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Mark White
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RE: Libro Credit Union Response to Consultation 2022-014 Proposed Differential Premium Score (DPS) Methodology for Credit Unions.

Dear Mr. White and Credit Union Team,

Libro Credit Union (Libro) is pleased to offer our feedback on the proposed consultation on the DPS methodology for Credit Unions. Deposit insurance is an important element of our sector's resilience and is important in protecting our Owners (depositors) as they do business with us. We are in favor of an approach that is equitable and properly accounts for a credit unions risk levels, financial strength, and governance approach in how premiums are calculated.

Response to FSRA Questions

1. Please provide general feedback on the Differential Premium Score Methodology (DPSM) as articulated in this consultation paper and whether in your opinion it effectively supports the Risk Based Supervisory Framework (RBSF).

In our review we were able to understand the DPSM articulated. The tables were easy to follow and understand. There are appropriate connections back to the RBSF in how premiums are calculated. It is difficult to comment on whether it effectively supports the RBSF at this time, as we have not completed an RBSF-based examination. It may be beneficial for FSRA to revisit this question once all credit unions have gone through the RBSF process and can provide more feedback of whether the connection between DPSM and RBSF is effective and outcomes logical.

2. Do you have specific comments about the proposed components (DPS Level, Capital Quantity and Capital Quality) or their premium rates?

The proposed consultation notes that the "DPS Level assessments will account for approximately 70% of the total premium assessed to a credit union". Libro is not opposed to increasing the importance of corporate governance upon our premium and support incorporation of the new retained earnings metric to consider quality of capital. However, the change to 70% DPS level and 30% capital is a concern due to the extent to which the ORR is impacted by qualitative factors determined through a relatively new process. In addition, while capital impacts the ORR, it is currently unclear how much the quantitative metrics impact the final risk rating. We would ask that a greater proportion of the weighting be based on quantitative and less-subjective elements or more transparency into the calculation of the ORR.

We have not yet received an RBSF score and find it difficult to comment on how this will directly impact our premium calculations which creates unpredictability for Libro and the sector. We believe that the best approach would be to transition the ratings slowly over time towards the revised weightings, rather than a hard transition once all credit unions have been assessed under RBSF. A slower transition would allow credit unions to better understand the RBSF and its impact on operations and premium costs, allow time for the sector and FSRA staff to gain experience with the new examination approach, while also giving FSRA flexibility to make changes throughout as described through periodic adequacy assessments, changes to risk tolerances, and potential economic challenges.

Additional Comments

Intervention Level Concerns

We are concerned that larger and more complex credit unions will have difficulty in maintaining an Intervention Level 1 rating. Is there a reasonable control environment that can bring a large and complex credit union back down to a Level 1 intervention level (if initially higher)? We trust that the RBSF process will allow us to reasonably bring down intervention levels while also protecting the quality of our earnings. If it does not, this is something that may need to be considered within future reviews of the DPSM, as the higher ratings may disproportionately harm those credit unions and the strength of the sector. We recognize this is currently theoretical as RBSF assessments are unknown, but this remains a concern that we want FSRA to consider as we move forward.

Transparency and Intermediate Reviews

We seek a timely and efficient remediation process with FSRA in our examination findings. Our desired state would be an environment where we can quickly remediate findings based on ratings under the RBSF and their impacts to our DPSM calculations. To do this we need to understand examination process ratings and weightings, we feel FSRA could be more transparent within the findings to push credit unions towards faster remediation. To support this goal intermediate reviews of remediation steps implemented by credit unions would support a stronger and more secure sector and allow credit unions to address findings before premiums are calculated.

Leveraging Recovery and Resolution Planning

We commented in the RBSF consultation that our recovery and resolution planning processes should influence how we are examined as well as how our premiums are calculated. We are again sharing this belief with FSRA that the effort and value of our own credit union, and across the sector, should be recognized in how our riskiness is calculated, and how premiums are determined. There is no mention of either plan within the consultation which continues to challenge value for effort for us. We believe that this process should work alongside data to reduce risk across the sector, thus reducing intervention levels and premium costs. We hope that FSRA will consider how this can be leveraged through the RBSF to better enhance DPSM scoring and sector resilience.

Concluding Remarks

We appreciate FSRA opening consultative feedback on the DPSM. The premiums we pay are an important element in our support of members (depositors) and their financial resilience and security and we take that seriously. We are believers in the principles-based approach FSRA is taking and we believe that time will help us understand the unknowns and theoretical aspects of both the RBSF and DPSM at this current time. We hope that our feedback offers insights into our current concerns related to the DPSM and its connections to RBSF and overall sector risk.

Sincerely,

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