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Public Comments on Alternative Capital:========

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

RIN:
Docket ID: NCUA-2017-0007
FR #: 2017-01713

Subject: Comments on Advance Notice of Proposed Rulemaking for Supplemental Capital

Dear Mr. Poliquin:

I write on behalf of the membership of the Montana Independent Bankers Association. MIB represents some 30 community banks located in the great State of Montana.

I appreciate opportunity to provide comments on the National Credit Union Administration (NCUA) proposal for alternative capital for credit unions.

Giving credit unions the flexibility to add leverage to their balance sheets adds tremendous risk to financial institutions that are chartered to serve stakeholders of limited means in limited geographical areas and fundamentally changes their mutual ownership structure. One of the reasons federal credit unions are exempt from taxation is 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.

Not only are credit unions not positioned to issue alternative capital instruments through their mission, they have a proven inability to properly manage alternative capital in the form of secondary capital as it exists today. The secondary capital that is outstanding today is concentrated in four low income-designated credit unions. By the NCUA's own admission, the failure rate of low income credit unions with secondary capital is 3.5 times the rate of failure of low income credit unions that do not have secondary capital issued. This is a strong indicator that the issuance of alternative capital by credit unions will eventually lead to an entire category of financial institutions collapsing under the weight of improper leverage resulting in widespread failures and taxpayer bailouts. Furthermore, allowing credit unions to issue supplemental capital raises federal and state securities law issues that will put credit unions at risk for being sued for anti-fraud claims and other securities law violations.

The NCUA should focus on the intended mission of credit unions which is to serve people of modest means through a mutual ownership structure. It is not the mission of credit unions to issue subordinated debt instruments to wealthy investors. If the NCUA allows credit unions to raise alternative capital, then Congress should reexamine the tax exempt status of federal and state credit unions.

In sum, credit unions should be required to stick with their original mission. This mission creep is both unfair to community banks in Montana and unawise policy.

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