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National Association of Federally-Insured Credit Unions

B. Dan Berger
President & Chief Executive Officer

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The Honorable J. Mark McWatters
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: Recent Developments of Federal Banking Agencies

Dear Chairman McWatters:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally insured credit unions, I am writing to bring to your attention recent research and proposals issued by other federal banking regulators. Additionally, because many of these developments touch on the same underlying issues that impact credit unions, NAFCU recommends the agency evaluate these measures and consider whether the agency should undertake similar efforts. Under your leadership and direction, the agency has already developed some plans to loosen the regulatory burden on credit unions, especially with regards to capital. NAFCU and its members greatly appreciate those efforts and hope that the agency continues on its current path.

OCC, FDIC, FRB: Proposed Simplified Capital Requirements

In September 2017, the Office of Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Board (FRB) (collectively, the "federal banking agencies") issued a joint-proposal to reduce regulatory burden by simplifying capital rules. As noted in the proposal, the federal banking agencies are fulfilling the commitment they made in their report pursuant to the *Economic Growth and Regulatory Paperwork Reduction Act* (EGRPRA), to meaningfully reduce regulatory burden.

The federal banking agencies propose, in part, to simplify the threshold deduction for mortgage servicing assets (MSA). This would include raising the limit for MSAs from 10 percent of common equity tier 1 capital to 25 percent, where any MSAs that exceed that limit would be deducted from regulatory capital. While the federal banking agencies' proposal would maintain MSA risk weight at 250 percent, this move clearly demonstrates the commitment to reduce regulatory capital burdens, as promised in the EGRPRA report.

Given that credit unions are prohibited from purchasing MSAs, NCUA does not require credit unions to deduct any amount of MSAs from regulatory capital, and as such, a similar move by NCUA to ease capital requirements would be incompatible with the current regulatory framework. However, NAFCU believes the agency could take comparable measures to ease capital requirements, such as a reduced risk-weighting. Relatedly, as you stated in NCUA's Report to Congress as a voluntary-participant in the EGRPRA process, "[w]ithout limitation, we intend to substantially revise the risk-based net worth rule." For our part, NAFCU and our members support that effort and stand ready to assist in making those intentions a reality.

OFR: Size does not Equal Risk

On October 26, 2017, the Office of Financial Research (OFR), led by a Director that was appointed during the previous administration, published a report that supports NAFCU's long-held stance that size does not equal risk. The report, "Size Alone is Not Sufficient to Identify Systemically Important Banks," found that the asset size of an institution is insufficient to determine riskiness. Rather, the report asserts that a multi-factor test that examines the nature and activities of the institution is a better indicator of risk.

Currently, NCUA has numerous regulations with varying requirements, based solely on a credit union's asset size. While NAFCU appreciates that NCUA's various asset threshold requirements are intended to provide regulatory relief, we would like to reassert our long-held belief that such relief would be better hinged on a multi-factored evaluation of a credit union's activities.

Simply put, an 18-month exam cycle and streamlined capital requirements should be available to all well-run, low-risk credit unions – regardless of asset-size. Accordingly, NAFCU asks that NCUA reassess its method of how credit unions are provided the benefits of regulatory relief.

Conclusion

NAFCU and our members appreciate the agency's multi-year effort in examining current regulations and determining which should be reformed. While we will provide additional feedback on specific regulations being reviewed, NAFCU is optimistic that NCUA will incorporate the findings and activities of other federal banking agencies in its own relief efforts. Should you have any questions or would like to discuss these issues further, please contact me at (703) 842-2215.

Sincerely,

B. Dan Berger
President & CEO