



May 9, 2017

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

Delivered via email to
regcomments@ncua.gov

RE: Advanced notice of proposed rulemaking concerning alternative capital.

Dear Mr. Polquin,

The Credit Union Association of the Dakotas (CUAD) appreciates the opportunity to provide feedback to the National Credit Union Administration (NCUA) regarding the advanced notice of proposed rulemaking (ANPR) concerning alternative capital. To provide a brief background, the Credit Union Association of the Dakotas represents 66 state and federally chartered credit unions in the states of North Dakota and South Dakota, whose assets total over \$6 billion and who have more than 450,000 members.

CUAD supports the NCUA's endeavor to explore options to allow federally insured credit unions expanded opportunities to use alternative forms of capital to meet statute and regulatory requirements. As noted by the NCUA, the ANPR explores two categories of alternative capital – secondary and supplemental capital. "Secondary capital is currently permissible under the Federal Credit Union Act (Act) only for low-income designated credit unions to issue and to be counted toward both the net worth ratio and the risk-based net worth requirement of NCUA's prompt corrective action standards." 82 FR 9691 NCUA notes that it is considering the possibility of authorizing credit unions to issue supplemental capital instruments that would only count towards the risk-based net worth requirement.

While not every credit union may need or want to issue alternative forms of capital, CUAD believes that the option to do so must be explored. Despite what other commenters might argue, giving credit unions the flexibility to add leverage to their balance sheets through alternative forms of capital will not add "tremendous risks" nor harm credit union members. In fact, providing credit unions tools to manage unforeseen circumstances will help to safeguard the future of the credit union system and protect the members the credit unions serve.

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CUAD also disagrees with other commenters who believe that providing credit unions the opportunity to issue alternative forms of capital “fundamentally changes their mutual ownership structure.” This is simply not true. The Federal Credit Union Act, controls when and how secondary capital may be issued. NCUA is operating within the limits of the Federal Credit Union Act and exercises its discretion in accord with what was granted to it by Congress. Any changes to the issuing of alternative forms of capital approved by the NCUA will not “fundamentally” or even slightly change the ownership structure of credit unions. Credit unions that issue secondary capital are and will remain not-for-profit cooperatives owned by their members – the questioning of the tax status of credit unions by certain commenters is a tired argument that does not even make sense in this context.

CUAD does agree with other commenters on the point that NCUA “should focus on the intended mission of credit unions which is to serve people of modest means.” CUAD believes the NCUA is striving to meet this goal and supports the NCUA in its pursuit to make the credit union industry one that can survive unforeseen changes in the financial industry so that credit unions can continue to provide their members with access to affordable services and products. During the financial crisis, credit unions continued to provide loans to more low- and moderate-income households than other institutions on a percentage basis, and also delivered higher quality financial services to these households. Credit unions were also able to (and continue to) provide support to small businesses. NCUA’s steps to explore alternative forms of capital is not changing the structure of credit unions nor changing the mission of credit unions – it is protecting the credit union industry so credit unions might be able to continue their mission of serving peoples of modest means far into the future and providing tools so credit unions might weather any market storms that may be on the horizon. CUAD is unsure why other commenters would strive to put people of modest means at a disadvantage by jeopardizing their access to affordable financial products and services.

CUAD agrees with the NCUA that the potential use for supplement capital is difficult to predict, as there are a number of factors that will influence a credit union’s decision to offer supplemental capital. As NCUA notes in its ANPR, supplemental capital would be only used to increase a credit union’s risk-based capital ratio. CUAD fully supports the use of supplemental capital by credit unions in relation to meeting regulatory requirements for risk-based capital. CUAD encourages the NCUA to adopt clear rules that establish criteria applicable to all forms of supplemental capital. Their rules need to find a balance between ensuring safety and soundness while providing flexibility to credit unions to respond to market changes. Any supplemental capital rule adopted by the NCUA should be scalable – the compliance burden needs to be proportionate to the size and complexity of the credit union and its issuance of supplemental capital.

CUAD fully supports the NCUA in its rulemaking to provide flexibility to credit unions by allowing the issuance of alternative forms of capital.



Thank you for this opportunity to share our comments.

Respectfully,

A handwritten signature in black ink that reads 'Jeffrey Olson'.

Jeffrey Olson
CEO/President

A handwritten signature in black ink that reads 'Amy Kleinschmit'.

Amy Kleinschmit
VP of Compliance