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National Association of Federally-Insured Credit Unions

March 25, 2021

Ms. Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Risk-Based Net Worth-COVID-19 Regulatory Relief
RIN: 3133-AF21

Dear Ms. Conyers-Ausbrooks:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the National Credit Union Administration's (NCUA) proposed rule concerning risk-based net worth regulatory relief. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 124 million consumers with personal and small business financial service products. NAFCU and its member credit unions support the NCUA's attention to the critical issue of capital relief.

The need for capital relief cannot be overstated, even as the country begins to surmount the worst effects of the COVID-19 pandemic. The entire credit union industry has been working tirelessly to fuel the engine of economic recovery with new loans, forbearances, and other accommodations to address the hardships faced by members who have lost jobs or experienced strains on household finances for the past year. The intensity of this member-focused activity has coincided with increased pressure on net worth and risk based net worth ratios resulting from an elevated savings rate and influx of government stimulus. In recognition of the underlying health of the credit union industry and the unusual capital pressure caused by pandemic-related asset growth, NAFCU fully supports the proposed rule to amend the NCUA's current risk-based net worth (RBNW) requirement.

General Comments

The NCUA has proposed to increase the threshold for defining a complex credit union for purposes of the current risk-based net worth requirement to $500 million. NAFCU agrees with the NCUA's assessment that the amended threshold will better match the prospective risk-based capital (RBC) requirement without presenting any risk to safety and soundness. NAFCU also concurs with the NCUA's expectation that this interim degree of capital relief before the final RBC rule takes effect will enable credit unions to better prioritize service to members and support lending activities.

Currently, the NCUA defines a credit union as complex and thus subject to the RBNW requirement only if the credit union has quarter-end assets that exceed $50 million and its RBNW requirement, as calculated under 12 CFR § 702.106, exceeds six percent. The NCUA estimates that increasing the RBNW complexity threshold to $500 million would provide potential relief to 1,737 credit unions, and definite relief to 67 credit unions that are required (under the current RBNW requirement) to hold capital above 7 percent and have assets less than $500 million. For the latter group, these credit unions represent less than 1 percent of industry assets.

NAFCU expects that the magnitude of the proposed relief will depend significantly on how quickly a final rule is adopted. Credit unions are now approaching the second quarter of 2021. If the amendment is not finalized as soon as possible, the administrative benefits associated with increasing the threshold will be substantially diluted for those credit unions who must hold additional capital under the current RBNW rule and expect to remain under $500 million in assets after January 1, 2022. Accordingly, we urge the NCUA to publish a final rule as quickly as practicable.

Additional Capital Relief Needed

While NAFCU expects to submit additional comments in response to the NCUA's advanced notice of proposed rulemaking concerning simplification of RBC requirements, the Board should not neglect other opportunities for interim capital relief. Specifically, the NCUA should reconsider its process for recognizing when a credit union crosses an asset threshold that corresponds with new supervisory or regulatory requirements.

For credit unions near the $10 billion asset threshold, the pandemic has largely frustrated their efforts to reasonably predict how quickly they will grow and can plan to meet new standards or expectations. As credit unions cross this asset threshold, they encounter new regulatory requirements, which might include heightened supervision, stress testing, or eventual compliance with the new risk-based capital rule. Furthermore, some credit unions may cross the $10 billion threshold now, while they are experiencing share growth, but then dip back down below the $10 billion threshold once members resume their normal spending and saving habits post-pandemic.

NAFCU supports the NCUA's decision to issue an interim final rule that aligns with actions taken by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency (collectively, "the other banking agencies") in late November 2020 to delay recognition of regulatory thresholds for community banks.[1] The rule issued by the other banking agencies generally provides community banks with a transition period through 2022 to either reduce their size or to prepare for new regulatory and reporting requirements. NAFCU supports the NCUA's decision to extend similar relief to credit unions.

NAFCU would also like to thank the NCUA Board for recognizing the need for ongoing capital relief at its March 18, 2021 meeting. Specifically, NAFCU supports an extension of the prompt corrective action (PCA) relief the Board first approved in May 2020. The original interim final rule (IFR) regarding PCA relief expired on December 31, 2020; however, the need for PCA

[1] See NCUA, Interim Final Rule, Asset Thresholds, NCUA-2021-1111 (March 18, 2021), available at https://www.ncua.gov/files/agenda-items/AG20210318Item2b.pdf.

flexibility persists given the influx of new stimulus payments authorized by the *American Rescue Plan Act of 2021* and *Consolidated Appropriations Act, 2021*. Consumer spending has not completely recovered and the pandemic continues to exert pressure on credit union net worth ratios. Extending the previously approved IFR would permit the Board to temporarily waive the earnings retention requirement for any federally-insured credit union that is classified as adequately capitalized, and would permit federally-insured credit unions to submit simplified net worth restoration plans and attest that its reduction in capital has been caused by share growth resulting from a temporary condition due to the coronavirus pandemic. Swiftly extending such relief, along with finalizing the RBNW proposal itself, will help credit unions prioritize member assistance and alleviate operational pressure associated with capital dilution without any material risk to safety and soundness.

Conclusion

NAFCU appreciates the opportunity to comment on the NCUA's proposed amendment to its RBNW regulation. NAFCU supports the NCUA's attention to capital relief issues and the Board's recognition of the credit union industry's significant efforts to address members' financial hardship during the pandemic. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2266 or amorris@nafcu.org.

Sincerely,

Andrew Morris

Andrew Morris
Senior Counsel for Research and Policy