



May 9, 2017

Mr. Gerald Poliquin
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Regarding: Advanced Notice of Proposed Rulemaking for Supplemental Capital; Docket ID:
NCUA-2017-0007; FR # 2017-01713

Dear Mr. Poliquin:

The Community Bankers Association of Illinois (“CBAI”), which proudly represents approximately 340 Illinois community banks, appreciates the opportunity to provide our observations and recommendations regarding the National Credit Union Administration’s (“NCUA”) Advanced Notice of Proposed Rulemaking (“ANPR”) for Supplemental [alternative] Capital (“Proposal” or “Proposed Rules”). CBAI acknowledges the NCUA Board’s statements that it is considering changes to the secondary capital regulation for low-income designated credit unions; there are no other forms of alternative capital currently authorized; and that the Board is also considering whether or not to authorize credit unions to issue supplemental capital instruments that would only count towards the risk-based net worth requirements.

CBAI is dedicated to exclusively representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high quality products. CBAI’s 340 members hold more than \$70 billion in assets, operate 860 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit www.cbai.com.

As a result of the “lack of statutory prescription” for capital requirements, the NCUA believes that it has the “broad discretion” to promulgate alternative capital rules and that “it is possible for Board to authorize ...alternative capital instruments”. CBAI challenges the reasoning that because of a lack of specific statutory authority the NCUA is permitted to promulgate capital rules and authorize alternative capital instruments. Congress should determine whether the actions contained in this Proposal are permissible, yet no Congressional authority has been given. Absent such specific authority, the proposed rulemaking represents an abuse of the NCUA’s authority, is a blatant expansion of powers, and is a costly and unfair increase in the credit union industry tax subsidy.

The NCUA should focus on the founding mission of credit unions: enabling people of modest means and with a common bond to pool their resources to meet their basic deposit, savings and borrowing needs through a mutual ownership structure. One of the reasons federal credit unions are exempt from taxation is precisely because of their mutual ownership structure and their inability to access the capital markets. This Proposal, if implemented, would result in credit unions having an ownership structure similar to most taxpaying banks with a category of investors whose interests are inconsistent with those of its mutual owners. No longer will there be any legal justification for credit unions to remain tax-exempt.

It is instructive to highlight that credit unions were originally tax-exempt because of their similarity to other types of mutually owned financial institutions, notably savings banks and savings and loans. Yet the exemption for SBs and S&Ls was repealed by Congress in 1951 because they were in “active competition” with taxable institutions [community banks].

Never before in history have credit unions been in more *active competition* with, and are now practically indistinguishable from, community banks. The Proposed Rules if implemented will further eliminate important distinctions between credit unions and community banks.

The credit union federal tax-exempt status, in exchange for serving their original mission, is clearly no longer justified and constitutes blatant discrimination against taxpaying community banks. The credit union industry’s tax subsidy should be eliminated and credit unions should pay their fair share of income taxes.

Credit unions were never meant to be tax-exempt community banks!

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CBAI strongly urges the NCUA not to proceed any further with this rulemaking.

If you have any questions or need additional information, please do not hesitate to contact me at (847) 909-8341 or davids@cbai.com .

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations