



August 30, 2017

Mr. Gerard Poliquin
Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: NASCUS Comments on Corporate Credit Unions

Dear Secretary Poliquin:

The National Association of State Credit Union Supervisors (“NASCUS”), the professional association of the state credit union regulatory agencies and the nation’s state credit union system, submits the following comments in response to the National Credit Union Administration’s (“NCUA’s”) proposed changes to Part 704, Corporate Credit Unions. We support the amendments as proposed.

Re-aligning the calculation of Tier 1 capital to conform to Generally Accepted Accounting Principles (GAAP) by combining the retained earnings of merging corporate credit unions on the books of the ongoing corporate credit union more accurately reflects capital available to cover losses. Likewise, the proposed amendment to fully credit the contributed capital of the corporate credit union’s members toward the capital ratio once the corporate has attained a 2.5 percent retained earnings ratio recognizes that contributed capital is available to cover losses. We agree these changes are prudent and present no enhanced risk to the credit union system.

We also urge NCUA to consider additional revisions to the current rule. We agree with the sentiments expressed by NCUA Chairman McWatters that the time is ripe for a “thoughtful loosening” of corporate credit union rules.¹

NASCUS understands and remembers the context within which the present corporate credit union rule was promulgated in 2010. As we wrote at the time, the weaknesses in the structure of the corporate system, and its supervisory structure became evident under the stress of the economic downturn.² We supported NCUA’s comprehensive revisions to the Corporate Credit Union Rule. At the time however, NASCUS noted

¹ Comments of NCUA Chairman J. Mark McWatters before CUNA GAC, February 2017. Available at <https://www.ncua.gov/newsroom/Pages/speech-2017-feb-remarks-of-chairman-mcwatters-gac.aspx>.

² NASCUS’ comments in response to 74 Fed. Reg. 65210 (Dec. 9, 2009), March 2005, 2010. Available at <http://www.nascus.org/Regulatory/RegCommentLetters/3-5-10-Proposed-Rule-Part-704.pdf>.

concerns about the long-term consequences of homogenizing the corporate credit union system. We reiterate those concerns today.

The changes as proposed by NCUA are a thoughtful, and needed, start to rightsizing the corporate credit union rules. However, there may be more to be done. In particular, it is time to acknowledge dual chartering within the corporate credit union system.³ We recommend NCUA consider the following:

- 1) Form a task force with state regulators to review future adjustments to the corporate credit union rules;
- 2) Reintroduce meaningful dual chartering by eliminating unnecessary preemption of state rules, particularly with respect to corporate credit union governance; and
- 3) Enhance the joint supervision of corporates and their risk to natural person credit unions by formalizing increased information sharing between NCUA and the state regulators supervising the corporate credit union's natural person credit union members.

To reiterate, NASCUS supports the proposed changes to Part 704 as proposed by NCUA. We also appreciate that firm and dramatic action was necessary in the aftermath of the losses sustained in the corporate system during the economic downturn. We supported NCUA then, and support the agency now. However, it is likewise true that not all corporates cascaded losses into the natural person credit union system. Some managed to operate safely and soundly under far more expansive rules. We believe that NCUA and state regulators, working in consultation, can identify additional opportunities to provide greater operational flexibility to the corporate system.

Sincerely,

- signature redacted for electronic publication -

Brian Knight
Executive Vice President and General Counsel

³ Six of the remaining 11 corporate credit unions are state chartered.