AlaskaUSA
Federal Credit Union®

December 22, 2017

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

Dear Mr. Poliquin:

Re: Comments on Proposed Rule: Capital Planning and Supervisory Stress Testing; RIN 3133-AE80

Alaska USA Federal Credit Union (Alaska USA) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) proposed rulemaking for capital planning and supervisory stress testing. Alaska USA is a federally chartered credit union with more than $7 billion in assets, serving over 615,000 members.

Alaska USA supports the maintenance of a safe and sound capital framework for credit unions that is flexible, cost effective, and does not expose the share insurance fund to undue risk. Alaska USA also fully supports a supervisory framework that appropriately tailors its regulations and oversight based on the inherent risk to the National Credit Union Share Insurance Fund (NCUSIF). Therefore, we focused our comments on providing feedback on the questions posed within the proposed rule that are noted below.

1. ***Are the characteristics identified within the proposal the appropriate factors, or should other considerations should also be taken into account in assessing the risk for purposes of differentiating capital planning and stress testing requirements? Are the proposed tier changes appropriate, and do they sufficiently balance regulatory relief for covered credit unions with the NCUA's objective of managing risk to the NCUSIF?***

   Alaska USA believes size, complexity, and financial condition are important considerations to be taken into account when assessing risk for purposes of capital planning and stress testing requirements. However, the Proposed Rule only speaks to the size consideration when differentiating credit unions, and does not provide specific break points or relief thresholds related directly to the complexity or financial condition of the covered institutions.

   Alaska USA recommends the NCUA also consider utilizing the results of the most recent on-site examination and Prompt Corrective Action (PCA) measurement as an additional differentiating factor when determining each covered credit union's risk to the NCUSIF and their progression from a Tier I to a Tier II credit union. Specifically, the NCUA should utilize the Composite, Capital, Management ratings (included within the CAMEL ratings), as well as the PCA measurement, when determining if an institution should qualify as a Tier II credit union.

   The Composite and two component ratings noted above provide on-site verification of the overall performance of the institution, management's ability to mitigate risk, as well as the adequacy of current capital levels and ongoing augmentation when taking into consideration all aspects of the credit union's operations and risk profile. Ratings of "1" or "2" indicate sound, fundamentally sound, or satisfactory performance relative to the credit union's current and prospective risk profile. The PCA measurement provides an additional measurement for differentiating capital levels. Both

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CAMEL ratings and PCA expand the evaluation process beyond asset size only to include the financial condition and complexity of the institution. The belief of increased reliance on the examination process is shared by the NCUA Board in the Proposed Rule, as it states “The Board believes that any increased risk to the NCUSIF that may occur as a result of providing regulatory relief can be addressed through the supervisory process.” Credit unions in excess of $10 billion in assets, with a “1” or “2” in each of the three ratings noted above, should continue as a Tier I credit union until one of three ratings falls to a “3”, or they reach $20 billion in assets, or the credit union is no longer considered “Well-Capitalized” under PCA.

Based on a review of credit unions with assets of $10 billion to $20 billion, the annualized asset growth rate between 2011 and 2016 averaged approximately 9.25%. Utilizing this average, an institution that reaches the $10 billion threshold will reach the $20 billion threshold within seven years, providing ample regulatory relief through enhanced operational efficiencies achieved during this time period and additional time to prepare for compliance requirements. Under the Proposed Rule, covered credit unions would only grow to approximate $13 billion after three capital planning cycles, allowing minimal time to generate any operational efficiencies.

2. ***Should the tier III threshold level be set higher, at $25 million in total assets, to provide covered credit unions with even more time to plan and prepare for compliance? Additionally, is setting the threshold at a higher level reasonable, and why?***

Alaska USA believes the dollar threshold for Tier III credit unions should be increased from $20 billion to $30 million. This increase supports the NCUA’s objectives of regulatory relief by allowing sufficient time to prepare for the increased compliance requirements, and account for operational efficiencies corresponding to the institutional growth of $20 billion and $30 billion.

Based on a review of credit unions with assets of $20+ billion, the annualized asset growth rate between 2011 and 2016 averaged approximately 8.5%. Utilizing this average, an institution that reaches the $20 billion threshold will reach the $30 billion threshold within the next four years, providing sufficient regulatory relief through additional enhanced operational efficiency achievements achieved during this time period and additional time to prepare for compliance requirements.

Alaska USA recommends the NCUA also consider utilizing the results of the most recent on-site examination and Prompt Corrective Action (PCA) measurement as additional differentiating factors when determining each covered credit union’s risk to the NCUSIF and their progression from a Tier II to a Tier III credit union. Credit unions in excess of $20 billion in assets, with a “1” or “2” in each of the three ratings noted in the answer to question #1 above, should continue as a Tier II credit union until one of three ratings falls to a “3”, the credit union is no longer considered “Well-Capitalized” under PCA, or the institution reaches $30 billion in assets. Refer to the following table for the proposed incremental approach.

Tier	Description	Stress Test	Capital Plan Review
I	$10 billion or more in assets and maintains a “1” or “2” rating in Composite, Management, and Capital at the most recent examination and is “Well-Capitalized” per PCA.	Not Required.	Incorporated as part of the NCUA’s supervisory oversight.

II	$20 billion or more in total assets and maintains a "1" or "2" rating in Composite, Management, and Capital at the most recent examination and is "Well-Capitalized" per PCA. Or a Tier I credit union with a "3" rating in Composite, Management, or Capital at the most recent examination.	Credit unions run stress tests using the NCUA stress-test scenarios and NCUA guidance, but are not subject to the 5% minimum stress-test ratio.	Incorporated as part of the NCUA's supervisory oversight.
III	$30 billion or more in total assets, or a Tier II credit union with a "3" rating in Composite, Management, or Capital at the most recent examination.	Credit unions run stress tests using the NCUA stress-test scenarios and NCUA guidance, and are subject to the 5% minimum stress-test ratio.	The NCUA accepts or rejects the credit union capital plans--qualitative and quantitative assessment.

3. ***Should the NCUA's formal rejection of a capital plan be subject to the Supervisory Review Committee process?***

   Alaska USA believes that any formal rejection of the plan should be subject to the Supervisory Review Committee process, as Tier III credit union plans will be more complex and formal rejection may have significant industry and/or NCUSIF ramifications.

4. ***Is the proposed collection of information necessary for the proper performance of the functions of the agency, including whether the information will have practical utility?***

   Alaska USA believes that some of the information collected as part of this process will be necessary and/or have practical utility for the proper performance of the functions of the NCUA and/or the credit union. However, the specific scenarios historically provided by the regulators include national, industry-wide, or interest rate information that may not directly or indirectly reflect conditions within specific industries or segments (that may impact select employee group membership), geographic metropolitan statistical or state-wide areas (that may impact State, Community, and/or Multiple Common Bond members), or product lines offered by specific credit unions.

5. ***How accurate is the agency's estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used?***

   Alaska USA is not currently included as a covered institution. Without a full understanding of the embedded costs associated with each of the seven institutions' dedicated resources, we cannot provide an accurate assessment of burden at this time.

6. ***Ways to enhance the quality, utility and clarity of the information to be collected?***

   Alaska USA believes that the NCUA should develop a standardized data set that will sufficiently address the information required to perform and report in accordance with NCUA requirements. Credit unions approaching each subsequent tier would then know exactly what information would be required and could begin aggregating and testing well in advance of reaching the next tier.

7. ***Ways to minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technical collection techniques of other forms of information technology?***

   In addition to the recommendation in the answer to question #6 above, Alaska USA believes that the use of standardized, electronic, and/or pre-filled resources will assist in providing more accurate, higher quality, and better secured information.

In summary, Alaska USA continues to share the NCUA's desire for all credit unions to operate in a safe and sound manner, as the long-term preservation of the charter is directly dependent on the public's perception of the industry. As credit unions continue to grow in asset size, complexity, and influence over wider economies, enhanced measurement and reporting is warranted. However, the NCUA should look to leverage its existing examination and capital measurement processes to provide a better balance between regulatory oversight and regulatory relief.

Thank you for the opportunity to comment. If you have any questions, please feel free to contact me at c.schwab@alaskausa.org or (907) 222-8985.

Sincerely,

Cory Schwab
Chief Risk Officer