



(714) 755-5900  
P.O. Box 11777  
Santa Ana, CA 92711-1777  
[www.orangecountyscu.org](http://www.orangecountyscu.org)

May 9, 2017

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

**Re: Advance Notice of Proposed Rulemaking**

Dear Mr. Poliquin:

Orange County's Credit Union submits these comments in response to the February 8, 2017 advance notice of proposed rulemaking regarding supplemental capital risk-based capital purposes.

We appreciate the opportunity to submit these comments on the value of supplemental capital to credit unions, our members, and the credit union system as a whole. Orange County's Credit Union serves approximately 100,000 members and has total assets of approximately \$1.5 billion.

Overall we support providing flexible rules allowing access to alternative capital for credit unions. Access to supplemental capital is an important tool for healthy, well-managed credit unions to meet the demands of their members and their communities for affordable financial services and will become increasingly important when the new risk-based capital rules are implemented because the increased capital demands will impose additional pressure on credit unions' growth and member service strategies.

Experience has shown that when faced with pressure on capital levels, credit unions have limited options and many of those run counter to a member-first philosophy - for example, curtailing new member outreach initiatives, discouraging deposits, or increasing fees. Unforeseen circumstances that may potentially be beyond our control could strain our capital position to a point where having the ability to raise supplemental capital would be a valuable option.

Providing credit unions access to supplemental capital for risk-based capital purposes would also help enhance the safety and soundness of the credit union system. Increasing the level of capital in the credit union system is a good thing. Supplemental capital can help provide additional protection to the National Credit Union Share Insurance Fund from potential losses.

The advance notice appropriately recognizes that the supplemental capital rules will need to be guided by safeguards that reflect the unique nature of credit unions as not-for-profit financial

cooperatives and that reflect credit unions' fundamental commitment to member service and consumer protection. It is sensible for the NCUA Board to model the rules for investor protection and disclosure on the rules developed by other federal financial regulatory agencies and on the NCUA's own experience in developing the secondary capital rules that apply to low-income designated credit unions.

A successful rule must be flexible enough to accommodate innovation in the new market it will create for supplemental capital. It would be a mistake for the NCUA to prescribe specific instruments in the rule. Rather, the rule should establish first principles and broad parameters, while ensuring that the NCUA Board has advance approval authority over credit union plans to offer specific instruments to ensure that those instruments are consistent with those broad parameters.

The advance notice highlights many complex, related issues. It is not practical or necessary for the NCUA Board to try to solve all of those issues in the supplemental capital rule. Many of these issues should be addressed in separate rulemaking processes, for example changes to the NCUA's borrowing rules. The approach for many of these related issues will be likely be informed by the early experiences of the NCUA and credit unions with supplemental capital.

For all of these reasons, we appreciate the efforts of the NCUA Board and staff to move forward with the development and implementation of supplemental capital rules for risk-based capital requirements.

We look forward to continuing to work with the NCUA on these and other important issues.

Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in cursive script that reads "Greg Krause".

Greg Krause  
Senior Vice President, CFO