State Employees' Credit Union

Administrative Offices

May 9, 2017

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

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

Dear Sir:

Thank you for the opportunity to provide comments on alternative forms of capital federally insured credit unions could use to meet and manage capital standards required by statute, regulation and business prudence.

State Employees' Credit Union of Raleigh North Carolina serves 2.2 million members through 257 branches, nearly 1,100 ATMs and 24/7 Member services via phone and an interactive website, www.ncsecu.org. We strongly support the use of alternative capital which affords many benefits as an additional capital and risk management tool.

Alternative capital will reduce risk within the credit union system by bringing "market discipline" through outside oversight of the performance of a credit union which provides alternative capital to an investor. Additionally, new sources of capital levels will provide opportunities to fund expansion of products, services, staffing, technologies and facilities to better serve members.

It is critically important that the potential for alternative capital include both the basic leverage capital ratio as well as the risk-based capital ratio. To that end the definition of net worth needs to be reconsidered to include retained earnings, secondary capital of any type and all section 208 assistance. To offer to patch one hole in a tire with two holes does not fix the problem. The risk-based capital calculation more accurately captures the capital strength of a credit union, yet the proposal only addresses the opportunity to supplement this capital convention.

Regarding NCUA Board questions related to supplemental capital:

1. Additional supplemental forms of capital should be included in the RBC numerator as they are forms of capital providing protections prior to the use of the Share Insurance Fund.
2. General terms of such capital would include: liquidation rights (standing behind all creditors and the Share Insurance Fund); voting rights (none); redemption rights limitations (minimum of 5 years); no conversion rights; no preemptive rights to purchase

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additional shares; shares would be sold only to institutional investors (not to individual members); written term sheets (formal signed contracts) would be necessary.

3. Any form of existing capital/debt issuance recognized by FASB would be acceptable with certain limitations/restrictions.
4. Not aware of any additional NCUA regulation which would need to be changed in the event of adoption of an alternative capital rule.
5. All forms of existing supplemental forms of capital currently allowed for state-chartered credit unions should be included in the NCUA RBC ratio numerator as they have been successfully in use for the purposes intended. Why would you want to restrict some? If there are specific forms which have real world issues they might be considered in isolation.
6. NCUA may well wish to follow existing banking rules regarding capital issuance depending on the form of the capital/debt vehicle.

We heartily endorse the use of alternative capital to supplement other forms of institutional capital. Credit unions should be allowed to utilize supplemental capital to ensure a safe and sound institution through a broader slate of capital tools. The time to put such tools in place is now rather than in the midst of a dramatic economic event. The additional tools will help provide a more safe and sound credit union community now and into the future.

Thank you.

Sincerely,

Michael J Lord
by JI

Michael J. Lord
President