July 3, 2017

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

Re: Corporate Consolidations and Capital and Retained Earnings Ratio – Part 704

Dear Mr. Poliquin:

This letter is submitted by Vizo Financial Corporate Credit Union (Vizo Financial) in response to the notice of proposed rule changes issued by the National Credit Union Administration (NCUA) on June 23, 2017 related to Part 704, the regulation governing corporate credit unions. Vizo Financial Corporate Credit Union appreciates the opportunity to submit comments in support of the proposed rule changes affecting corporate credit unions.

1) **Proposed changes to the definition of retained earnings:**
   We *fully support changing the definition of retained earnings to include the "GAAP equity acquired in a merger"* and understand that by making this definition change it is no longer necessary to list "the retained earnings of any acquired credit union (i.e. equity acquired in a merger)" as part of the definition of tier 1 capital. Retained earnings is already part of the tier 1 capital definition.

   Vizo Financial has been negatively impacted by the current definition of retained earnings which does not recognize the retained earnings that was brought over from First Carolina Corporate Credit Union (First Carolina Corporate) when First Carolina Corporate and Mid-Atlantic Corporate Federal Credit Union (Mid-Atlantic Corporate) merged to form Vizo Financial. This has cost us 55 basis points in our leverage/tier 1 capital ratio calculation since we have been forced to deduct a greater amount of perpetual contributed capital (PCC) from tier 1 capital than if the First Carolina Corporate retained earnings were recognized as part of our retained earnings post-merger. The proposed changes to the definition of retained earnings corrects this issue.

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2) **Proposed addition of definition for retained earnings ratio:**

The proposed addition of a definition for retained earnings ratio and subsequent introduction of a retained earnings ratio threshold for a corporate being able to count 100% of PCC achieves two key goals:

1) It incents corporates for building retained earnings and,
2) It allows corporates to recognize the full tier 1 capital value of its members' permanent capital investment with the corporate.

In addition to the new definition of retained earnings ratio, the NCUA is proposing elimination of the October 2020 threshold whereby a corporate could only count as tier 1 capital an amount of PCC equal to its retained earnings. This would have had a significant negative impact on all corporates in 2020 despite continuous retained earnings accumulation and ignored the fundamental permanency of PCC. In exchange for eliminating the October 2020 de-valuing of PCC, NCUA is proposing that corporates continue to deduct PCC from its tier 1 capital under the current formula that was introduced in October 2016 until a corporate reaches a retained earnings ratio of 250 basis points (2.5%). Once a corporate's retained earnings ratio exceeds 2.5%, no deduction of PCC would be required from a corporate's tier 1 capital calculation. If a corporate would subsequently drop back below the 2.5% retained earnings ratio, it would once again have to deduct PCC from its tier 1 capital calculation using the existing October 2016 formula. All of these proposed changes essentially allow a corporate to be rewarded for building retained earnings and even with PCC deductions, corporates would not face a future threshold that would greatly increase the PCC deduction a corporate would have to make. These proposed changes essentially mean that as long as a corporate is building positive retained earnings it should be able to count more of its PCC as tier 1 capital every month. The only time this might change is if a corporate sees a significant drop in its asset size (since the current PCC deduction formula includes a credit based on 2% of assets), which might require a greater PCC deduction, however, the drop in assets should in fact allow a corporate to surpass the 2.5% retained earnings ratio threshold much sooner.

While we continue to believe that the permanency of PCC should equate to 100% of it being calculated as part of tier 1 capital, ***we fully support NCUA's proposed changes to the formula for calculating retained earnings and tier 1 capital***, ***the introduction of the 2.5% retained earnings ratio requirement to eliminate PCC deductions,***

<u>and the elimination of the October 2020 PCC deduction negative threshold.</u> This is a positive step in recognizing the true value of member PCC.

We appreciate NCUA's recognition of the positive progress corporates have made since the financial crisis, as well as the long-term value of member PCC. We look forward to working with NCUA in the future to continually improve Regulation Part 704 in ways to enhance the role corporates can play in serving credit unions while maintaining high standards of safety and soundness.

Sincerely,

David Brehmer
President, Vizo Financial Corporate Credit Union

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