May 8, 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,

Campus Federal Credit Union appreciates the opportunity to comment on the National Credit Union Administration's ("NCUA") proposed rule on alternative capital.

Credit unions, the Share Insurance Fund, and the public all have the opportunity to benefit from expanded credit union access to capital markets. The Share Insurance Fund could benefit from the safety of additional capital on credit union balance sheets, the public could benefit from additional services offered to credit union members as a result of alternative capital fundings, and credit unions could benefit from both the increased safety and the additional membership services. The key for any new rule on alternative capital is to make alternative capital an attractive option for healthy, growing credit unions.

Today the growth of financially healthy credit unions is constrained by organic retained earnings growth, mergers, and secondary capital. Retained earnings growth is a slow way to grow capital for any financial institution and this is especially so for credit unions which exist to serve its membership, not to maximize profit. Mergers are a largely unpredictable way to increase capital, and mergers are becoming less as the total number of credit unions continues to decline (there were 23,866 credit unions in 1969 according to the Federal Reserve Bank of San Francisco and just 6,021 at the end of 2015 according to the NCUA's website). Secondary capital is only available for low-income designated credit unions, and only 3 percent of the 2,426 low-income designated credit unions are using secondary capital as of 6/30/2016. Clearly there is a need to make the use of alternative capital more available and attractive to credit unions.

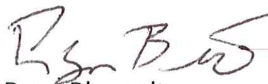
It is not surprising that only 3 percent of low-income designated credit unions are using secondary capital as of 6/30/2016. Under current NCUA rules and regulations, secondary capital is not attractive to credit unions or investors. From the perspective of a credit union, the discounted net worth value under current rules and regulations undermines the utility of secondary capital. For example, if a credit were to issue a million dollars of secondary capital every year and each million dollar issuance had a five year maturity, the credit union would perpetually have five million in secondary capital after the first five years. However, under the current rules, the credit union would only be able to count two million to three million of this capital as net worth because of the net worth discounting requirements. In this example, a credit union is paying for five million of secondary capital and only receiving two to three

million of benefit. To put off discounting the net worth benefit, a credit union could look to issue secondary capital with a longer-term maturity. However, this is unattractive for investors. Adding a ten to fifteen year maturity to an already illiquid, unsecured, uninsured, subordinate investment is more risk than most investors are willing to take. Economic investors who are willing to take this risk will require a significant dividend or interest rate. This, of course, is economically unfeasible for most credit unions.

To make alternative capital a viable option for credit unions, it needs to be considered a part of a credit union's permanent capital structure. The current rules discount the net worth benefit of secondary capital as it moves toward maturity, and secondary capital is thus treated as temporary anomaly on a credit unions balance sheet that must quickly be discounted. If the rules were updated to take into account a credit unions ongoing ability to raise alternative capital, there would be no need for the strict discounting under the current rules. For example, if the rules allowed for counting 100% of all alternative capital as net worth when the weighted average maturity of all alterative capital issuances is greater than two years, a credit union could issue a million dollars of alternative capital with a five year maturity each year and after five years all five million of alternative capital could still be counted as net worth. This would eliminate the need for issuing longer maturity secondary capital. This in turn would have the additional benefit of driving down the risk to investors and the cost of the issuing credit unions.

Campus Federal Credit Union believes that expanded credit union access to capital markets is beneficial to credit unions, the Share Insurance Fund, and the public. The structure of the current rules has discouraged the usage of secondary capital by eligible low-income designated credit unions. Campus Federal Credit Union respectfully asks the NCUA to move forward with revising current rules to make alternative capital a viable option for credit unions.

Sincerely,



Ryan Blauvelt
Chief Financial Officer
Campus Federal Credit Union