CorporateOne
FEDERAL CREDIT UNION

August 16, 2017

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428
Via email: regcomments@ncua.gov

RE: Comments on Proposed Rule – Corporate Credit Unions

Dear Mr. Poliquin,

We appreciate the opportunity to comment on the proposed changes to 12 CFR Part 704 Rules and Regulations (Regulation 704) for corporate credit unions.

We strongly support the changes being proposed by the NCUA with respect to the definitions of retained earnings and Tier 1 capital. Our strong support is rooted in:

1. **Comparability.** We support the rule as proposed as it now provides for comparability of leverage ratios among corporates, as well as presents more appropriately the relative strength of the corporates in the financial community.
2. **Alignment.** We support the alignment of regulatory definitions with financial marketplace standards. We support the recommended changes to the Tier 1 capital definition along with the creation of a retained earnings ratio, as these changes bring the rule into alignment with financial marketplace standards and accounting standards generally accepted in the United States of America (GAAP).

Item #1. Comparability. A consequence of the current rule is that it reduces the amount of Perpetual Contributed Capital (PCC) that can be included as part of Tier 1 capital in such a way as to make the ratio incomparable across corporates. Once a corporate achieves a 2.5 percent retained earnings ratio, this rule change will create comparable capital ratio measurements between corporates and will assist the financial marketplace in measuring the strength of corporates.

In the current rule two corporates can have almost the same leverage ratio even if one has significantly more capital than the other. To illustrate this point, see the example that follows where Corporate A and Corporate B have the same amount of retained earnings and same moving daily average net assets (MDANA); however, Corporate A has significantly (118%) more PCC than Corporate B. Additionally, Corporate A has total capital of $318 million to protect

members, creditors and the share insurance fund against losses, whereas Corporate B only has $200 million. However, under the current rule the leverage ratio for both corporates is almost the same with Corporate A at 5.58% and Corporate B at 5.41%.

The current calculations result in what appears to be equal protection against losses, when in reality there is $118 million more capital to protect member deposits, creditors and the share insurance fund with Corporate A. We believe the leverage ratio as proposed in the rule will present comparable capital ratio measures amongst corporates for use by our movement and the financial markets, and better reflect the relative risk of each corporate.

	Corporate A	Corporate B
PCC	$ 218,000,000	$ 100,000,000
Retained Earnings (RE)	$ 100,000,000	$ 100,000,000
MDANA	$ 3,700,000,000	$ 3,700,000,000
RE/MDANA	2.70%	2.70%
PCC not counted as Tier 1 capital	$ 118,000,000	$ -
PCC counted as Tier 1 capital	$ 100,000,000	$ 100,000,000
RE	$ 100,000,000	$ 100,000,000
Total Tier 1 capital	$ 200,000,000	$ 200,000,000
MDANA less excluded PCC	$ 3,582,000,000	$ 3,700,000,000
PCC in Leverage Ratio	45.87%	100.00%
2020 Leverage Ratio	**5.58%**	**5.41%**
Total PCC + RE as a percentage of DANA	**8.59%**	**5.41%**

Although we agree with the proposed changes to Regulation 704, it should be noted that the treatment is only comparable if the corporates have at least a 2.5 percent retained earnings ratio. In other words, if a corporate falls below a 2.5 percent retained earnings ratio, the PCC limitation is in effect. We encourage the NCUA to continue to ensure that the 5310 corporate

credit union call report clearly reflects the amount of PCC that is not being counted in the leverage ratio, as it does today in the "PCC calculation" section of the call report.

Item #2. Alignment. Back in 2011 and 2012, the membership of Corporate One FCU strongly supported us by converting their membership capital shares (MCS) and/or investing additional amounts in PCC. Our membership accepted PCC based upon the new NCUA stricter rules/terms/conditions related to the structure of capital at corporates. The PCC of today is significantly different from the old MCS that corporates issued and, based upon the structure, should be able to be used by the corporate in their entirety to create value for the membership, and should not be reduced in value due to the limitation in the current calculation. As an example of this limitation, the current rules do not allow Corporate One FCU, as of June 30, 2017, to count **$68,325,375 out of our $219,173,905** in total member PCC in our Tier 1 capital. The elimination of this **$68.3** million of PCC will be corrected in the new proposed rule, and will be given full value in our capital strength measurements after a 2.5 percent retained earnings ratio is achieved.

The definitions and terms for PCC established by the agency in Regulation 704 provides that PCC must meet several definitive requirements as set forth in 704.3(c), as well as in 704 "Model Form C Terms and Conditions of Perpetual Permanent Capital". These changes were so substantial that PCC should now be given full value as Tier 1 capital. Further, PCC is equivalent in form and function now to Tier 1 capital in the financial marketplace and is fully recognized as capital in accordance with GAAP, and based upon the proposed rule will now more accurately and effectively communicate capital strength to our credit unions and to the financial marketplace.

REQUESTED WORDING CLARIFICATION. We respectfully request that the NCUA review the wording of item (6) in the proposed Tier 1 capital definition to clear up any ambiguity as to the methodology behind the calculation.

As noted in the proposed rule:
(6) Deduct any amount of PCC received from federally insured credit unions that causes PCC minus retained earnings, all divided by moving daily average net assets, to exceed two percent when a corporate credit union's retained earnings ratio is less than two and a half percent.

Suggested wording:
(6) If a corporate credit union's retained earnings ratio is less than two and a half percent, deduct the amount of PCC received from federally insured credit unions less retained earnings that exceeds two percent of MDANA.

CorporateOne
FEDERAL CREDIT UNION

We believe this wording helps to clarify the NCUA's acceptance of capital received by corporate credit unions from members outside of the NCUA network.

Based on the reasons and support provided above, we fully support the NCUA's removal of the requirement effective October 2020 to limit PCC counted as Tier 1 capital to the amount of retained earnings, as well as the proposed changes to the definition of Tier 1 capital.

Also, as noted in the Proposed Rule discussion, the current rule has had some minor changes in terminology and definitions made; however, the entire Regulation 704 has not been fully opened for vetting and review by the movement since the 2010 rule was promulgated. We respectfully ask that Regulation 704 be placed on the 2018 NCUA schedule for rule review.

Respectfully,

Lee C. Butke
President/CEO

cc: Board of Directors, Corporate One FCU

HQ: Columbus, OH | Jacksonville, FL
www.corporateone.coop
866/MyCorp1 | fax 614/825-9201 | 8700 Orion Place, Columbus, OH 43240