BECU

Via Email: regcomments@ncua.gov

December 19, 2017 *(supersedes December 18, 2017 letter)*

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

Subject: BECU Comments on Proposed Rule – Capital Planning and Supervisory Stress Testing

Dear Mr. Poliquin:

Boeing Employees' Credit Union (BECU) is a Washington state-chartered credit union, headquartered in Tukwila, Washington. BECU has approximately 1,071,000 members, approximately 1,900 employees, and approximately $17.5 billion in assets as of November 31, 2017.

This letter summarizes BECU's comments on the National Credit Union Administration's (NCUA's) proposed rule, amending its regulations regarding capital planning and stress testing for federally insured credit unions with $10 billion or more in assets.

We appreciate the NCUA's focus on reducing regulatory burden, but are concerned that the proposed rule doesn't provide substantive regulatory relief. In particular, the proposed rule calibrates the tier thresholds too conservatively. We propose modifications to the proposed rule in a number of areas as outlined below.

1. <u>Tier Thresholds</u>

The proposed tier definitions and thresholds are overly conservative. The thresholds to initiate stress testing for credit unions are significantly more conservative than those being proposed for U.S. banks. As a result, covered credit unions face a disproportionate regulatory burden and are placed at a competitive disadvantage in the marketplace.

First, extending the timeline related to crossing the threshold from tier I to tier II would allow covered credit unions adequate time to establish necessary infrastructure for the detailed capital planning and stress testing process. For example, necessary infrastructure includes maturation of corporate governance, data governance, risk oversight, controls, models, and strategic planning.

Second, increasing the tier III threshold to $35 billion in total assets is more proportionate to the comparable thresholds established by the other banking agencies. It is likely that the enhanced prudential standards requirements for banks that roughly align with the tier II requirements for credit unions will be raised from the current $50 billion level to a $250 billion level in the near future based on recent bipartisan congressional proposals. Adjusting the $250 billion level for the relatively smaller size of the NCUSIF ($13.4 billion) as compared to the Deposit Insurance Fund ($90.5 billion), we calculate a proportionate threshold of $37 billion, which we round down to $35 billion. This is conservative compared to the banking industry as bank assets, liabilities, and insured liabilities are all much more heavily concentrated in fewer institutions as compared to credit unions.

Accordingly, we propose that:

- a tier I credit union would be a covered credit union over $10 billion in total assets that has completed fewer than five capital planning cycles and has less than $35 billion in total assets;

- a tier II credit union would be a covered credit union that has completed five or more capital planning cycles and has less than $35 billion in total assets, or is otherwise designated as a tier II credit union by the NCUA;

- a tier III credit union would be a covered credit union that has $35 billion or more in total assets, or is otherwise designated as a tier III credit union by the NCUA; and

- to account for the impacts of inflation or other changes in the environment, all of the tier threshold levels should be evaluated and adjusted annually by the NCUA.

2. Regulatory Relief for Tier I and Tier II – Required Stress Testing Scenarios

To further reduce the burden, tier I and tier II covered credit unions would be subject to a minimum requirement of running the severely adverse scenario in their capital planning process instead of all of the supervisory stress test scenarios. For the 2017 supervisory stress test, for example, this would result in the base and adverse scenarios not being required for the tier I and tier II institutions. In addition to that minimum requirement a capital plan would still be required, which may require additional stress tests tailored to the risk profile, size, complexity, and financial condition of the covered credit union.

3. Regulatory Relief for Tier II and Tier III – Frequency of Stress Testing

Unless otherwise directed by the NCUA, stress testing would only be required every three years for tier II and tier III covered credit unions that have:

- greater than 5% minimum PCA stress test result level for three consecutive years;
- greater than 10% PCA leverage capital for four consecutive quarters; and
- a current NCUA-accepted capital plan (this applies to tier III only as there is no requirement for tier II capital plan acceptance).

4. Reducing Operational Burdens

We encourage the NCUA to establish formal differences in prudential standards by tier for stress testing and capital planning. For example, a comprehensive list of minimum requirements for tier I, tier II, and tier III institutions could clearly delineate greater requirements for tier III institutions with respect to expectations about governance processes, control environments (e.g., greater requirements for model validation, governance processes), and NCUA data submissions (e.g., more data required by tier).

We encourage the NCUA to reduce the frequency of required detailed data submissions that have historically accompanied the stress testing process. Currently, credit unions performing stress tests are expected to compile over 150 data fields on a quarterly basis and submit these to the NCUA. The operational burden that accompanies this data requirement is significant and seems excessive. We suggest that for all credit unions this be reduced to an annual submission, and for credit unions on a 3-year stress testing cycle (suggested above) this data submission be reduced to once every three years.

5. Retain the choice to adopt an internal models approach rather than require it.

Finally, we suggest that the opt-in approach to deriving stress test results from internal models should be retained. The NCUA should allow covered credit unions to retain the choice of: 1) adopting an internal models approach for stress testing; or 2) using NCUA-derived results, as is currently the case. The NCUA appears to be retaining in its entirely an infrastructure and data environment to conduct NCUA-driven stress tests for each institution. Requiring all covered credit unions to adopt a full internal models approach while simultaneously maintaining the NCUA-driven process is requiring credit unions to fund a second and fully redundant process. This is against the spirit of a regulatory relief proposal.

We thank the NCUA for the opportunity to comment on this proposal.

John Stewart

John Stewart
SVP & Chief Risk Officer
BECU