May 27, 2020

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

Re: RIN 3133-AF16

Dear Mr. Poliquin:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the interim final rule with request for comment on amendments to the agency’s capital adequacy regulation in response to programs created by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). HCUA supports the amendments in the interim final rule as they provide guidance and answer many questions HCUA’s members have had about the treatment of Paycheck Protection Program (PPP) loans on their balance sheet.

As you know, PPP was authorized by the Coronavirus Aid, Relief, and Economic Security (CARES Act), which was signed in to law on March 27, 2020. The Small Business Administration (SBA) published an interim final rule that implemented PPP on April 2, 2020, with a start date of April 3, 2020. The unprecedented speed with which PPP was rolled out to consumers left many gaps in various aspects of the loan program and how these loans would be treated under NCUA’s lending and capital regulations. Nonetheless, credit unions stepped up to the plate on April 3 to make loans to needy businesses without knowing how many important features of PPP would work and how PPP loans would impact a credit union’s balance sheet.

We agree that PPP loans should have a zero percent risk weight under NCUA’s risk-based capital rules as required by the CARES Act and that the interim final rule properly implements this requirement. The interim final rule also amends § 723.2 of NCUA’s regulations excluding PPP loans from the definition of commercial loan. This change was necessary as there could be confusion that PPP loans are commercial loans under NCUA’s business lending regulation.

Last, the interim final rule amends § 702.2 for purposes of calculating a credit union’s net worth ratio when loans are pledged as collateral to the Federal Reserve’s Paycheck Protection Program Lending Facility. This change should help alleviate capital concerns for credit unions with increased assets from making and holding PPP loans. However, HCUA has heard from several credit unions regarding the PPP and NCUA not excluding these loans. While it is a temporary issue for the most part anyway, it would be helpful if they could mitigate the impact on net worth ratio.
NCUA is removing from the asset calculation the balances from borrowing from Fed liquidity facility for PPP loans as a way to not depress the statutory net worth ratio. However, unlike other loans, entities who take PPP loans put them back on deposit typically to then pay out payroll for eight weeks. So even if a credit union has liquidity for the loans and doesn’t borrow from the Fed, their balance sheet will grow significantly and depress the net worth ratio. NCUA should exclude PPP loans regardless of the funding source. As it is, credit union’s ratios will drop sharply whether they go to the liquidity facility or not.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,

Brad Douglas
President/CEO