The National Voice of the State Credit Union System

FOR IMMEDIATE RELEASE
May 11, 2021

CONTACT: Amanda Tuckey, Sr. Director, Communications and Marketing, NASCUS
atuckey@nascus.org

NASCUS Issues Comments on Proposed CAMELS Rating System Changes and Risk-Based Capital Requirements

NASCUS has submitted two comment letters to the National Credit Union Administration (NCUA) regarding proposed changes to the CAMELS Rating System and the proposed rulemaking on Simplification of Risk-Based Capital Requirements (RBC).

NASCUS supports and encourages expeditious implementation of the CAMELS Rating System. If finalized, this proposal would add a Sensitivity to Market Risk ("S") component to NCUA's existing CAMEL rating system and redefine the Liquidity Risk ("L") component to more precisely measure interest rate and liquidity risk.

This change would more precisely measure risk and better align the NCUA with the agency's sister federal banking agencies (FBAs) as well as the many state regulators that have already implemented the CAMELS rating system.

"Adopting this change would enhance clarity and transparency related to interest rate risk exposure; increase the accuracy of the Liquidity and Sensitivity to Market Risk ratings; provide consistency with the other FBAs and state agencies that have adopted CAMELS, and better position NCUA to recognize interest rate risk and liquidity risk as the nation emerges from the pandemic's economic dislocation."

Past implementations of the CAMELS Rating System resulted in minimal disruption to affected credit unions in adopted states, along with being preferred by many of those same credit unions. Furthermore, this change would also satisfy recommendations made by NCUA's Inspector General in a 2015 Audit Report reviewing the agency's Interest Rate Risk Program.

As it applies to RBC, NASCUS supports the NCUA's efforts to simplify the agency's risk-based capital rules. Reducing regulatory reporting burdens and providing complex credit unions added flexibility to meet their capital requirements are shared goals that will benefit the credit union system overall.

However, NASCUS does not currently support the development or implementation of the risk-based leverage ratio. Further development of the RBLR would not be constructive for the following reasons:

- The proposal to displace the current RBC rule with the proposed RBLR appears premature. There is insufficient rationale to abandon the 2015 RBC Rule at this time.
- While NASCUS agrees with the stated goal of regulatory simplification, there are limits on the merits of a one-size-fits-all regulatory capital framework.
- The RBLR may create a perceived conflict with the Subordinated Debt Rule.
- Replacing the existing 2015 RBC Rule would be disruptive and would impose significant transition costs on credit unions.
- There is insufficient time to develop a new and different mandatory risk-based capital approach.

NASCUS is also concerned that a risk-based leverage ratio unrelated to risk may have the unintended effect of encouraging more daring behaviors by some, to improve their own regulatory capital ratios.

NASCUS does support further development of a complex credit union leverage ratio. NASCUS has previously encouraged the NCUA to consider adopting an off-ramp to the 2015 Risk-Based Capital Rule commensurate with the Community Bank Leverage Ratio (CBLR). Allowing credit unions to choose which approach is most compatible with their business model affords flexibility within the system.

Additionally, NASCUS comments:

- The voluntary nature of the proposed CCULR is a critical and beneficial component because it provides eligible credit unions the flexibility to choose their preferred risk-based capital approach.
- The proposal should be carefully developed to ensure credit unions are not incentivized to increase earnings to satisfy a simplified risk-based capital approach.
- Preservation of the Subordinated Debt Rule and leveraging the use of subordinated debt for both low-income designated credit unions (LICUs) and non-LICU complex credit unions to satisfy capital requirements.

The copies of both NASCUS comment letters are available on the NASCUS website at:

- CAMELS Rating System: http://bit.ly/05-11-21-CAMELS
- Simplification of Risk-Based Capital Requirements: http://bit.ly/05-11-21RB-CL

###

NASCUS is the national association that advocates for a strong and healthy state credit union system, and whose members include state regulatory agencies, credit unions, credit union leagues, and organizations that support the state credit union system.