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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

Dear Ms. Conyers-Ausbrooks:

The Independent Community Bankers of America (“ICBA”)<sup>1</sup> appreciates the opportunity to provide comments on the National Credit Union Administration’s (NCUA) proposed rule titled *Risk-Based Net Worth—COVID 19 Regulatory Relief*. In ICBA’s view the rule provides too small a capital cushion for complex credit unions. Instead, NCUA should institute a minimum regulatory capital framework for credit unions that is no less stringent than the Basel III regulatory capital framework adhered to by all community banks regardless of size or business activities.

**Background:** The proposed rule would amend current NCUA regulations to change the definition of a complex credit union. Currently a complex credit union is defined as a credit union with quarter-end assets exceeding \$50 million with a risk-based net worth requirement exceeding six percent. The determination of a credit union’s risk-based net worth requirement is governed by NCUA regulations and is an aggregate of pre-determined standard component amounts expressed as a percentage of the credit union’s quarter end total assets. Those standard component amounts include long-term real estate loans, member business loans, and investments. As proposed the definition of a complex credit union would change to a credit

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<sup>1</sup> The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than \$4.9 trillion in assets, \$3.9 trillion in deposits, and \$3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America. For more information, visit ICBA’s website at [www.icba.org](http://www.icba.org).

*The Nation’s Voice for Community Banks.*®

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union with quarter-end assets exceeding \$500 million and a risk-based net worth requirement exceeding six percent. Below these asset and risk-based net worth requirement levels a credit union would not be subject to any risk-based net worth requirement. NCUA believes that it is unnecessary for complex credit unions to be subject to the current definition because the NCUA is establishing a risk-based capital requirement for complex credit unions to start on January 1, 2022. The risk-based capital definition of a complex credit union that starts on January 1, 2022 only applies if the credit union's quarter-end assets exceed \$500 million. By raising the asset threshold in the current definition of a complex credit union, the new definition would more closely match the definition used for risk-based capital starting with the January 1, 2022 risk-based capital requirement.

**ICBA Comments:** ICBA acknowledges that financial institutions need regulatory relief during the COVID-19 pandemic and that prudential financial regulators should work closely with impacted financial institutions to ensure that the institution is allowed sufficient flexibility to ensure the most appropriate safety and soundness during these difficult times. However, it appears that NCUA has been working with credit unions of all sizes to ensure that they operate with minimal supervisory standards in the financial institution regulatory landscape including standards surrounding capital adequacy and member business lending. While community bank financial regulators enforce strict regulatory capital, lending concentration, and credit quality lending standards, credit union oversight has recently consisted of proposals such as this one to minimize any new regulatory standards. Such conduct is occurring under one a large government lending liquidity endeavor with future economic growth uncertain at best. Even a short-term shock to interest rates could generate a liquidity shortfall impacting operating cash flow at credit unions without proper interest rate sensitivity safeguards requiring American taxpayers to backstop a government rescue of beleaguered institutions.

All Community banks regardless of size are subject to risk-based capital rules which include a minimum total risk-based capital ratio of over 10 percent. Community banks without complex balance sheets are permitted to operate at a simplified capital ratio of 9 percent<sup>2</sup>. Contrast these high levels with credit union net worth ratio requirements, which only require a minimum net worth ratio of 7%. Allowing credit unions to operate with such a small capital cushion cannot be

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<sup>2</sup> The community bank leverage ratio is currently at 8.5% but will rise back to 9% in 2022.

supported by any industry analysis that avoids the catastrophic failures that can occur when a credit union does not properly manage risk.

**What is needed now more than ever is NCUA leadership that presents a minimum regulatory capital framework that is no less stringent than the Basel III regulatory capital framework adhered to by all community banks regardless of size or business activities.**

Community banks are well capitalized with a strong customer base that provides superior credit quality and appropriate asset pricing needed to weather a future economic storm. With credit union lending, a “race to the bottom” atmosphere has taken over with attempts to gain market share in both consumer and commercial banking at any cost.

ICBA appreciates the opportunity to comment on this proposed rule and request for comment. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 821-4364 or [james.kendrick@icba.org](mailto:james.kendrick@icba.org).

Sincerely,

/s/

James Kendrick  
First Vice President, Accounting and Capital Policy

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