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May 8, 2017

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

FR Document Number: 2017-01713

Comment letter regarding 12 CFR Parts 701, 702, 703, 709, 741, 745: Alternative Capital

On behalf of Bethpage Federal Credit Union (Bethpage) and our 310,000 members, we appreciate this opportunity to offer comment on the National Credit Union Administration Advanced Notice of Proposed Rulemaking (ANPR) with respect to Alternative Capital, issued February 8, 2017. Bethpage was founded in 1941, has $7 billion in assets, and primarily serves consumers on Long Island and the five boroughs of New York City.

NCUA is asking for comments on alternative capital, which you have defined as having two distinct forms: secondary capital, and supplemental capital. Your stated purpose for this ANPR is to gain input about whether the NCUA Board should authorize the use of supplemental capital instruments that would count towards the risk-based net worth requirement set forth in NCUA prompt corrective action standards.

Bethpage is supportive of NCUA efforts to provide this supplemental capital option. We recognize that supplemental capital permissible under regulation is limited in scope and may only partially address capital restraints on the ability of credit unions to serve member needs. Properly structured and utilized, supplemental capital can be an effective tool that augments a credit union's ability to manage its balance sheet. As its name suggests, it supplements the overall strength and durability of the credit union's financial position, and aligns with standards that promote prudent management of credit union operations.

Additionally, supplemental capital would assist in organic growth of credit union services. This could be manifested in a wide-variety of ways, including branch expansion, increases in loan balances, or enhanced ability to manage a deposit base. Bethpage views this kind of supplemental capital option as being very beneficial to credit unions and their member-owners.

In the ANPR, NCUA outlines several areas on which you seek input. These topics include: credit union use of supplemental capital, legal authority and potential implications for taxation, the effect on the credit union mutual ownership structure, and the applicability of certain securities laws, regulations and requirements.

Here are specific comments on these topics:

Credit union use of supplemental capital

Regarding the ways in which supplemental capital can be used by credit unions, Bethpage concurs with the schedule currently in place in NCUA regulations that would reduce the portion of supplemental capital included in risk-based net worth calculation as it approaches maturity. Bethpage believes that both natural person and non-natural persons should be able to contribute supplemental capital to credit unions. In instances of sales to non-accredited investors, Bethpage believes that there should be a limit placed by NCUA in regulation; a ceiling of 10% of the NCUA insured deposit limit or currently $25,000 may be reasonable for safety and soundness as well as for concentration reasons.

Bethpage also understands the need for credit unions wishing to issue supplemental capital to adhere to NCUA qualification standards. This would include credit union registration and the adherence to NCUA defined standards and requirements, such as:

- a specific and detailed plan for use of supplemental capital,
- maintenance of CAMEL ratings, based on recent examinations,
- maintenance of minimum net worth, and
- appropriate directors and officer's liability coverage, although Bethpage views additional certification as redundant.

Once a credit union has issued supplemental capital under new NCUA standards, Bethpage does not believe that additional NCUA approvals for increases in outstanding supplemental capital balances are warranted, provided that such increases were anticipated in the initial credit union plan. NCUA should, however, appropriately monitor an issuing credit union's performance metrics, capital ratios and CAMEL ratings in these circumstances.

Another feature of supplemental capital that is important to its proper functioning is a Call Option. A Call Option would enable a credit union to retire the debt early if the capital is no longer needed. In our view, NCUA permission for this transaction should be necessary, but risk-based net worth standards should be met before the debt can be called. Additionally, the debt should not have a "put option" allowing the investor to return the bond to the credit union prior to maturity.

Issuance of subordinated debt with varying seniority structures should be allowed. Non-accredited investors should be allowed to buy only the most senior tranche. Bethpage also recommends that reciprocally held supplemental capital should be excluded from the risk-based net worth capital calculation.

Credit union tax exemption and mutuality

Questions about taxation, and the mutual structure of credit unions, will be best addressed by the NCUA supplemental capital rule itself. NCUA has the legal authority to structure supplemental capital in such a way that adequately protects consumers through full and complete disclosures, precludes any dilution of credit union mutual ownership, and does not in any way negatively affect the tax exempt status of a credit union. Bethpage strongly encourages NCUA to exercise all appropriate and necessary due diligence in devising a supplemental capital regime that meets the most rigorous scrutiny in this regard.

Investor and Security regulations

Similarly, Bethpage views compliance with any and all investor disclosures and protections as essential to the proper administration of a supplemental capital program. Bethpage encourages a thorough consultation by NCUA with the Securities and Exchange Commission to ensure that appropriate investor standards are in place and scrupulously maintained. NCUA should also consider if any disclosures unique to credit unions are warranted.

As a concluding recommendation, Bethpage recognizes that the Federal Credit Union Act would have to be changed by Congress in order to enable inclusion of supplemental capital in net-worth ratio calculations. Bethpage strongly supports legislation currently before Congress that accomplishes this, and encourages NCUA to work proactively toward this goal. While credit unions can benefit from the regulatory, risk-based supplemental capital currently under consideration, Bethpage believes that, in terms of both expanded member service and enhanced prudential management of a credit union balance sheet, an even greater positive effect would be achieved through statutory supplemental capital that adds to credit union net worth.

Thank you for this opportunity to provide comments on this important issue.

Sincerely,

Wayne N. Grossé
President & CEO