Suncoast
Credit Union

December 1, 2017

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

RE: Comments on Proposed Rule for Capital Planning and Supervisory Stress Testing

Dear Mr. Poliquin:

Suncoast Credit Union appreciates the opportunity to comment on the proposed amendment to the ruling issued by the National Credit Union Administration (NCUA) 12 CFR Part 702 regarding Capital Planning and Supervisory Stress Testing for federally insured credit unions with $10 billion or more in assets (covered credit unions). Suncoast is the largest federally insured, state-chartered credit union headquartered in Florida. Suncoast is the twelfth largest credit union in the United States, with over $8.6 billion in assets serving over 738,000 members in 21 counties in Florida.

We applaud NCUA's efforts to reduce regulatory burden. In fact, the Dodd Frank Act did not mandate that credit unions perform stress tests. As such, the supervisory stress tests are an unnecessary regulatory burden imposed by the NCUA. Given the relatively low level of risk and complexity in the credit union industry, the evaluation of capital adequacy could be conducted through the normal supervisory process without a significant increase in risk to the share insurance fund. Further, by eliminating the formal supervisory stress tests there would be a significant cost savings to both the NCUA and the covered credit unions.

The NCUA asked that we specifically comment on critical areas that would affect covered credit unions to include implementing an incremental approach based on three tiers, revisions to the capital planning approval process, and revisions to the stress testing requirements. We agree that regulatory changes are necessary to remove the additional burdens imposed and we recommend modifications to the proposed rule change as outlined below.

Implementing a Three-Tiered Approach

Under the proposal, covered credit unions would be subject to an incremental approach consisting of three different tiers. The benefit of a gradual approach allows for credit unions that have initially crossed $10 billion, the time to adequately prepare for regulatory requirements without placing unnecessary burdens. While we agree with a tiered approach, we feel the proposed changes within the tiers do not sufficiently address the regulatory burdens. More specifically we recommend changes in asset threshold, timeline between tiers and discretionary authority as follows:

- **Increase Tier II and Tier III Asset Threshold from $20 Billion to $50 Billion**

  A $20 billion threshold for Tier II and Tier III credit unions is more conservative than what is being proposed for banks, creating a competitive disadvantage for covered credit unions of similar size. The $50 billion asset threshold is consistent with the banking approach to DFAST and CCAR.

- **Extend the timeline between tiers from 3 to 5 years**

  Extending the runway will give covered credit unions the additional time to develop the infrastructure necessary for a detailed capital planning and stress testing program. This first five years for Tier I credit unions will provide the time to mature the Capital Planning process before taking on the additional responsibility of conducting stress tests.

- **Eliminate the NCUA's discretionary authority to designate Tier II or Tier III**

  Within the tier descriptions, Tier II and Tier III contain the language "or as otherwise designated by the NCUA". This discretionary authority remains undefined in the proposal and appears too subjective. The definition of each tier should provide a clear and objective set of criteria for the designation of each tier.

Revisions to Capital Planning Approval Process

Under all tiers, the capital plans are to be submitted to the NCUA no later than May 31st of each year, with only Tier III credit unions receiving a formal acceptance or rejection. The annual submission requirement is solely based on asset size. However, the proposal explicitly states that the significant determinants regarding each covered credit unions risk to the NCUSIF are size, complexity, and financial condition. We recommend that these other considerations be taken into account to further reduce the regulatory burden for these lower risk covered credit unions and at the same time reduce the risk to the NCUSIF. The following is an example of how the use of other considerations can be applied.

> **Capital Plans are required to be submitted every three years for covered credit unions with the following conditions:**
>
> - **Camel Rating is one or two**
> - **Net Worth Ratio is classified as Well Capitalized**
> - **Risk-Based Net Worth Ratio is greater than 10%**

Revisions to Stress Testing Requirements

Under the proposal, Tier II and Tier III credit unions are both required to conduct their stress tests using NCUA stress-test scenarios and guidance. The main difference between the two is that Tier III credit unions are subject to the 5% minimum stress-test ratio, while Tier II is not. We agree with this requirement. However, we do propose the following changes:

- **Extend frequency of stress testing to every three years**
  The obligation to conduct stress tests should not be solely based on asset size, but also consider the complexity and financial condition of the covered credit union. If certain conditions are met, the covered credit union should be provided regulatory relief to only run the stress tests every three years. The additional conditions to consider to qualify for this three year requirement are: maintaining the minimum 5% minimum stress test ratio for three consecutive years, Risk-Based Capital Ratio greater than 10% for three consecutive years, Camel Rating of one or two.
- **Extend the Stress Testing due date from May 31 to July 31**
  This extension would provide additional time to focus on stress testing after the Capital Plan has been submitted. It would also allow for extra time to prepare and adjust models based on

instructions published by the NCUA each year. Furthermore, this aligns with the banking DFAST submission date.

- **Reduce the Data Submissions from Quarterly to Annually**

  Under the proposal, the requirement that NCUA conduct supervisory stress tests would be eliminated. Therefore, this should reduce the data submission requirements significantly in terms of volume of data collected and frequency.

  Annual data submissions are reasonable. Submitting data quarterly poses an additional burden unless merited. Any unfavorable trends or concerns should be identified through quarterly Call Report submissions. At that time, if additional data is required it should be at the discretion of the NCUA on an as-needed basis.

Conclusion

To recap our recommended changes to the proposal, we agree with an incremental approach, but subject to the following:

Tier	Description	Stress Test Requirements	Stress Testing Frequency	Data Submission	Capital Plan Review
I	First five years	Not Required	Not Required	Not Required	Incorporated as part of the NCUA's Supervisory oversight
II	Five years or more, but less than $50 billion in total assets	Credit unions run stress tests using the NCUA stress-tests and guidance but are <u>not</u> subject to the 5% minimum stress-test ratio	Perform every three years unless directed earlier by NCUA due to unfavorable trends or KPIs (i.e., Net worth, risk-based capital)	Annually	Incorporated as part of the NCUA's Supervisory oversight
III	$50 billion or more in total assets	Credit unions run stress tests using the NCUA stress-tests and guidance and are subject to the 5% minimum stress-test ratio	Perform every three years unless directed earlier by NCUA due to unfavorable trends or KPIs (i.e., Net worth, risk based capital)	Annually	The NCUA accepts or rejects credit union capital plans every three years

Additionally, identifying lower risk credit unions regarding asset size, complexity and financial conditions and putting them on a three-year cycle would reduce the effort required by the NCUA while still protecting the NCUSIF.

In closing, we thank you for the opportunity to respond to the proposed rule and appreciate the NCUA's willingness to incorporate changes that will benefit the credit union industry.

Sincerely,
Julie Renderos, CPA
Executive Vice President/Chief Financial Officer