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

Carrie R. Hunt
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April 21, 2014

The Honorable Debbie Matz, Chairman
The Honorable Michael E. Fryzel, Board Member
The Honorable Rick Metsger, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Notice of Proposed Rulemaking – Capital Planning and Stress Testing

Dear Chairman Matz, Board Member Fryzel and Board Member Metsger:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I write to you regarding the National Credit Union Administration's (NCUA) proposal on capital planning and stress testing requirements for federally insured credit unions with assets of $10 billion or more. This proposal is scheduled to be addressed during this week's NCUA Board meeting on April 24, 2014. NAFCU would like to take this opportunity to reiterate our points expressed in our original comment letter, and emphasize that the proposal as stands is unnecessary and inappropriate to apply to credit unions and will be extremely costly to implement. Additionally, it is unclear how this proposal will interplay with the NCUA's recently proposed risk based capital rule. As such, NAFCU suggests that the stress testing rule be delayed until there is greater clarity on the direction of the risk based capital rule. Accordingly, NAFCU opposes the stress testing and capital planning proposal in its current form and recommends that the NCUA not adopt it.

NAFCU does recognize the benefits behind the notion of stress testing and advanced capital planning. The health of the NCUSIF is essential for the credit union industry, and stress testing and capital planning are important tools for credit unions to assist in proper management. However, the proposal, if adopted, would do little to enhance the security of the NCUSIF yet would add additional regulation to credit unions.

The costs of the proposal would significantly outweigh any benefits it might confer. There are currently only four covered credit unions that would be subject to the proposal. To NAFCU's knowledge, all four of the covered credit unions already engage in some form of stress testing and capital planning and have all the necessary incentives to continue to do so. At an estimated cost of at least $1 million per stress test in the first year and $500,000 each year thereafter, the proposal would result in an expensive and unnecessary duplication of efforts by the NCUA. Further, the NCUSIF would bear the cost of such stress testing, reducing the available funds to protect all credit unions, not only the credit unions covered by the proposal. Given that the covered credit unions survived the recent financial crisis without the need for additional NCUA stress testing and oversight, the NCUA has not demonstrated that the stress testing would be worth the cost and risk to the rest of the credit union industry.

NAFCU believes there is danger in the NCUA relying on independent third party modelers in performing the stress tests. Credit unions are very unique as an industry and each one has certain specific characteristics geared towards serving its members' and field of membership's needs. It would be very difficult for the NCUA to find an independent third party modeler who could accurately reflect these differences in any stress test. Instead of selecting a third party to conduct expensive stress testing that would duplicate the individual efforts of covered credit unions, the NCUA should allow covered credit unions to continue to conduct their own stress testing. At regular intervals the NCUA could select independent consultants to review the assumptions and processes used by covered credit unions to verify their soundness and validity.

The NCUA's efforts to achieve parity with other financial industry regulators with respect to stress testing are neither necessary nor designed in a way that reflects the unique nature of credit unions. Credit unions in general have unique, often qualitative, attributes that differentiate them from other financial institutions. Directly applying requirements based on those promulgated by the Fed, FDIC, and OCC fails to recognize that credit unions have a different mission and relationship with their members than other institutions, and that credit unions are both mandated to and choose to make more prudent investments. In addition, Congress had the ability and opportunity to include a mandate in the Dodd-Frank Wall Street Reform and Consumer Protection Act that the NCUA perform stress testing alongside the Fed, FDIC, and OCC, but notably chose not to do so. The NCUA should acknowledge Congress' decision and not force regulatory parity where it is not necessary.

NAFCU urges the NCUA to expand its stress testing timeline due to the complexity and burdens imposed by the regulation and the failure to do so could result in the receipt of inaccurate information. Credit unions need time to work with the necessary vendors and there is no apparent need for extreme urgency, particularly given that most covered credit unions already have stress testing systems in place. The NCUA should consider implementing a phased stress testing approach to reduce the burden on credit unions and use the additional time to develop meaningful and results-based guidance.

NAFCU appreciates the opportunity to provide our comments. Should you have any questions or concerns, please feel free to contact me at chunt@nafcu.org or (703) 842-2234 or Angela Meyster, NAFCU's Regulatory Affairs Counsel, at ameyster@nafcu.org or (703) 842-2272.

Sincerely,

Carrie R. Hunt
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