

Via: regcomments@ncua.gov

May 9, 2017

Gerard Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Denali Federal Credit Union—Comments on Advance Notice of Proposed Rulemaking for Supplemental Capital

Dear Secretary Poliquin:

I write to you on behalf of Denali Federal Credit Union (Denali), headquartered in Anchorage, Alaska, serving over 72,000 members with branches in Alaska and Washington, and holding assets of over \$680 million. Thank you for this opportunity to comment on the National Credit Union Administration's (NCUA) advanced notice of proposed rulemaking regarding alternative forms of capital.¹ A regulatory proposal on alternative capital has been literally years in the making, and is now taking place thanks to the leadership of Acting Chairman Mark McWatters and Board Member Rick Metsger—we applaud NCUA for taking the initiative to expand our access to capital and provide regulatory relief for credit unions.

Though Denali is sufficiently capitalized and would not need to pursue alternative capital at this time, we strongly support having the option to do so to safeguard the future safety and soundness of credit unions and the financial system. In its proposal, NCUA uses the term “alternative capital” to include both secondary and supplemental capital. Secondary capital is currently authorized under federal law for only low income designated credit unions (LICU). Supplemental capital is not currently allowed for any credit union, but if authorized could be used to count towards risk-based capital (RBC) requirements.

We support expanding authorization for issuing secondary capital to all credit unions, authorizing supplemental capital for all credit unions, and including alternative capital in the calculation of the agency's RBC requirements.

Alternative capital will enable credit unions to provide the safety of their preferred financial institution and the convenience of financial services our members need and expect. Access to alternative capital will allow credit unions to competitively grow to a size that is necessary to cover the ever-increasing operational costs required to meet complex regulations. If credit unions are limited in their ability to grow to only retained earnings, then there will be even more consolidation in the financial services industry and a larger market share lost to banks.

¹ Amending 12 C.F.R. Parts 701-03, 709, 741, and 745; <https://www.gpo.gov/fdsys/pkg/FR-2017-02-08/pdf/2017-01713.pdf> (Feb. 8, 2017).

Access to alternative capital will enhance our ability to respond to market demands and economic fluctuations with flexibility. As the financial crisis has shown, unforeseen economic circumstances can strain capital positions to the point where the ability to quickly raise capital would be a valuable option. Currently, our only option is to raise capital by increasing our retained earnings—which takes time and would not be sufficient in a severely stressed situation.

Further, the ability to issue supplemental capital would also provide an additional source of protection for the National Credit Union Share Insurance Fund. Including supplemental capital in NCUA's RBC requirements will help protect the Fund from potential losses, but allowing supplemental capital to count toward meeting risk based net worth requirements only partially meets the capital needs of credit unions—which must also meet statutory net worth regulations. NCUA's proposal is a good first step that will allow the agency and credit unions to gain experience with issuing supplemental capital.

With this experience, credit unions and the NCUA would have a stronger argument to convince Congress to update the Federal Credit Union Act to also allow supplemental capital to be counted toward meeting statutory net worth requirements as well. Finally, any alternative capital rules should include investor protections, standard disclosure obligations, and acknowledgement provisions—modification of comparable rules from the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Securities and Exchange Commission, as well as our own regulations developed for LICUs, should suffice.

We anticipate NCUA will receive objections from the American Bankers Association, which has already expressed op-ed dismay at NCUA's proposal and has urged their constituents to send in comments. For-profit financial institutions will undoubtedly view NCUA's regulatory relief here as a threat and increased competition, which is patently false and misleading. Credit unions will continue their mission to serve people and communities of modest means through their mutual ownership structure, but in an even more safe and sound manner than before. We have reviewed the inflammatory form comment letter NCUA has received from individuals, and have the following responses:

- **Misunderstanding of Primary Versus Secondary Capital:** Credit unions would apply the same sound management practices and prudent utilization of capital, whether the capital is primary or secondary. The assertion that a credit union could efficiently manage its primary capital but would somehow become reckless if that capital were secondary capital is baseless. The performance of only a few, small LICUs that have used secondary capital to bolster their capital levels that the form comment letter cites is not representative of how secondary capital would positively affect the overall credit union industry, and is used only for fearmongering.
- **Mischaracterization of Leverage:** Every financial institution that makes a loan is engaged in leveraging a managed amount of risk; both banks and credit unions already have the ability to leverage their balance sheet. The ability to access

alternative capital to respond to changing economic and market conditions is not adding additional leverage and risk to a credit union's balance sheet.

- **Misleading Ownership and Tax Status:** The not-for-profit, cooperative ownership structure of a credit union would in no way be affected by alternative capital. Because there would be no equity shareholders, there should be no question of preserving the credit union tax status.

For the reasons set forth above, Denali respectfully requests that NCUA move forward with the development and implementation of its alternative capital proposal. Since the financial crisis, credit unions have served an even more vital source of capital and market liquidity in local communities. Credit unions are not-for-profit cooperatives, locally owned and managed by the members of their communities, which did not engage in the risky lending practices that contributed to the crisis—and which have not cost the taxpayers any bailout funds.

We look forward to continuing to work with the NCUA on this, and many other important regulatory relief issues. Thank you for your consideration of our comments.

Sincerely,

//s//

Robert "Bob" M. Teachworth
President & CEO
Denali Federal Credit Union

440 East 36th Avenue
Anchorage, AK 99503