Credit Union National Association
CUNA

WASHINGTON, D.C.
601 Pennsylvania Avenue NW
South Building, Suite 600
Washington, D.C. 20004-2601
Phone: 202-638-5777
Fax: 202-638-7734

MADISON, WISCONSIN
P.O. Box 431
Madison, WI 53701-0431
5710 Mineral Point Road
Madison, WI 53705-4454
Phone: 608-231-4000
Toll-Free: 800-356-9655

December 27, 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 Mr. Poliquin:

The Credit Union National Association (CUNA) appreciates the opportunity to submit comments concerning the National Credit Union Administration's (NCUA) proposed capital planning and supervisory stress testing rule. CUNA represents America's credit unions and their 110 million members.

We appreciate NCUA's proposal to amend the capital planning and stress testing regulation to provide relief both for credit unions nearing $10 billion in assets and credit unions with $10 billion or more in assets. CUNA's comments to NCUA for the 2013 proposed stress testing rule noted that credit unions could benefit from stress testing; however, we suggested that NCUA use guidance and the supervisory process to determine that credit unions were adequately performing stress tests on their operations. Although the proposed rule is still more prescriptive than necessary, it does give credit unions greater flexibility in meeting stress testing requirements by allowing credit unions to perform their own stress tests as opposed to the agency-conducted stress tests currently required.

CUNA members, already subject to the current stress testing requirements that have undergone an annual stress test cycle, report that compliance is resource-intensive and unduly costly. This is especially evident in preparing the initial capital plan and stress test. These costs are also ongoing as credit unions must have additional staff to develop, conduct, and analyze the stress test assumptions and data validity.

When section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was implemented in 2010, only 3 credit unions had assets over $10 billion and would have been subject to stress tests at the $10 billion threshold if Dodd-Frank Act stress testing (DFAST) requirements applied to credit unions. These credit unions represented only 8.7% of total credit union assets and 7.5% of insured shares. Currently, 7 credit unions are subject to NCUA's stress testing requirements, and these credit unions now represent 14.3% of total assets and 12.6% of insured shares. Using recent growth rates in assets and shares to project out over the next 5 - 10 years, the number of credit unions subject to stress tests would increase to 19 representing 25.9% of total assets (20.7% of insured shares) in 2022, and 25 credit unions representing 31.4% of total assets in 2027 (25.6% of insured shares). In other words, since the time that the Dodd-Frank Act was implemented, without any changes, the number of credit unions included in stress testing in 2027 would increase over eight times, and the percentage of total credit union assets would grow from under 10% to nearly one-third. Because credit unions were specifically excluded from stress testing under Dodd-Frank, it is unlikely that the original intent was to put a significant percentage of credit union assets under the heightened scrutiny of stress tests.

Table1. Credit Unions over $10 billion in assets

	2010	2017	2022Est	2027Est
# of Credit Unions	3	7	19	25
% of Total Assets	8.7%	14.3%	25.9%	31.4%
% of Total Insured Shares	7.5%	12.6%	20.7%	25.6%

Structurally, credit unions are different than banks. We admit that credit unions and banks can be similar, when comparing products offered. Nonetheless, credit unions have evolved with a distinct ownership structure and business model.

Credit unions are less sensitive to the business cycle than banks. Both certainly suffer when unemployment rises, but the trajectory and magnitude of delinquencies and charge-offs at banks— especially during the latest downturn—are much more pronounced. The resulting data show that credit unions are not immune, but are much less susceptible, to the business cycle than banks. Their lending growth moves gradually with cyclical unemployment trends, but it is much less volatile than bank lending. Credit union highs are more restrained; credit union lows are shallower.[1]

While banks tend to contract commercial lending during economic stress, the opposite is true for credit unions. Commercial loan growth rates for banks turned negative following the recessions beginning in 2001 and 2007, but credit union growth rates remained positive during both periods.[2]

We do not dispute that stress tests can be a useful supervisory tool for certain depository institutions. DFAST requires banks with total consolidated assets of more than $10 billion to conduct annual stress tests—in part, due to the interconnectedness of the banking system at large. Indeed, the stress testing provisions in the Dodd-Frank Act were designed to help banks withstand the impact of a major collapse. The Dodd-Frank Act, however, made no such requirements for credit unions. If Congress believed that the credit union system could have benefitted from DFAST requirements, then it would have included credit unions in the requirement as well. Congress explicitly excluded credit unions because they are decidedly not wholly interconnected within the banking system and would be more insulated from a systemic bank holding company failure. We believe that the cooperative credit union member-ownership system has shown resilience and responsibility, not exhibited by the profit-driven banking

[1] *Filene Study: Withstanding a Financial Firestorm (Smith and Woodbury, 2010).*
[2] *Filene Study: Commercial Lending During the Crisis: Credit Unions vs. Banks (Smith, 2012).*

companies. CUNA firmly believes, as did the 111th Congress that developed and enacted the sweeping Dodd-Frank Act reforms, that credit unions should not be subject to DFAST or similar stress testing or at the very least, the thresholds should be adjusted to ensure that a minimal number of credit unions are subject to the rule.

Absent eliminating stress testing requirements or making them part of supervisory guidance, we think that the proposed rule makes positive changes and should help credit unions, especially those that have not yet crossed the $10 billion threshold. We agree with and support the proposition that smaller credit unions should also remain exempt.

Tier I Credit Unions

The proposal's "incremental approach" creates three tiers of "covered" unions. A tier I credit union would be a covered credit union with assets of $10 billion but less than $20 billion. This proposed change helps credit unions nearing the $10 billion threshold to cross that threshold without having to immediately plan and implement stress testing. Under the current rule, a credit union would be subject to stress testing and capital planning requirements immediately. The need to meet these requirements immediately after crossing the $10 billion threshold could force a credit union to use resources well in advance of crossing the threshold.

This proposed change should provide some, albeit temporary, relief from the current requirement for credit unions nearing or newly-arrived at the $10 billion asset threshold. The $10 billion asset trigger provides that a credit union new to the threshold would have a three-year stay to comply with the stress testing requirement. The additional implementation period would help credit unions at this level develop the expertise and resources necessary to comply.

Tier II Credit Unions

Under the proposal, if a tier I credit union "satisfies" or is a tier I credit union for three years, it would then be required to comply with all tier II requirements. A tier II credit union would then become subject to stress testing and capital planning requirements. Under the current rule, NCUA conducts stress testing and uses the 5% minimum stress test ratio. In addition, the credit union must submit their capital plan for review to NCUA.

The proposed rule makes some positive changes. First, it allows credit unions to conduct their own stress tests using NCUA-provided scenarios, instead of NCUA conducting the stress tests and credit unions subsequently needing permission to conduct their own stress tests after three years. In addition, the proposed rule would eliminate the 5% minimum stress test capital ratio.

Again, for credit unions new to this level, the proposal provides some degree of regulatory relief. For credit unions that have already incorporated this modeling, there is declining benefit because the up-front costs have already been borne, and now, they will need to budget outlays to conduct the stress tests internally, either through additional personnel or outside consultants.

Tier III Credit Unions

The proposed rule would define tier III credit unions as those with $20 billion or more in assets. These credit unions would be subject to the tier II requirements, would also be subject to a 5% minimum stress-test capital ratio, and would be required to submit capital plans to NCUA for "qualitative and quantitative assessment." As with tier II credit unions, tier III credit unions would be allowed to conduct their own stress tests.

For tier III credit unions—the largest among the industry—the proposal would, in practice, carry the least relief from current practice. As their staffing and systems are already in place, they likely will continue on with the stress test functionality they have previously incorporated.

As often occurs, the application of bank stress testing trickled down from regulatory treatment of "Too Big to Fail" systemically important financial institutions and holding companies to regional and community banks, and to credit unions. The financial regulatory landscape was never intended to operate as a one-size-fits-all supervisory model—as evidenced by the number of banking agencies regulating and examining U.S. financial institutions. Credit unions are the least among financial entities that merit the level of regulatory scrutiny into sophisticated economic modeling and hypothetical contingent capital planning. CUNA maintains the position, as Congress intended, that capital planning and stress testing requirements should not be imposed through the regulatory process, where there was never legislative intent to do so.

Thank you for the opportunity to provide comments on the voluntary merger rule. If you have any questions about our comments, please do not hesitate to contact me at (202) 508-6705.

Sincerely,

J. Lance Noggle

Lance Noggle
Senior Director of Advocacy for Payments and Cybersecurity & Counsel