STATE OF CONNECTICUT
DEPARTMENT OF BANKING
FINANCIAL INSTITUTIONS DIVISION
260 CONSTITUTION PLAZA – HARTFORD, CT 06103

April 25, 2016

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

Via email to: boardcomments@ncua.gov

RE: Connecticut Department of Banking - Comments on OTR Methodology

Dear Mr. Poliquin:

The State of Connecticut Department of Banking ("CTDOB") appreciates the opportunity to comment on the National Credit Union Administration's ("NCUA") Overhead Transfer Rate ("OTR") methodology. We want to thank the NCUA Board and Chair Matz for providing state regulators and the credit union industry with an opportunity to comment on the methodology in a public forum. As a state regulator and active member of the National Association of State Credit Union Supervisors ("NASCUS")[1], we are keenly interested in the OTR and its impact on state chartered credit unions.

The CTDOB supports NASCUS' comment letter, outlining the issues and concerns state regulators and state credit unions have with the OTR methodology. Given the complexity and confusion of the current methodology, I encourage NCUA to reconsider the methodology in order to provide greater transparency, engage key stakeholders, and ensure equitable treatment of both federal and state credit unions.

The CTDOB is primarily concerned with three issues addressed in NASCUS' comment letter. First, it appears that the OTR methodology has effectively lowered the operating fees for federally-chartered credit unions while increasing the OTR for state-chartered credit unions. As a state banking commissioner, I strongly support the dual chartering system and believe that a strong, vibrant and diverse dual chartering system benefits both credit unions and consumers.

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[1] NASCUS is a professional regulators association whose mission is to enhance state credit union supervision and advocate for a safe and sound credit union system.

While charter is a credit union's choice, I want to ensure that the state charter provides opportunity for innovation of products and services – a critical element for all financial institutions in today's robust and highly changing and advancing technological environment. An OTR methodology that results in higher fees to a state-chartered credit union than a federally-chartered credit union negatively impacts the viability of the state charter.

Second, the OTR methodology fails to appreciate the distinction between the NCUA as the chartering authority for federal credit unions and the NCUA as administrator of the National Credit Union Share Insurance Fund ("NCUSIF").[2] The OTR should account for insurance-related costs, but the methodology is based on safety and soundness. Traditionally, evaluating the safety and soundness of a financial institution is the principal goal of the chartering authority (e.g., the Office of the Comptroller of the Currency and the Federal Reserve Board) and not the insurer. In fact, state regulators provide NCUA, as insurer, with a detailed assessment of the financial and operational condition of state-chartered credit unions through the sharing of Reports of Examination and coordinated examinations. The CTDOB has an excellent working relationship with the NCUA Regional Office, local examiners and supervisory staff. We take every effort possible to coordinate examinations in an effort to reduce regulatory burden on our state-chartered credit unions and to ensure that the NCUA, as insurer, has the information needed to assess the credit unions' risk to the NCUSIF. Our state regulatory examination program provides a uniform rating of each credit union's condition utilizing a CAMELS[3] and Composite Rating assessment and additionally assesses specialty examination areas including Information Technology and compliance with the Truth in Lending Act, Community Reinvestment Act and Bank Secrecy Act. I encourage the NCUA to not only rely upon state Reports of Examination to the fullest extent feasible, but also to account for the efficiencies the state examination process affords the NCUA when reconsidering the OTR methodology.

Finally, the Board should reconsider the NCUA's position that the OTR is not subject to the Administrative Procedure Act. Subjecting the OTR to public notice and comment will ensure all stakeholders, including federal and state credit unions, regulators and the public, are afforded the opportunity to periodically review the methodology for fairness, attain a greater understanding of the methodology, and ensure changes made to the methodology address risk to the NCUSIF.

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[2] While the OTR methodology has been reviewed externally by Deloitte & Touche and PriceWaterhouseCoopers, those reviews focused on the accounting mechanics of the methodology and did not opine on either NCUA's authority as regulator or insurer or the congressional intent behind the Federal Credit Union Act.

[3] CAMELS Rating is a supervisory rating system designed by the Federal Financial Institution Examination Council (FFIEC) that provides a uniform rating of the financial institution's condition. Assessments and ratings (based on a scale of 1 [best] to 5 [worst] are issued on the following components: (C) Capital Adequacy; (A) Assets; (M) Management; (E) Earnings; (L) Liquidity; (S) Sensitivity to Market Risk.

In conclusion, I urge the NCUA Board to review the OTR methodology in light of the recommendations in NASCUS' comment letter, seek input from stakeholders, and ensure the OTR methodology treats state-chartered credit unions equitably. Thank you for the opportunity to comment on the OTR methodology.

Very truly yours,

Jorge L. Pérez

JORGE L. PEREZ
BANKING COMMISSIONER

Cc: The Honorable Debbie Matz, NCUA Chairman
The Honorable Rick Metsger, NCUA Vice Chairman
The Honorable J. Mark McWatters, NCUA Board Member
The Honorable Richard Blumenthal
The Honorable Christopher Murphy
The Honorable John Larson
The Honorable Joe Courtney
The Honorable Rosa DeLauro
The Honorable Jim Himes
The Honorable Elizabeth Esty
The Honorable Gary Winfield
The Honorable Matthew Lesser
The Honorable Henri Martin
The Honorable Bill Simanski
Lucy Ito, President/CEO NASCUS