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National Association of Federal Credit Unions | www.nafcu.org

March 11, 2014

The Honorable Jeb Hensarling
Chairman
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

RE: The Importance of Supplemental Capital for All Credit Unions

Dear Chairman Hensarling and Ranking Member Waters:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federal credit unions, I write today to urge you to address the issue of supplemental capital for credit unions. In light of the NCUA's recently proposed risk-based capital rule, and as a matter of safety and soundness, it is more important now than ever that all credit unions are permitted to access supplemental forms of capital. With other credit union issues already slated for consideration, Thursday's scheduled full committee markup would be an opportunity to address this issue of great importance to our nation's credit unions.

On January 23, 2014, the NCUA Board issued a proposed rule regarding risk-based capital for credit unions. The proposed rule would make a number of revisions to NCUA regulations regarding Prompt Corrective Action (PCA) including replacement of the agency's current risk-based net worth (RBNW) requirements with new risk-based capital requirements. The proposed rule would also revise the risk-weights for many of NCUA's current asset classifications and require higher minimum levels of capital for federally insured natural person credit unions with concentrations of assets in real estate loans, member business loans (MBLs) or higher levels of delinquent loans. Under the framework of NCUA's proposed rule for risk-based capital, some credit unions could be required to shoulder a disproportionate amount of burden related to the safety and soundness of the greater credit union system. We strongly urge the committee to work with the NCUA to construct a fair and sustainable legislative solution. Currently, some credit unions can seek relief through obtaining supplemental capital. One step to improve this situation would be allowing all credit unions to have access to supplemental capital.

Under current law, a credit union's net worth ratio is determined solely on the basis of retained earnings as a percentage of total assets. Because retained earnings often cannot keep pace with asset growth, otherwise healthy growth can dilute a credit union's regulatory capital ratio and trigger nondiscretionary supervisory actions under prompt corrective action (PCA) rules. H.R. 719, the *Capital Access for Small Businesses and Jobs Act*, removes this artificial constraint by

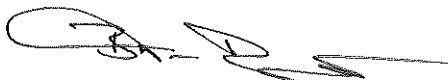
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empowering the National Credit Union Administration (NCUA), to authorize qualified credit unions access to supplemental capital.

The objective of the legislation is to ensure credit unions can continue to accept new deposits, especially during tough economic times, when demand for loans and other income-generating services are low, and to provide the NCUA with the same authority and flexibility to adjust capital requirements in response to changes in economic conditions as Congress has provided to federal banking regulators. Credit unions authorized by NCUA to accept supplemental forms of capital would still be credit unions – financial cooperatives dependent on their members for direction and support and focused on providing benefits to their members rather than to stockholders.

We urge you and the Committee to support this issue and consideration of this legislation. Thank you for your attention and should you have any questions or require any additional information please contact me or Chad Adams, NAFCU's Associate Director of Legislative Affairs, at 703-842-2265 or cadams@nafcu.org

Sincerely,

A handwritten signature in black ink, appearing to read "B. Dan Berger", with a long horizontal flourish extending to the right.

B. Dan Berger
President and CEO

cc: Members of the House Financial Services Committee