

Cooperative Credit Union Association

Creating Cooperative Power

July 26, 2019

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

Re: Risk Based Capital Rule Effective Date Delay

BY EMAIL ONLY: Regcomments@NCUA.gov

Dear Mr. Poliquin:

On behalf of the member credit unions of the Cooperative Credit Union Association, Inc. (“Association”), please accept this letter relative to the National Credit Union Administration’s (“NCUA”) proposal to delay the effective dates of the risk based capital (“RBC”) rule and supplemental RBC rule until January 1, 2022. The Association is the state trade association representing credit unions located in the states of Delaware, Massachusetts, New Hampshire, New Jersey and Rhode Island, serving approximately 200 credit unions which further serve approximately 3.6 million consumer members.

In preparation for the development of this comment letter, the Association recently solicited the views of members. This letter incorporates feedback received through a member survey regarding the NCUA’s proposal to delay RBC.

Intersection of RBC, CECL and Credit Unions

The Association recognizes the diligence with which NCUA has demonstrated in working with bank regulators to request that the Financial Accounting Standards Board (“FASB”) fully understands the economic and other implications of its Current Expected Credit Loss (“CECL”) standard and to eliminate credit unions and other smaller community institutions from its coverage. The Association’s members believe it is reasonable to raise this issue in the context of the RBC proposed delay because CECL concerns have been identified as one reason for the proposed RBC delay. 84 FR 30048, June 26, 2019 at 30049.

Persistence in seeking a further delay from FASB has resulted in a new proposed effective date for CECL. Yet since the purpose of CECL is to help users of financial statements, such as investors, to assess an institution’s credit losses, it remains the position of the Association that

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institutions that do not have investors should not be under the standard. If the current proposed delay in CECL is approved, then compliance will occur seven years from the time the rule was adopted in 2016.

It is unquestioned that the recent further delay is a welcomed and positive step. However, it also raises legitimate questions about the need for a rule on smaller entities such as credit unions and others that can be repeatedly postponed and whether FASB has increased concerns about CECL's impact on credit unions. NCUA is urged to continue the pursuit of these concerns with FASB.

RBC Delay

The Association applauds the NCUA for considering the proposed RBC delay. In addition, the Association respectfully requests that the Board favorably act on the proposed delay and extend it until at least one year or longer after CECL takes effect, presently scheduled for January 2023. With the uncertainty of the total impact that CECL may have on credit unions generally, the Association believes that it is prudent to more closely align the compliance date of RBC rules with the CECL effective date. This action will provide a better understanding of CECL's implications and any adverse impact on the credit union system. Members have expressed their belief that it is likely that the RBC rules will need to be adjusted when pending issues are resolved, that a delay avoids confusion, and that a delay prevents further adjustments to reporting for additional changes.

NCUA is commended for pausing to consider RBC in the context of the capital rules in general. The Association supports the concept of delaying the RBC rules and strongly believes that the timing of RBC implementation should not precede CECL.

Other RBC Issues

While asset securitization and subordinated debt issues likely should be addressed in capital rules at some point, members suggested that the regulations on these issues should be in place before the capital treatment is adopted. Moreover, capital rules regarding asset securitization should recognize the lower level of off-balance sheet risks.

The Association notes that relative to subordinated debt, the use of certificates of indebtedness is presently authorized for federal credit unions. NCUA is encouraged to explore this issue further as it evaluates the use subordinated debt.

In addition, Association members support the idea of studying the proposed community bank leverage ratio ("CBLR") as a model for simplifying compliance with capital requirements for credit unions, particularly for organic growth. It is clear that any heightened change to capital, such as to 9%, is not supported since Congress has already determined that a 7% net worth ratio is sufficient for a credit union to be classified as well capitalized. From a consumer member's perspective, a credit union should not hold more capital than it needs to manage the risks in the products and services provided.

The Association encourages the NCUA to release a separate proposal on this issue as it would be useful to help inform credit unions and the agency on its use and result in productive comments on the possible options to tailor the CBLR for credit unions.

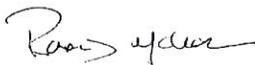
RBC and Low-Income Designation

Finally, the Association suggests that the NCUA should review its criteria to identify and to designate low-income credit unions. Such consideration is appropriate to raise in connection with this proposal since a low-income designation provides credit unions additional capital options. The NCUA is encouraged to undertake a comprehensive study to revisit and update how it defines “low income.” To begin, the Association suggests that the NCUA assess whether there are other reasonable approaches rather than or in addition to income levels that could be utilized to indicate underserved populations, such as common characteristics of low-income families, including but not limited to, food and housing scarcities, share of child care costs, and cost share or delay in medical treatment. Additionally, NCUA could redefine a “low income area” for purposes of designating low income credit unions by incorporating other flexible standards or criteria, established and verifiable by independent agencies, that would define total median earnings.

The Association strongly supports the NCUA’s efforts to help minimize RBC compliance by postponing the implementation date. NCUA is encouraged to continue to work to eliminate coverage of CECL for credit unions; to delay RBC until at least one year after CECL if efforts to remove credit unions from CECL’s application are unsuccessful; to issue a separate notice on the CBLR to elicit broad comments on the approach for credit unions; and to reconsider how the agency defines “low-income” credit unions.

Thank you for the opportunity to offer these comments. If you or your staff have any concerns, then please do not hesitate to contact the Association at govaff-reg@ccua.org.

Sincerely,



Ronald McLean
President/CEO
Cooperative Credit Union Association, Inc.

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