From:	Timothy Smith
To:	_Regulatory Comments
Cc:	Timothy Smith
Subject:	Tim Smith - Comments on Advance Notice of Proposed Rulemaking for Supplemental Capital
Date:	Tuesday, May 09, 2017 4:06:49 PM

We appreciate the opportunity to provide comments to the Board on the proposed rulemaking for supplemental capital. We certainly agree with the Board that it should explore expanded options for credit unions to build capital beyond retained earnings. The current capital structure of our industry limits growth opportunities for many of the most progressive, efficient and well-regarded credit unions in the country. These same credit unions are also some of the most highly appreciated by their members. By limiting capital to retained earnings, the credit union industry cannot fully leverage the expertise of these successful credit unions which limits the ability of the industry to serve the public as well as it could. In your advance notice on proposed rulemaking (APNR) for supplemental capital, you have requested comments on several issues, which are important to our institution. The following are our current comments on those issues.

Structure, Use and Volume of Supplemental Capital

We believe supplemental capital should be limited to a non-callable subordinated debt instrument with a maturity of at least 10 years and subordinated to all shares, other borrowings and the share insurance fund. This supplemental capital offer would be limited to other federally insured credit unions only. Members or investors from outside the credit union industry should provide no supplemental capital. By limiting the source of capital to our industry, we preserve the cooperative nature and mutuality of our business and one of our primary arguments for our tax exemption. Authority for this form of supplemental capital should be available for any federally insured credit union that meets capital requirements and a minimum level of profitability. In addition, the Board should amend the Act to include this capital in the definition of Net Worth and in the numerator of the RBC ratio.

The Board should limit the use of the proceeds from issuance of this subordinated debt to facilitate mergers and acquisition or to fund organic growth. In successful credit unions, asset growth often exceeds growth in capital putting pressure on capital ratios. This alternative form of capital would allow credit unions to maintain their capital at the level that is comfortable even as the pace of growth accelerates. The Board should also limit the total supplemental capital. For our organization, a maximum of 20% of total net worth would certainly provide comfortable levels of total capital. With recent strong growth in assets across the industry we believe there would be good number of institutions interested in issuing supplemental capital and a strong demand for the higher returns the securities could offer interested investors.

To facilitate a robust market for credit unions investors in this supplemental capital, the Board should encourage the development of a wholesaler of these securities in order to keep the cost low. This might be a new CUSO or a corporate credit union. With capital ratios dropping the last couple of quarters for the industry, to maintain the current capital levels at current growth rates, would create a market for this supplemental capital of well over $1 billion annually.

Other Issues

The Board’s concerns include the impact of allowing supplemental for all credit union on the availability of secondary capital for low-income designated credit union. It is our opinion that the creation of a robust market for all credit unions as described above will actually increase the availability and pricing for low income designated credit unions.

The ANPR raised the question a more comprehensive borrowing rule as part of any authorization of supplemental capital.
Since the Board’s interpretation of the Act allows for non-natural persons; and we propose that only other credit unions are allowed to invest in the supplemental capital, we do not believe a more comprehensive rule is necessary.

The issue of applicable securities laws also concerns the Board. Since we propose, only other federally insured credit unions as investors, the complications and disclosures would be much less onerous and lend itself to a uniform and comprehensive policy addressing compliance, investment contracts, communications and information sharing.

Summary

The primary point of this comment letter is to restrict the source of capital to the credit union industry only. It is in the interest of Board, the share insurance fund and the general membership of credit unions to provide an alternative form of capital to support growth and stability of our industry. This approach maintains the mutuality and cooperative nature of our industry and the primary defense for our tax-exempt status. It also provides a better return for the credit union investors that would be the source of the supplemental capital without adding significantly to the risk of investment portfolios. While we have not addressed every issue raised in the ANPR, addressed those that are most significant to our institution and would be willing to discuss other issues with the Board upon request. My contact information is below for any follow-up questions.

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