NAVY FEDERAL Credit Union

Office of the President

19 December, 2017

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

Re: Capital Planning and Supervisory Stress Testing

Dear Mr. Poliquin,

Navy Federal Credit Union is pleased to provide comments on the National Credit Union Administration's (NCUA) Proposed Capital Planning and Supervisory Stress Testing rule.

We support NCUA's goal of reducing regulatory burden, however, the proposed rule provides little, if any, regulatory relief to covered credit unions. Navy Federal has always maintained supervisory stress tests were an unnecessary regulatory burden. The significant use of NCUA's resources, and those of the covered credit unions, was not warranted given the limited complexity and low level of risk at these credit unions. Instead, NCUA could have reviewed the results of stress tests performed by these credit unions and evaluated their capital management process and controls through the normal supervisory process. There was no need to create a separate, formal process. Going forward, the rule should be recrafted so NCUA can evaluate capital through the normal supervisory process thus materially reducing the cost to both NCUA and the covered credit unions.

Unfortunately, the proposed rule does little to reduce the regulatory burden on the credit unions affected by this rule. In particular, the regulatory burden for tier III credit unions remains unchanged under the proposed rule. NCUA should amend the proposed rule to address three major deficiencies:

1. **Stress testing should consider financial condition; not just asset size**
According to NCUA, *"covered credit unions would be subject to new tiered regulatory requirements that would further ensure their capital plans are tailored to reflect their size, complexity, and financial condition."*[1]

[1] NCUA proposed rule, Section II – Summary of Proposed Rule

NCUA's proposed tiers are inconsistent with its stated goals because the tiers are based solely on asset size; there is no consideration for complexity or financial condition.[2] Historically, NCUA has considered complexity and financial condition when categorizing credit unions. For example, NCUA requires different levels of capital to be considered "well capitalized" versus "adequately capitalized". Additionally, Risk-Based Capital (RBC) requirements consider financial condition (e.g., level of capital) as well as risk and complexity (e.g., requiring different levels of capital based on asset composition and mix). Historically NCUA has recognized asset size is not the sole barometer of risk; however, its proposed stress test tiers are based *only* on asset size without considering the financial condition of the covered credit union.

NCUA should provide greater regulatory relief for covered credit unions whose financial condition is strong. For example, covered credit unions that maintain a net worth ratio above 10% and have successfully passed three stress tests should be exempt from the annual stress test requirement. Not only would this provide meaningful relief to both NCUA and the covered credit union, it would also provide covered credit unions a greater incentive to hold more capital; this would further reduce risk to NCUSIF. As discussed below, this should be monitored as part of the regular supervisory process.

2. Eliminate the annual capital plan and monitor adequacy through the supervision

Each year covered credit unions invest a material amount of resources preparing and submitting formal capital plans. Additionally, NCUA uses significant resources to read these voluminous plans, some of which exceed 1,000 pages. Over the past three years NCUA has used these plans to establish a baseline of capital management capabilities across the covered credit unions; as such, requiring covered credit unions to continue to submit comprehensive annual capital plans is an unnecessary regulatory burden that provides little marginal benefit.

Instead, NCUA should use the regular supervisory process to evaluate capital. This approach allows NCUA to use an ongoing, holistic review of the credit union's performance as well as management's ability to identify, measure, monitor, and control risk. More specifically, NCUA could evaluate capital adequacy through a supervisory review of credit union-conducted stress tests, and, NCUA could evaluate capital management processes and controls through its normal risk-focused exams. Should the supervisory review identify matters that require attention, NCUA has the necessary tools to affect change including supervisory actions and the ability to perform its own stress tests, if needed.

Given the results of the past three years, there is no need to require credit unions to create, and NCUA to formally review, a detailed capital plan. All the information NCUA needs is readily available through the supervisory process. Requiring credit unions to produce and submit an annual capital plan perpetuates an unnecessary regulatory burden.

3. NCUA should stop collecting data for supervisory stress tests

[2] While time is factor differentiating tier I and tier II, the delineation is based on the number of years a covered credit union's assets have exceeded $10 billion. The tier III threshold is based solely on asset size.

The original capital planning and stress testing rule states, *"Upon request, the covered credit union must provide NCUA with any relevant qualitative or quantitative information requested by NCUA"*[3]. This requirement ensured NCUA had the data necessary to complete the first three years of supervisory-run stress tests. Currently, NCUA requires monthly data from all covered credit unions. This monthly data requirement places a material burden on credit unions to prepare, review, secure and submit large amounts of data to NCUA. Since NCUA will no longer perform the supervisory stress tests on a regular basis, we urge NCUA to provide significant regulatory relief by eliminating its routine data collection.

In summary, Navy Federal recognizes the need for sound capital management and its importance for ensuring safety and soundness; however, we feel NCUA can, and should, go much further to reduce the regulatory burden for all covered credit unions. NCUA should: remove the stress test requirement for financially strong, stable credit unions; eliminate the need for a formal capital plan in favor of a supervisory review, and; eliminate the monthly data collection requirements. These changes will provide material relief to both NCUA and the covered credit unions.

If you have any questions, please feel free to contact Vince Pennisi at (703) 255-8740.

Sincerely,

Cutler Dawson

Cutler Dawson
President/CEO

[3] 12 CFR Part 702.506(f)