



May 9, 2017

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

Via Email
regcomments@ncua.gov

Re: Numerica Credit Union – Comments on Advance Notice of Proposed Rulemaking
for Supplemental Capital

Dear Mr. Poliquin,

Numerica Credit Union (“Numerica”) appreciates the opportunity to provide comments on the above-referenced proposed rulemaking. As background, Numerica is a \$1.9 billion Washington state chartered credit union headquartered in Spokane Valley, Washington. Numerica serves over 120,000 members in the States of Washington and Idaho.

We realize that this is a complex matter and effects both current secondary capital and the proposed supplemental capital and we acknowledge that secondary capital instruments are, and supplemental capital instruments would be, securities as defined under both federal and state laws.

There were many topics for which comment was requested but we have chosen to limit our comments to the following general topics.

Supplemental Capital - Tax Exemption

Low Income Credit Unions (LICUs) currently are able to issue instruments that are included in both net worth and risk based capital ratios. This is permitted by federal law. We are in favor of non-LICUs to also be able to raise funds for inclusion in their risk-based capital ratio but not at the cost of losing the tax exempt status for credit unions as a whole.

In addition, the NCUA has noted that the likely issuers of supplemental capital instruments would be credit unions who have highly leveraged their members’ capital into risky assets. All credit unions have exposure to the risks of those credit unions through the NCUSIF. Losing the tax exempt status would result in an additional cost resulting from this risk.

Supplemental Capital - Equity versus Debt.

The supplemental capital rule, if adopted, should ensure that the instruments have no equity features. The instruments should take the form of subordinated debt. This is in keeping with the credit unions’ cooperative structure and in keeping with credit unions’ tax exempt status.

Need for Flexibility

Currently demand is low for secondary capital for LICUs. If supplemental capital was permitted, demand would likely increase. This likely would raise the cost of capital for LICUs whose business model may be reliant on secondary capital to meet the constrained resources of its members. The size of LICUs utilizing secondary capital must be compared to the size of credit unions who may be interested in issuing supplemental capital. A relatively small pool of

secondary capital issued by LICUs might be dwarfed in the market by large issuances of secondary capital.

As a result, when considering market options for raising secondary and supplemental capital the greatest latitude should be given to provide flexibility in structuring instruments, as well as to allow for investment by all types of accredited investors, including individual accredited investors. Increase of the investment pool is necessary to allow LICUs to be able to access the secondary capital market at a reasonable cost.

Securities Requirements

Securities issued by a credit union are exempt from state blue sky laws, as well as federal securities laws. The FDIC and OCC have applied the federal securities laws to banks. We suggest that the same approach not be adopted by the NCUA. Banks, like corporations and other issuers, are allowed to issue both equity and debt securities. Credit unions may not, and should not, issue equity instruments. As a result, many of the protections that were built into the securities laws for equity investors are not applicable or necessary. In addition, the forms and requirements imposed by the federal securities laws simply would not be applicable and would be confusing for credit unions. For example, Form D, which is required to be filed for private placement issuances, includes reporting for types of companies, transactions and securities that are not, and would not, be available to credit unions.

Securities law requirements would be best served to be tailored to credit unions. Disclosure requirements should be scaled and based on the type of offering and to maintain the ability of LICUs to obtain secondary capital. Consideration must be given to the costs of compliance as compared to the amount of capital raised.

In conclusion, we thank you for this opportunity and your careful consideration of this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lynn Ciani".

Lynn Ciani
EVP - General Counsel
Numerica Credit Union