Indiana Credit Union League

The association of Indiana credit unions

October 15, 2021

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

Re: Capital Adequacy: The Complex Credit Union Leverage Ratio; Risk-Based Capital; RIN 3133–AF12

Dear Ms. Conyers-Ausbrooks:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule on the Complex Credit Union Leverage Ratio (CCULR). The ICUL member credit unions represent 99% of assets and members of Indiana's credit unions, with those memberships totaling more than 2.8 million consumers.

We continue to believe the 2015 Risk Based Capital (RBC) final rule is a solution looking for a problem. The rule would have not prevented the last financial crisis that was confined to the corporate credit unions. In addition, the losses during that time were overestimated, which is being illustrated by NCUA's corporate stabilization refunds. Those overestimated assessments resulted in money and resources being taken away from credit unions and communities. And in some cases, the overestimated assessments contributed to the merger of credit unions. It's important that NCUA carefully evaluate the need for additional capital. It is especially important because since 2007, there have only been five credit union failures with assets greater than $500 million. In comparison to banks, this is substantially lower.

Additionally, a 10% well-capitalized threshold for the CCULR is higher than the 9% threshold established by the other banking agencies for the Community Bank Leverage Ratio (CBLR). While there is significant difference between banks and credit unions, throughout the proposal NCUA justifies proposed changes by referencing the banks' CBLR; however, it then increases the well-capitalized threshold by 100 basis points. Further, the credit union industry and the National Credit Union Share Insurance Fund historically has proven to be a more sound system than the banking counterparts.

We urge NCUA to reconsider the 10% CCULR threshold. It is important to consider safety and soundness; however, 10% is too high and it needs to be a realistic option for the affected credit unions. As proposed, only 48% of affected credit unions would currently be eligible. At a 9% threshold, 73% of those affected would be eligible to use the CCULR option. If the objective is to have a simpler option available for complex credit unions, then NCUA should reconsider the threshold for eligibility.

If NCUA is generally looking for parity with the banking regulators, it should not include additional qualifying criteria. We disagree with the need to include additional qualifying criteria, such as mortgage servicing assets or investments in credit union service organizations. Additionally, credit unions should not have formal CCULR opt-out notice requirements. Banks do not have such a requirement, and banks were complying with RBD for several years before CBLR went into effect.

We appreciate the concept of a transition period (CCULR opt in with a net worth 9% or greater between January 1, 2022, and December 31, 2022; net worth 9.5% or greater beginning January 1, 2023; and net worth 10% or greater beginning January 1, 2024). However, we believe NCUA should consider a four-year transition and delay the January 1, 2022, effective date because of the pending changes to the RBC requirements or the adoption of the CCULR. With a comment period ending in October and the uncertainty on when a final rule will be released, it unrealistic to expect compliance on January 1. NCUA should give at least six months to one year after the final rule's publication in the *Federal Register*.

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The proposal states there is an opt in to the CCULR, but NCUA reserves the right to deny the request if the credit union's capital requirements are not commensurate with its credit or other risks. Understandably there may be isolated instances; however, NCUA should provide greater detail on how this process will work to make sure there is consistency, and the rule should explain who at NCUA makes the decision. There should also be an appeal process for the credit union.

We do support that all complex credit unions, regardless of asset size, would be eligible for CCULR and the two-quarter grace period for credit unions that no longer qualify for CCULR to once again qualify or comply with the RBC ratio requirements. We generally agree with NCUA's assessment that goodwill and other intangible assets can contain a high level of uncertainty regarding a credit union's ability to realize value from these assets, especially under adverse financial conditions. However, NCUA should evaluate whether there could be unintentional harm to certain credit unions involved in supervisory mergers.

The ICUL appreciates the opportunity to comment on NCUA's CCLUR proposal. If you have any questions about our letter, please do not hesitate to give me a call at (317) 594-5320.

Sincerely,