CREDIT UNION OF TEXAS

July 24, 2019

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

Via email to regcomments@ncua.gov

Dear Mr. Poliquin,

Credit Union of Texas ("CUTX") is a $1.4 billion state-chartered credit union headquartered in Dallas, Texas. CUTX has commented twice before on NCUA's risk-based capital proposed rules.[1] CUTX has generally supported a rational and reasonable risk-based capital structure as a sensible approach to regulation in today's global economy. We appreciate the opportunity to again provide comment in support of the most recent NCUA proposal to delay the effective date of the 2015 Final Rule and the 2018 Supplemental Final Rule (collectively, the "RBC Rule') to January 2022.

CUTX Supports a Delayed Implantation Date

The primary reason of CUTX's support of the implementation date delay is simple. We were watching the effective date of RBC (January 2020), dovetail uncomfortably with the Financial Accounting Standards Board's ("FASB") new standards regarding operating lease receivables and current expected credit losses ("CECL"). All three of these significant changes affect our balance sheet and ultimately our net worth. We had concerns about effectively managing all three of these changes in a such a short period of time that we would not have time to make adjustments and revises business strategies as may be made necessary by one standard or regulation, before the compliance date of the next. Separate from the NCUA staff's supportable, limited and detailed reasons behind requesting the delay in the RBC standards, that delay would help CUTX manage our balance sheet and net worth while complying with all of the regulatory and accounting standards that are now before us. We believe a holistic review of RBC as discussed by NCUA staff together with other upcoming regulations that may affect our balance sheet [2] will create a better opportunity for a measured, meaningful implementation of the regulations and standards from a prudent business standpoint.

Community Bank Leverage Ratio Analog

We would like to comment specifically whether NCUA should consider the development of a credit union analog to the community bank leverage ratio ("CBLR"). In February 2019, banking regulators[3] ("Banking Regulators") issued proposed rules regarding capital simplification for community banking organizations ("Proposed Rules"). As credit unions can sympathize, community banking organizations were concerned with the regulatory burden, complexity and costs of complying with the banking capital rule, which was issued in 2013. The Banking Regulators' proposed CBLR framework is a simple alternative methodology to measure capital adequacy for qualifying community banking organizations. The proposal, along with

[1] In May 2014 and April 2015.

[2] And, in the case of a financial institution, its net worth.

[3] The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation.

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associated reporting requirement changes, would simplify regulatory requirements and provide material regulatory relief to qualifying community banking organizations that choose the CBLR framework. We believe many credit unions will benefit from the same sort of simplified compliance with capital standards.

It is notable that the commentary to the Proposed Rules specifically mentioned that the Banking Regulators are also monitoring the impact of the upcoming implementation of the CECL methodology on community banking organizations. In May 2018, the agency issued a notice of proposed rulemaking to amend the capital rule in response to CECL by proposing an optional three-year transition arrangement to help mitigate the detrimental effects of immediate compliance with CECL. We appreciate that the Banking Regulators did not consider the Proposed Rules in a vacuum. Market forces other than important regulations must be considered, if the goal of such regulations is, in fact, helping community banking organizations (or credit unions) survive the consistent and costly imposition of new regulations or standards.

Although Credit Union of Texas would likely not qualify for any sort of capital simplification due to our asset size, CUTX urges NCUA to consider an analog rule for credit unions which can be implemented with the goal of reducing regulatory burden on credit unions while maintaining safety and soundness, as well as the quality and quantity of regulatory capital. As credit unions stagger under the weight of new or more burdensome regulations, some regulatory relief from the RBC rule may enable more credit unions to continue with their meaningful work of serving their communities, rather than being forced into a position of considering merger or ceasing operations.

Asset Securitization and Subordinated Debt

We support NCUA's goal of ensuring that asset securitization and subordinated debt are appropriately incorporated into the RBC standards. We understand that these significant types of potential capital may not have been reviewed under prior versions of the proposed RBC Rule. Our expectation, however, is that at some point NCUA will have to be satisfied that all additional improvements to the capital standards have been studied, weighted, and included in the NCUA's RBC Rule such that a prudent and reasonable RBC structure may be finally implemented. Any additional changes identified during the three-year delay as proposed can be addressed by an amendment to the RBC rule, not additional delay.

Upcoming Accounting Standards

CUTX has watched the looming effective dates of two very significant accounting standards: operating lease receivables and CECL. Until last week, the new accounting standard for operating lease receivables had an effective date of January 1, 2020. The effective date for CECL was January 1, 2022.[4] The effective date of RBC Rule is January 1, 2020 [5].

After listening to public and stakeholder comment, FASB at their meeting on July 17, 2019 took a very measured approach to the implementation of all major accounting standards, by staggering the effective dates of such standards for certain types of entities. SEC-filing entities and public business entities will generally have a two-year lead on implementing major accounting standards, so that other types of entities may learn from their experiences. The new effective dates for entities such as CUTX are now January 2021 for operating leases and January 2023 for CECL.

[4] For private companies and all companies other than SEC filers and public business entities (PBEs); 2022 would have been the date for CUTX.
[5] It is not difficult to look at those dates and understand the discomfort of credit unions needing to comply with all three.

Like the Banking Regulators when proposing the new community bank leverage ratio, FASB took a step back and considered the actual, front-line implication of its accounting standards for different categories of entities. A laudable public policy must not lose sight of the practical effects of the implementation of such standards. Both the Banking Regulators and FASB were thoughtful to consider that other forces in the marketplace will affect the ability of companies to comply with all new standards and regulations. They saw the reasonableness and benefit of being flexible with already established deadlines and policy decisions, to address the real-life consequences of such rules and standards on the entities subject to them.

One of the points FASB took into consideration was the distinction between merely complying with a standard—which is akin to a toggle switch--and a company having sufficient time and resources to carefully integrate new standards as a means to improve a company's business decisions. CUTX supports any sort of review by NCUA that would assist us in meeting the latter standard, and we feel that a delay in the RBC rule would offer some of that assistance. Balance sheets don't recover overnight from flipping the compliance switch to "on." It takes time.

Conclusion

We support the delay of the RBC Rule as a means for NCUA to consider a capital standard that addresses the differences between credit unions within our industry, allows NCUA to include in RBC two important aspects of capital that are currently not addressed, and appreciates that our business can be critically affected by more than just NCUA regulations. A delay to the RBC Rule would be exceptionally helpful as we could then integrate the operating lease changes in 2021, RBC in 2022, and CECL in 2023.

Thank you again for the opportunity to comment on the delayed implementation date of the RBC Rule.

Sincerely yours,

V. Eric Pointer
President and CEO
Credit Union of Texas