strategic decision to hold high levels of capital, well in excess of PCA well-capitalized limits. While on the surface this may appear to be a harmless and prudent tactic, the cooperatives owners (the members) are the ones that suffer. Maintaining high levels of excess capital deprives members of the lower loan rates, higher deposit interest rates and low cost or no-cost fee options that are their unique ownership structure and cooperative nature make possible.

Slower Recoveries from Financial Crisis and Great Risk to Deposit Insurance

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When a credit union experiences a financial loss that results in a depletion of its capital base, the lack of alternative capital rebuilding options results in a slow recovery process through retained earnings. Having access to alternative capital can shorten the time to recovery, protect the deposit insurance fund and help avoid institutional failure. Without these alternatives, management does what it can to increase net income via selling assets, cutting services, increasing loan rates and reducing deposit rates; all of which negatively impact the communities they serve.

Limits Growth

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If a credit union is unable grow its retained earnings at the same pace or faster than its assets, then it must curtail its growth. Our bank/thrift competitors and our international credit union brethren have alternative capital opportunities available to them that to pull another lever. Putting the brakes on growth may mean not being able to fill the needs of under-served communities are take advantage of strategic opportunities in our markets.

Bank/Thrift Conversions

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Credit unions provide a meaningful difference in the marketplace and their unique ownership structure allows them to provide a true value-leader alternative in the financial services marketplace. However, if a credit union is unable to grow capital sufficiently through organic retained earnings growth it may be tempted to convert to a bank or thrift charter and thereby take advantage of the many alternatives to raising regulatory capital.

I thank you for providing USC Credit Union with the opportunity to share our perspective on the importance of supplemental capital to the health of the credit union movement and the members we serve.

Sincerely,

Ludwig Munevar

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The advertisement features the USC Credit Union logo in the top left corner. The main headline reads "New Ride. New Adventures." in a bold, dark font. Below this, a sub-headline states, "Let your car become more than just a set of wheels, but a vehicle to a new world of travel." A red button with white text says "GET STARTED >". To the right of the text is a photograph of a family—a man, a woman, and a child—enjoying a drive in a convertible car. At the bottom of the ad, there is a row of social media icons for Facebook, Instagram, Twitter, Google+, RSS, and LinkedIn.