September 7, 2018

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

Re: Risk-Based Capital—Supplemental Rule

Dear Mr. Poliquin:

Boeing Employees' Credit Union ("BECU") appreciates the opportunity to comment on the National Credit Union Administration's ("NCUA") Supplemental Rule modifying the October 29, 2015 final rule ("2015 Final Rule") regarding risk-based capital.[1] NCUA proposes to amend the 2015 Final Rule by (1) delaying the effective date from January 1, 2019 to January 1, 2020, and (2) amending the definition of a "complex" credit union by increasing the threshold level for coverage from $100 million to $500 million. These comments address the proposal to delay the effective date.

BECU supports the goals of the 2015 Final Rule. The adoption of risk-based capital rules is consistent with the supervisory standards imposed by other financial regulators and will help protect the credit union system. Requiring credit unions with a higher risk in their portfolio to hold additional capital will help reduce the likelihood of losses to the National Credit Union Share Insurance Fund ("NCUSIF"). Nevertheless, delaying the effective date of the 2015 Final Rule for one year, from January 1, 2019 to January 1, 2020, is prudent and appropriate at this time.

The implementation of the 2015 Final Rule will be a significant change and the delayed effective date will provide credit unions, the NCUA, and the relevant state supervisory authorities the time necessary to implement the systems, processes and procedures to ensure a smooth transition. While much work has been done to prepare, full compliance by January 1, 2019 is not realistic. For example, additional time is needed for the NCUA, working in consultation with the state supervisory authorities, to develop and disseminate supervisory guidance to examiners and the credit union industry. Clear, advance guidance is essential and will help promote compliance with the final rule.

[1] 83 Fed. Reg. 38997 (Aug. 8, 2018).

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BECU urges the NCUA to make the most of the one-year delay. Specifically, the agency should use the time to finalize the adoption of a supplemental capital rule. As BECU has stated in its prior comments, the adoption of a supplemental capital rule is a necessary adjunct to the implementation of the 2015 Final Rule. Including supplemental capital in the risk-based capital rules will help credit unions and their members and is entirely consistent with the goal of promoting increased capital to protect the NCUSIF.

The NCUA has consistently stated that its policy is to implement a new supplemental capital rule prior to the effective date of the new risk-based capital net worth requirements.[2] That is sound policy. BECU fully agrees with the prior statements of Chairman McWatters recognizing that because the 2015 Final Rule will impose additional capital requirements on many credit unions, those credit unions should have the "option of at least partially satisfying the requirements of the rule through the issuance of properly structured supplemental capital."[3] The two rules are highly complementary and should be advanced together.

To its credit, the NCUA Board and staff have already made significant progress in developing a supplemental capital rule. The NCUA Board has solicited multiple rounds of comments from interested parties on the issue. These efforts build upon the work of a 2010 NCUA working group on supplemental capital.[4] BECU and other parties have submitted multiple rounds of comments, including proposed draft regulatory language. The NCUA should act now to capitalize on this momentum.

Finalizing a supplemental capital rule to complement the 2015 Final Rule would also be consistent with the goals of the NCUA's broader regulatory reform agenda. Providing credit unions with access to supplemental capital advances the stated goals of supporting job creation and economic growth because it will help credit unions meet their members' demands for affordable financial services. In contrast, implementing the 2015 Final Rule without giving credit unions access to supplemental capital would impose a significant regulatory burden on many credit unions.

BECU agrees with NASCUS that the NCUA should also use the one-year delay to review the risk weightings in the 2015 Final Rule. As a general matter, BECU would prefer to see concentration risk assessed on an individual credit union's specific portfolio based on direct supervision and, as appropriate, the use of stress testing analysis rather than through higher risk weights. To the

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[2] National Credit Union Administration, Final Rule; Risk-Based Capital, 80 Fed. Reg. 66626, 66660 (Oct. 29, 2015) ("the Board plans to address additional forms of supplemental capital in a separate proposed rule, with the intent to finalize a new supplemental capital rule before the effective date of this risk-based capital final rule."); National Credit Union Administration, Frequently Asked Questions about the NCUA's Risk-Based Capital Final Rule (Oct. 2015), https://www.ncua.gov/Legal/Documents/RBC/RBC-Final-Rule-FAQs.pdf. Question: "Will credit unions be authorized to raise supplemental capital for purposes of risk-based net worth?" Answer: "Yes."

[3] NCUA Board Member Mark McWatters Statement on the Final Risk-Based Capital Net Worth Rule (Oct. 29, 2015) https://www.ncua.gov/newsroom/Pages/speeches/2015/october/McWatters-Statement-Final-Risk-Based-Net-Worth-Rule.aspx (hereinafter, "McWatters Statement").

[4] *See* NCUA Supplemental Capital Working Group, Supplemental Capital White Paper (Apr. 12, 2010).

extent the NCUA uses risk weighting to assess concentration risk it should be sensitive that disparate risk-based capital requirements can create significant competitive inequities across charters. Accordingly, the NCUA should scrutinize disparities in the risk weights assigned in the 2015 Final Rule relative to comparable risk weights for other financial institutions. We also note that risk weights for low risk multifamily loans (seasoned, low loan-to-value, high debt service coverage, 'statutory' loans) are double the risk weights established for banks. Risk weights for credit unions should have comparable risk sensitivity and recognize low risk portfolios with lower risk weights. Absent this alignment, competitive imbalances or wrong-way incentives to take higher risk with multifamily loans as compared to other charters may result.

In the longer run, we also suggest that the risk weights be periodically revisited and that additional granularity within asset classes be incorporated into the framework (e.g., subprime auto should be recognized to have a higher risk weight than prime auto as greater risk brings a greater capital requirement). We believe that aligning capital requirements with risk will promote greater long run stability for the credit union system. The proposed risk-based capital rules are a start, but it will require periodic review and refinement.

BECU supports the one-year delay of the effective date of the 2015 Final Rule. BECU encourages the NCUA to use the additional time productively to engage with NASCUS, the state supervisory authorities and the credit union industry to develop clear guidance on the new risk-based capital rules. BECU further urges the NCUA to use the time to finalize the supplemental capital rules so the agency can meet its commitment of having those rules in place when the 2015 Final Rule is implemented. Finally, BECU urges the NCUA to use the time to review the risk weightings in the 2015 Final Rule. This review should recognize and reflect the fact that credit unions already have a higher leverage requirement relative to banks; thus, we see no justification for the NCUA to adopt risk weights for credit unions that are higher than those established and refined by other financial regulators with decades of experience implementing risk-based capital rules.

BECU looks forward to continuing to work with the NCUA on these important issues. Thank you for your consideration of these comments.

Sincerely,

John Stewart

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Chief Risk Officer
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