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National Association of Federally-Insured Credit Unions

September 27, 2021

Dawn Wolfgang
PRA Clearance Officer
National Credit Union Administration
1775 Duke Street
Alexandria, VA. 22314-3428.

RE: Agency Information Collection Activities: Proposed Collection; Comment Request; Capital Planning and Stress Testing; (Document No. 2021-15924)

Dear Ms. Wolfgang:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the request for comment issued by the National Credit Union Administration (NCUA) regarding capital planning and stress testing information collection. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 127 million consumers with personal and small business financial service products. As required under the Paperwork Reduction Act, the NCUA must periodically consult the public on ways to minimize the burden of ongoing information collection from those who are required to respond.¹ For covered credit unions that will become subject to capital planning and stress testing requirements after the expiration of the NCUA's temporary, asset threshold relief measures, preparing for stress testing on an accelerated basis and incorporating test results in capital plans will likely pose significant administrative burdens.

NAFCU recommends the NCUA adopt a three-year phase-in of the stress testing requirement in Subpart E of Part 702 for Tier II covered credit unions, such that a credit union would remain a Tier I credit union for at least three years before triggering Tier II requirements, regardless of how quickly it reaches \$15 billion in total assets, and remain a Tier I credit union for as long as its total assets remain below this threshold. While credit unions experiencing sustained, pandemic related growth have benefited from the NCUA's temporary asset threshold relief, the compression of multiple compliance deadlines in the 2022-2023 timeframe will likely strain staff resources as credit union prepare for new supervisory expectations. In 2022, the NCUA's Risk Based Capital Rule (RBC Rule) will take effect and beginning in 2023 credit unions will need to comply with the Current Expected Credit Loss (CECL) standard. Allocating appropriate resources to ensure compliance with these two highly burdensome requirements, in addition to shouldering new stress testing expectations, could detract from efforts to prioritize member assistance for many Americans who continue to experience pandemic related hardship.

¹ See 44 U.S.C §§ 3506(c) and 3507(h).

Notably, the NCUA has previously considered a three-year phase-in for stress testing requirements for Tier II credit unions.² Call Report data also indicates that three years is roughly the minimum timeframe for credit unions to grow from \$10 billion to \$15 billion in total assets. However, the NCUA ultimately determined to remove the three year phase-in period in its 2018 Capital Planning and Stress Testing Final Rule (2018 Rule) in favor of a strict asset-size threshold because it believed, at the time, that institutional size was a greater indicator of systemic risk to the National Credit Union Share Insurance Fund (SIF).³ Yet, the NCUA has distinguished normal growth from pandemic-related growth in its Asset Threshold interim final rule (IFR). In the IFR, the NCUA acknowledged “the Board does not believe that the balance sheet growth related to the COVID-19 Pandemic has significantly increased the general risk profile of the affected FICUs.”⁴

To help ease transitional compliance burdens as temporary, pandemic-related relief measures expire, NAFCU urges the NCUA to consider a phased-in approach for stress testing, but modified to ensure that a credit union will retain its Tier I status beyond three years as long as it does not cross \$15 billion in total assets. For covered credit unions continuing to experience accelerated growth, the ability to gradually adjust to new supervisory expectations over a longer period will ensure that capital planning and stress testing processes have adequate time to mature and evolve. Furthermore, a hastened transition to new regulatory tiers would not reflect the actual risk posed by credit unions that have grown faster than expected. Providing a more reasonable transition period for stress testing would allow healthy institutions to focus on member assistance during a period of uneven economic recovery.

Separately, the NCUA should consider whether the current covered credit union tiers in Subpart E of Part 702 are appropriately calibrated and whether increasing the thresholds for each tier could be accomplished without increasing the risk to the NCUSIF. As compared to banks, covered credit unions encounter formal stress testing requirements at a much smaller size. At the time the 2018 Rule was approved, the Dodd-Frank Wall-Street Reform and Consumer Protection Act required banks with total consolidated assets of more than \$10 billion to conduct periodic company-run stress tests. Shortly after the 2018 rule was published, Section 401 of the Economic Growth, Regulatory Relief and Consumer Protection Act increased the threshold for bank-run stress tests to \$250 billion in total assets. Although the NCUA noted in its 2018 Rule that it did not consider “the risks that banks pose to the [Deposit Insurance Fund] as analogous to the risks that covered credit unions pose to the NCUSIF,” it held open the possibility of revisiting the capital planning and stress testing tiers for covered credit unions in the future.⁵ NAFCU believes that several years of supervisory data regarding covered credit union capital planning, including through a period of extreme stress, should permit informed reconsideration of the tiers and their associated thresholds.

² See NCUA, Capital Planning and Supervisory Stress Testing, 82 Fed. Reg. 50094, 50098 (October 30, 2017) (“[A] tier II credit union” means a covered credit union that has completed three or more capital planning cycles and has less than \$20 billion in total assets, or is otherwise designated as a tier II credit union by NCUA.”)

³ See NCUA, Capital Planning and Supervisory Stress Testing, 83 Fed. Reg. 17901, 17902 (April 25, 2018).

⁴ See NCUA, Asset Thresholds, 86 Fed. Reg. 15397, 15398 (March 23, 2021).

⁵ See 83 Fed. Reg. 17902 (“[the NCUA] does not believe that *at this time* the size thresholds for banks are appropriate for covered credit unions.”) (emphasis added).

National Credit Union Administration

September 27, 2021

Page 3 of 9

NAFCU appreciates the opportunity to comment on the NCUA's request regarding capital planning and stress testing information collection. Should you have any questions or require additional information, please do not hesitate to contact me at (703) 842-2266 or amorris@nafcu.org.

Sincerely,

A handwritten signature in black ink that reads "Andrew Morris". The signature is written in a cursive style with a long horizontal flourish at the end.

Andrew Morris
Senior Counsel for Research and Policy