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National Association of Federally-Insured Credit Unions

May 27, 2020

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

RE: Regulatory Capital Rule: Paycheck Protection Program Lending Facility and Paycheck Protection Program Loans (RIN: 3133-AF16)

Dear Mr. Poliquin:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to express our support for the interim final rule issued by the National Credit Union Administration (NCUA) which extends favorable capital treatment to Paycheck Protection Program (PPP) loans and collateral backing Paycheck Protection Program Liquidity Facility (PPPLF) advances. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 120 million consumers with personal and small business financial service products. NAFCU appreciates the NCUA Board's quick action to implement provisions in the *Coronavirus Aid, Response and Economic Security Act* (CARES Act) that ease regulatory capital burdens on PPP loans. Regulatory codification of these provisions will allow credit unions to focus on lending to America's small businesses and facilitating economic recovery in main street communities.

NAFCU agrees that PPP loans are low-risk assets and, for the purpose of calculating the current risk based net worth requirement (RBNW), should receive a zero percent risk weight. Treating PPP loans in this way will remove unnecessary barriers that would otherwise impede lending to small business members who have suffered financially as a result of the COVID-19 pandemic. While addressing the RBNW rules will have immediate impact, the NCUA should also clarify that PPP loans will receive a zero percent risk weight in its future risk-based capital rule (RBC rule), which will take effect January 1, 2022. Because the maximum maturity of a PPP loan is two years, some PPP loans might remain on credit union books past January 2022. Clarification that PPP loans receive a zero percent risk weight under the RBC rule will ensure that credit unions can continue to treat these loans as low-risk. Furthermore, such clarification could potentially accommodate future legislative efforts to reinvigorate the PPP program or authorize additional funding.

The NCUA's complementary action to exclude PPP loans pledged as collateral to the PPPLF from the calculation of total assets for net worth purposes will also provide needed regulatory flexibility. As the rule notes, PPPLF advances are non-recourse and the underlying collateral is backed by a full government guarantee. Accordingly, PPP loans securing PPPLF advances do not expose credit unions to credit or market risk. Although unpledged PPP loans will still be included in total assets

for the purpose of calculating the net worth ratio, all PPP loans will receive a zero-percent risk weight under the risk based net worth requirement. NAFCU supports this arrangement, but asks that the NCUA make technical corrections in its final rule. Specifically, the NCUA should clarify that its rule applies to collateral pledged to the “Paycheck Protection Program Liquidity Facility”—not the Paycheck Protection Program *Lending* Facility. While the exact naming of the facility was perhaps in flux at the time the interim rule was drafted, the Federal Reserve has since adopted the PPPLF as the official name of the facility in all relevant agreements that must be executed by financial institutions. Ensuring consistency in language will reduce confusion for credit unions even if the intent of the regulation is clear.

Lastly, NAFCU appreciates the Board’s clarification that PPP loans are not “commercial loans” as defined in Part 723 of the NCUA’s regulations. As the rule observes, the unique nature of PPP loans mitigates the need for enhanced commercial underwriting of these loans. NAFCU believes that limiting the applicability of underwriting and loan policies to those promulgated by the SBA will allow credit unions to focus on a single source of guidance and facilitate faster loan origination.

The interim final rule offers a first step towards providing necessary capital relief in a challenging economic environment. While additional capital improvements are needed, and some proposals already announced, we are hopeful that the NCUA will continue to take the actions necessary to facilitate a full recovery for members, credit unions, and main street communities across America. NAFCU appreciates the opportunity to comment on the interim final rule. 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 cursive script that reads "Andrew Morris".

Andrew Morris
Senior Counsel for Research and Policy