VIRGINIA BANKERS ASSOCIATION

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<u>Via: www.regulations.gov</u>

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street,
Alexandria, Virginia 22314-3428

Re: RIN 3133-AF08, Subordinated Debt

Dear Mr. Poliquin:

The Virginia Bankers Association ("VBA") represents banks of all sizes and charters and has served as the organized voice for Virginia's $615 billion banking industry and its 42 thousand employees since 1893. We appreciate the opportunity to comment on the National Credit Union Administration's ("NCUA") notice of proposed rulemaking regarding proposed revisions to its regulations to permit low-income designated credit unions, complex credit unions, and new credit unions to issue subordinated debt for purposes of regulatory capital treatment.

The VBA strongly opposes the proposed rule. Allowing credit unions to issue alternative capital usurps Congressional authority by approving the use of investor-raised funds to satisfy regulatory capital requirements, an area Congress clearly restricted to retained earnings in the Federal Credit Union Act.

Additionally, NCUA has acknowledged that the use of secondary capital by low-income credit unions has contributed to rapid growth and higher failure rates in those credit unions. If the proposed rule is adopted, the unfettered access to capital markets will enable credit unions to grow well beyond their mission of serving people of small means and will create significant risk to the Share Insurance Fund.

The proposal is also concerning in the context of NCUA's actions to erode the other pillars of the credit union tax exemption compact, including the field of membership expansion, the low-income designation expansion, and the proposal to speed credit unions purchases of banks. If credit unions can get funding through subordinated debt offerings, they will have more cash to acquire tax-paying banks in communities across America, which will result in harm to local governments that depend on federal, state, or local income taxes. Since credit unions are tax-exempt, every bank that is acquired by a credit union leads to a reduction in tax revenue that could be used to fund and invest in opportunities and essential services that lead to community development, stability and growth.

The proposed rule goes beyond the limits of NCUA Board authority under the Federal Credit Union Act, impermissibly increases risk to the credit union Share Insurance Fund, and removes justification for the credit union industry's tax-exempt status and should not be adopted.

Thank you for the opportunity to provide comments. If you have any questions, please feel free to contact me at 804-819-4701 or bwhitehurst@vabankers.org.

Sincerely,

Bruce T. Whitehurst
President & CEO