RBFCU

December 28, 2017

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

RE: Capital Planning and Supervisory Stress Testing (RIN 3133-AE80)

Dear Secretary Poliquin,

On behalf of Randolph-Brooks Federal Credit Union (RBFCU), this letter is being submitted in response to the National Credit Union Administration's (NCUA) proposed rule on "Capital Planning and Supervisory Stress Testing." We greatly appreciate the opportunity to comment.

Introduction

On October 30, 2017, NCUA published a proposed rule amending its capital planning and stress testing requirements. Under the proposal, covered credit unions which have completed fewer than three capital planning cycles and have less than $20 billion in total assets are classified as tier I credit unions. These credit unions will no longer be required to receive NCUA's formal approval of its capital plans; instead capital plan reviews will be incorporated into NCUA's supervisory oversight. Additionally, tier I covered credit unions will not be subject to any stress testing requirements.

Tier II credit unions are covered credit unions which have completed three or more capital planning cycles and have less than $20 billion in total assets, or are otherwise designated as a tier II credit union by NCUA. These credit unions will no longer be required to obtain NCUA's formal approval of its capital plan, and capital plan reviews will be incorporated into NCUA's supervisory oversight. Tier II credit unions will run stress tests using NCUA's stress test scenarios and NCUA guidance, but are not subject to a 5% minimum stress test capital ratio.

Finally, tier III credit union are covered credit unions which have $20 billion or more in total assets, or are otherwise designated as a tier III credit union by NCUA. Review of its capital plan will continue to be subject to the current requirement in which NCUA formally approves or rejects it.

Support for Proposed Rule

RBFCU appreciates the additional flexibility granted to tier I and tier II credit unions under the proposal. Specifically, the tiered framework grants tier I credit unions additional time to adapt to the new capital planning and stress testing expectations. This flexibility affords the credit union the necessary time to build adequate capital planning and capital adequacy assessment processes that are consistent with the stated rules. In addition to the tiered framework, RBFCU commends NCUA on its decision to incorporate capital planning into the supervisory process for tier I and tier II credit unions. By doing this, credit unions will be spared the unnecessary burden of having to submit a capital plan for NCUA's formal approval.

Finally, RBFCU applauds NCUA's decision to allow credit unions the option of conducting their own stress tests. RBFCU believes it is important to preserve a credit union's ability to build a stress testing framework commensurate with the institution's size and risk profile. Additionally, the stress testing process should inform capital planning, which necessitates the institutional ownership of stress testing and internal alignment of such activities. RBFCU believes the proposed change will be beneficial to covered credit unions and does not present any new risks.

Well Capitalized Credit Unions

Under the proposal, NCUA lists asset size, complexity, and financial condition as significant factors in determining a credit union's risk to the National Credit Union Share Insurance Fund (NCUSIF). However, the current proposal places great emphasis on asset size with little or no weight on a credit union's complexity or financial condition. Consequently, the requirements are tailored to reflect a credit union's asset size and overlooks important determinants such as a credit union's risk profile or business model. RBFCU would like to see greater regulatory relief for credit unions who pose significantly less risk to the NCUSIF.

One way to accomplish this purpose is to account for a credit union's net worth ratio. Covered credit unions with a net worth ratio of ten percent or more should be required to provide stress tests every 2 or 3 years or have an off-ramp exemption for stress testing. The off-ramp exemption would mirror the Treasury's recommendations regarding DFAST and CCAR off-ramps for banks.[1] This change rewards well capitalized credit unions for their financial strength while accommodating NCUA's desire to tailor stress testing to account for a credit union's financial condition. A modification of the rule in these situations will not increase risk to the NCUSIF.

RBFCU also believes relaxing capital planning requirements for credit unions with a net worth ratio of at least ten percent is appropriate. These credit unions should have their capital plans reviewed as part of the supervisory process every two years. Examination of capital plans through the supervisory process will allow NCUA examiners and credit union staff to more efficiently communicate concerns or questions

[1] *See* United States Department of the Treasury, A Financial System That Creates Opportunities, 12 (July 2017), available at https://www.treasury.gov/press-center/press-releases/Documents/A%20Financial%20System.pdf.

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regarding capital plans, thereby resolving potential problems in advance and reducing the timing challenges associated with formal resubmission of capital plans. In addition, a two year capital planning cycle would grant meaningful relief without compromising NCUA's ability to accurately forecast risk over a nine quarter cycle. This is similar to what Treasury has proposed for banks.[2] Furthermore, NCUA could reserve the right to review capital plans during off-years when severely adverse economic conditions arise or if the credit union's net worth ratio falls below the required ten percent.

Accounting for a Credit Union's Risk Profile

RBFCU believes the above mentioned recommendations regarding net worth ratio will better account for a credit union's risk profile. While RBFCU believes the proposed tiered framework is promising, the current parameters can be modified to better account for a credit union's overall position. Such an approach is in harmony with the Treasury's recommendation that stress testing and capital regulations be tailored to the business models and complexity of institutions to avoid maintenance of costly compliance infrastructure and a "one-size-fits-all" approach.

In addition, the rule does not consider adjusting supervisory expectations for capital planning and stress testing processes among the different tiers. Consistent with the banking agencies, the NCUA should consider tailoring capital planning requirements to complement the stress testing changes associated with the proposed tiered system. Expectations surrounding governance, controls, and risk management should be heightened for a tier III credit union versus a tier II or tier I. This change would be consistent with the banking agencies differentiation of capital planning requirements for complex and non-complex institutions.

Regarding asset size, RBFCU believes tier II credit unions should be defined as credit unions with total assets up to $35 billion, and tier III credit unions should be defined as credit unions that exceed $35 billion in total assets. These adjustments better align NCUA's scaling with the capital planning expectations for the Dodd-Frank Act Stress Test (DFAST), which are used for stress testing for banks. Credit unions have a strong heritage of withstanding economic turmoil as evidenced by the industry's resiliency during the Financial Crisis. Because credit unions are inherently less risky than banks, the scaling of credit unions asset size should not be more restrictive than what is required of banks. Expanding the asset range of covered credit union tiers can be accomplished without any compromise to safety and soundness of the credit union industry.

Data Reporting for Stress Testing

RBFCU would like to see additional regulatory relief regarding the quarterly data reporting required for stress testing purposes. The requirement to report such detailed data is extremely onerous to credit

[2] *See* id.

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unions and is not reflective of the banking agencies different reporting requirements for CCAR and DFAST banks. Additionally, some credit unions have indicated that NCUA's data collection templates, which are used for gathering information for stress testing purposes, have occasionally switched optional data fields to priority data fields and NCUA has periodically revised the content of its data templates without advance notice. These practices have necessitated publication of a lengthy Q&A document which describes the Office of National Examination and Supervision's data submission expectations.

To ensure more clarity is provided to credit unions, NCUA should publish stress test instruction for tier II and tier III credit unions approximately a year in advance. This will greatly assist credit unions with the necessary guidance to achieve compliance. In addition, these instructions should explain any changes in stress testing principles that would require new or modified data inputs to promote greater transparency.

As explained in the previous section, RBFCU believes it is critical that all requirements of the rule should account for a credit union's risk profile and financial condition. As such, RBFCU believes data reporting should likewise be tailored on a risk based approach and be required only for credit unions which NCUA deems necessary. We recommend that the data submission fields be tailored to the proposed tiers, with more data required of the higher tier covered credit unions. Furthermore, we recommend that NCUA match the frequency of the data submissions to the frequency of the stress tests. As such, data submissions could occur on an annual or biennial basis.

Definitional Change

NCUA currently defines a covered credit union as "a federally insured credit union whose assets are $10 billion or more. A credit union that crosses the asset threshold as of March 31 of a given calendar year is subject to the capital planning and stress testing requirements of this subpart in the following calendar year." This definition is more strict than the current banking definition which states that a bank with total assets over $10 billion becomes a "covered bank" for DFAST purposes when its most recent four-quarter average consolidated total assets (using quarter-end call report figures) exceeds $10 billion. RBFCU believes credit unions should not be subject to a more stringent definition than the banking industry. The definitional change would grant credit unions extra time before it becomes a covered credit union and credit unions can use this time to better prepare for the new requirements of the capital planning and stress testing rule. Any additional time afforded to credit unions to prepare for the requirements of the rule is advantageous.

Conclusion

RBFCU appreciates NCUA's effort to alleviate the regulatory burden associated with capital planning and stress testing and believes the current framework is promising. However, RBFCU hopes to see the capital planning and stress testing requirements refined to better account for a credit union's complexity and financial condition. RBFCU believes qualitative oversight and scrutiny should be aligned with a credit union's risk profile. We thank you once again for the opportunity to comment.

Sincerely,

Robert Zearfoss
Executive Vice President, Chief Financial Officer
Randolph-Brooks Federal Credit Union