SchoolsFirst
FEDERAL CREDIT UNION

December 22, 2017

Mr. Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314–3428

Re: Proposed Rule - Capital Planning and Supervisory Stress Testing

Dear Mr. Poliquin:

I am writing on behalf of SchoolsFirst Federal Credit Union (SchoolsFirst FCU), which serves school employees in Southern California. We have more than 790,000 Members and almost $14 billion in assets. SchoolsFirst FCU appreciates the opportunity to comment on your Capital Planning and Stress Testing Proposed Rule. I want to first thank the NCUA Board for their attention to this matter and to acknowledge their effort towards regulatory relief for large credit unions.

After reviewing the proposed rule in its entirety, SchoolsFirst FCU does not support the proposed changes, as in this case we do not believe that they offer the regulatory relief for covered credit unions as intended. In fact, they would create additional regulatory burden, specifically for Tier II credit unions.

No Regulatory Relief

The NCUA highlights the elimination of the 5% minimum stress test capital threshold and the elimination of the NCUA's formal acceptance or rejection of the capital plan, as measures of reduced regulatory burden. However, the elimination of these requirements does not allow the credit union to cease or scale back any of the activities needed to prepare a capital plan. All of the requirements impacting the level of resources and costs associated with the capital plan's preparation remain intact.

Creation of Additional Regulatory Burden

The proposed rule presents an additional burden for two main reasons.

The first reason is that covered credit unions will be required to run an additional three scenarios as part of the NCUA supervisory stress test. The commentary to the proposed rule states that the NCUA does not believe the stress testing requirement imposes an additional regulatory burden as the credit unions were required to implement the NCUA supervisory stress testing scenarios. However, the requirements and assumptions used as part of the NCUA supervisory stress test differ significantly from the requirements and assumptions of the capital planning process. As an example, identical scenarios will need to be run independently based on the use of a static balance sheet versus a dynamic balance sheet. The ultimate impact to covered credit unions will be additional regulatory burden with the addition of supervisory stress testing.

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The second reason the stress testing will be an additional burden, is that Tier II and Tier III credit unions will be required to perform the stress testing exercise within a shorter timeframe than performed by the NCUA in prior years. Under the current rule, the NCUA is to provide stress test results to covered credit unions by August 31st. Data was due to the NCUA beginning in November of the prior year through February. This provided the NCUA with no less than 6 months, and up to 9 months, to complete the stress testing process. By incorporating the NCUA stress test requirement within the capital planning process, the stress test must be completed simultaneously with the submission of the capital plan on May 31st. In effect, Tier II and Tier III credit unions will have from the end of February (delivery of stress test scenarios and stress test instructions), through the end of March to complete supervisory stress testing (assuming credit unions are only required to provide the same deliverables as provided to credit unions by the NCUA). Completion by March is necessary to provide adequate time for Board involvement, review, and approval in April and May. In addition, completing the NCUA supervisory stress testing will require utilizing the same resources needed to complete the capital plan within an already narrow timeframe.

The credit union proposes the stress tests conducted on the NCUA's issued scenarios no longer be required since the requirements and assumptions currently being used in covered credit unions' capital plans are sufficient enough to ensure capital adequacy. NCUA could have the flexibility to review the credit unions' capital plan and stress test results and only require additional scenarios as part of the supervisory process if there are concerns over results and the credit unions' actions. However, if stress tests remain a requirement, we recommend that the NCUA continues to release the supervisory stress test scenarios by the end of February of each year, ***and that the capital plan and the supervisory stress test submission deadline be August 31st.*** This will be consistent with the current deadline adhered to by the NCUA to notify covered credit unions of its acceptance of the capital plan and delivery of supervisory stress test results.

Data Submissions

The credit union interprets the proposed rule as eliminating the requirement to provide the NCUA with stress test data moving forward, unless the NCUA chooses to conduct the stress test on behalf of a covered credit union. Therefore, **we expect no more quarterly data submissions after the modified rule is effective and request that the NCUA address this matter directly in the publication of the final rule.**

Increase Tier Thresholds

To allow for regulatory relief to covered credit unions, we recommend increasing the proposed tier thresholds to $25 billion for Tier I, less than $50 billion for Tier II and $50 billion and greater for Tier III. In addition, we would like the NCUA to consider increasing the implementation timeframe of submission from three years to five years to allow for additional relief to the impacted credit unions. This will allow covered credit unions the time necessary to position resources and absorb expectations. We feel these recommended thresholds and implementation timeframes are still in line with the NCUA's overall objectives, while allowing for the regulatory relief credit unions are seeking by minimizing the costs and resources needed to adhere to this proposed rule.

The proposed rule should reflect a recognition by the industry and by banking regulators that current thresholds have been set too low resulting in excessive burdens upon credit unions. As the banking industry shifts minimum thresholds from $50 billion to $250 billion, the proposed NCUA rule should increase the minimum requirement to be a covered credit union. NCUA should establish a new threshold that would be appropriate for an industry of approximately $1 trillion in total assets, comparable to the threshold of $250 billion in the banking industry of approximately $7 trillion in total assets. The risk in the credit union industry is further mitigated as credit union assets are much less concentrated in its larger institutions as is the case with the banking industry, and credit unions are much less complex in their operations and asset classes.

Closing

Thank you for taking the time to review our comments and recommendations on the Capital Planning and Stress Testing Proposed Rule. We understand the NCUA is trying to amend the current process in efforts to provide regulatory relief. However, we hope that our comments allow for the NCUA's further consideration to assist credit unions with the current regulatory challenges impacting expenses and resources as the current proposal diverts from that considerably.

Sincerely,

Bill Cheney,
Chief Executive Officer
SchoolsFirst Federal Credit Union