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COASTAL
federal credit union

May 9, 2017

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

Subject: Alternative Capital – Advanced Notice of Proposed Rulemaking
Document Number: 2017-01713

Dear Mr. Poliquin:

We appreciate the opportunity to respond to the NCUA Board regarding alternative forms of capital as this issue is critical issue to the future growth and sustainability of credit unions. Coastal Federal Credit Union located in Raleigh, North Carolina is $2.8 billion in assets serving 21 physical branches and more than 200,000 members.

The proposed rule presents two main questions:

1. Should there be any changes to secondary capital regulations, currently permissible for low-income designated credit unions, to grant more flexibility?
2. Should credit unions be authorized to issue supplemental capital?

Credit union interests in alternative capital stem from NCUA requirements for maintaining the minimum required net worth ratio (prompt corrective action rules), and for complex credit unions also satisfying risk-based net worth ratio requirements. New rules for the risk-based net worth criteria effective in 2019 have prompted even more interest in additional flexibility to meet these requirements. While we understand the necessity of these rules in protecting our members, limiting credit union capital to retained earnings puts our industry at a competitive disadvantage compared to all other types of financial institutions in our market place. We need greater flexibility in leveraging our balance sheet in times of growth, including merger opportunities, to meet capital requirements. Our industry's ability to compete and thrive will depend on it. Therefore, we offer our support for alternative capital with the caveat that it must be considered in both the net worth and risk-based net worth capital ratios to be effective. And that, in our opinion, there would be no need to differentiate between secondary capital for low income credit unions and supplemental capital for any credit union if NCUA proceeds with approving clear and concise rules for alternative capital for the industry as a whole.

We appreciate and concur with concerns that any type of alternative capital rulemaking could impact the credit union tax exemption and subject us to even more compliance regulations. For this reason, we feel that access to alternative capital be aligned with the not-for-profit model. Capital offerings should not imply ownership. And, perhaps limited to within each credit unions' membership charter. Opening up capital to outside investors with ownership rights at a marketable value will most certainly jeopardize our tax exempt status and potentially subject credit unions to Securities Exchange Commission regulations. We need to continue to work within the cooperative model. For example, Coastal along with many other credit unions pays a patronage dividend at the end of the year. In 2016, Coastal paid out over $2.3 million in a patronage dividend to members. Could this type of member give-back be reinvested into the credit union in the form of capital? Members would own their respective capital account which could be offered at a higher dividend rate than other savings products. It would be at greater risk as it would be uninsured and subordinate to all other claims against the credit union, but an option to those members willing to accept the additional risk for a higher potential payout. This example keeps the alternative capital within the walls of the credit union charter, would further strengthen our relationships with members, and gives our members a new opportunity to build financial wealth; consistent with our intended cooperative spirit. We urge NCUA to consider ideas such as this in the formation of an alternative capital rule. Credit unions need access to alternative capital for the same reasons as banks. But alternative capital needs to be structured in a credit union model, not the banking model.

Mergers provide a tangible illustration of the potential need for alternative capital. It is possible that a well-capitalized credit union may be willing to merge with an undercapitalized institution. However, if the resulting transaction causes the acquiring entity to become inadequately capitalized, the transaction could be jeopardized even though a merger may be the best result for all involved (including the insurance fund). By allowing access to alternative capital in this scenario, the acquiring entity could complete the transaction with confidence in its well capitalized status, membership of the acquired entity partners with a stronger organization, and the NCUA avoids any resolution risk and claims to the insurance fund. Moreover, if structured as suggested above, ownership of the alternative capital would be restricted to the credit unions' membership charter, thus, creating the opportunity for said membership to offer support for the transaction in the form of subscribing to the alternative capital offer.

In other merger cases where the acquired entity has already issued alternative capital, we recommend allowing the acquiring entity to recognize these funds as capital on their balance sheet instead of being forced to redeem. As in the scenario described above, this "acquired" capital could be material in the acquirer's willingness to proceed with the transaction.

Secondary capital regulations for low income credit unions are too vague and complex for most credit unions to effectively utilize. NCUA has an opportunity to clarify these regulations, keep alternative capital within a credit union model, and make accessible to the entire industry supporting growth and consolidation where needed. Again, we appreciate NCUA's interest and concern in this matter. Thank you for the opportunity to provide comments.

Sincerely,

COASTAL FEDERAL CREDIT UNION

Tami Langton

Tami Langton, SVP/CFO

Marty Pell

Marty Pell, SVP/CLO

Arlene Babwah, VP Risk Management