Belvoir
Federal Credit Union
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April 3, 2014

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

I am writing on behalf of Belvoir Federal Credit Union, which serves the Military and Department of Defense as our field of membership. We have 26,000 Members and $310,525,372 in assets. Belvoir Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

The Risk-Based Capital is admirable in concept, however, as it is proposed the Risk-Based Capital Proposal limits all credit unions in growth, ability to invest, and limits the ability to make loans other than consumer loans.

Credit Unions have managed very effectively through one of the longest recessions since the Great Depression ending up with a very healthy capital ratio. Credit Unions are already restricted in the investments that they can purchase and the number of business loans that they can put on their books. It is questionable if adding an additional layer of Capital will add any more protection to the Credit Union community. As this proposal is now structured, the ability of the credit unions to deal with changing financials conditions does not appear to exist. Credit unions need the ability to offset additional capital requirements with some flexibility.

This proposal also reminds us of a history lesson that took place in the early 1980's where Banks and Savings and Loans were struggling to keep their deposits from leaving to go to Money Market Accounts held by Mutual Funds which were paying very high rates at that time. The solution, however, was to allow the liability side of the balance sheet to move to market rates, yet, Congress did not give the Savings and Loans the ability to change their asset mix until several years later, the result was disastrous for the Savings and Loan Industry which is effectively no more. This proposed regulation by NCUA would do the same thing to Credit Unions by regulating one side of the balance sheet, the Assets, while not allowing credit unions the flexibility to deal with this new capital requirement through supplementary capital or the matching of term liabilities to specific assets.

Since the proposal is supposed to measure risk, Belvoir Federal reviewed how it would have performed over the last ten years under this proposal. Since our portfolio had its largest credit risk exposure in 2007 and 2008, then our Risk-Based Capital should be at its lowest when our delinquency was at our highest. As it turns out, that is when Belvoir Federal had its best Risk-Based Capital ranging from 12.71% to 13.01%. What is troubling to Belvoir Federal Credit Union is that our real estate portfolio is not large by credit union standards, it has some Member Business Loans at 2.7% of assets, and the delinquency on the loans is consistently below 1%, yet according to the proposed Risk-Based Capital calculation our risk has increased so that our Credit Union is below the 10.50% as of 12/31/13. This means that Belvoir Federal Credit Union is one of the 188 credit unions that would see its capital move from Well Capitalized to Adequately Capitalized.

As to the actual Risk-Based Capital Proposed Asset weightings, Belvoir Federal has concerns with several of those proposed weightings.

The first item that Belvoir Federal is concerned with is NCUA's treatment of the NCUSIF Capitalization Deposit treatment. By subtracting the NCUSIF Capitalization Deposit from both sides of the equation, NCUA is saying that this item is worthless and in doing so penalizes every credit union. The effect of subtracting the NCUSIF Capitalization Deposit from the numerator and denominator effectively reduced Belvoir Federal Credit Union's Risk-Based Capital by 1.10%. A more fair assessment would be to assign the NCUSIF Capitalization Deposit a weighting of 100%.

The next item is the treatment of Cash on Deposit and Cash Equivalents at 20%. Belvoir Federal Credit Union uses the Federal Reserve as its primary depository which should carry a 0% risk rating rather than a 20% risk weighting.

The treatment of investments is concerning on several levels. One is that the NCUA has real world experience in dealing with bad investments. NCUA should be aware that the risk of the investment is not in the term of the investment as is proposed but in the underlying collateral. The proposal is troubling in that it does not address the credit risks of an investment which is what happened with the Corporate Credit Unions' when the underlying collateral became worthless. The second reason is that Belvoir Federal Credit Union has a structured ladder for its investments so that it is aware of when the investments are going to mature and tries to balance those against its liquidity needs and the ability to provide some yield to assist the income statement of the Credit Union. Investments should be rated on their credit risk not on their maturity risk. In this respect it would be to NCUA's benefit to follow the Bankers' rating of investments according to the Basel III recommendations.

The risk weighting on 1st Mortgages loans is also troubling as Mortgages tend to have less overall risk than other loans in the portfolio and yet has a higher risk weighting than automobiles and unsecured loans with 100% for the Real Estate and 75% for the consumer loans. Again the proposal is looking only at the term of the loan not the underlying credit risk of the loan as a measure of the risk.

One way to modify the terms of the 1st Mortgages is to securitize them and make them immediately available for collateral to borrow against or to sell as a security. As this proposal is written, a credit union using this fundamental strategy to increase the mortgage loans liquidity will move the mortgage from a 100% weighting to a security which is now rated at 200% risk weighting. This again shows the problem with trying to risk weight the investments by term rather than collateral.

It is interesting to note that the Bankers have nothing risk weighted above 100%, yet NCUA is weighting MBLs and Corporate Perpetual Capital at 200% while weighting Investment in CUSOs and Mortgage Servicing Assets at 250%.

NCUA has completely revamped the Corporate Credit Union system so that the Corporate System is recapitalized and strengthened. Yet by risk weighting the Corporate CU Perpetual Capital at 200%, NCUA insures that no credit union will put any more capital into the Corporate Credit Union system.

The Investment in CUSOs is already limited by NCUA regulations at 100%, then why does the proposal apply a 250% risk weighting to CUSOs?

Mortgage Servicing Assets are made up of a percentage of the mortgage rate usually 25 basis points to service the mortgage loans. These particular assets are fairly easy to sell and as the rates rise the assets will receive more monies as the mortgages will tend to extend out for longer than normal payment cycles. Why would NCUA rate these assets as 250% as there is fairly low risk and the income would increase in a rising rate environment? Also, there is some indication that the banks have sold their mortgage servicing even when the risk weighting was assigned a weighting of 100% on the banks' balance sheets. Is it NCUA's desire for credit unions to not service their mortgages?

Other Assets are grouped together at 100%. The accounts that are included in that section are fixed assets and all other assets. The items that Belvoir Federal Credit Union has in Other Assets are Accounts Receivable, Prepaid Income items, Accrued Interest and other small items. These accounts have no credit risk or interest rate risk which should not be included in the Risk Based Capital Calculation.

The last item in the proposal that is very concerning is the concept that an Examiner can arbitrarily increase the required capital that a Credit Union will need to maintain. This is particularly troubling considering that the proposal is already more stringent than the banks and allowing the Examiners to require additional capital could result in unrealistic and inconsistent capital guidelines with no ability to know how to measure that additional required capital.

In summary, the Risk-Based Capital requirement can be helpful in providing guidance to credit unions regarding how to structure their respective balance sheets. This can only be done if the Risk-Based Capital requirement is balanced, fair and offers some flexibility. However, the current proposal only looks at the Asset side of the Balance Sheet and is very restrictive in nature. If this proposal is approved as it is now then all credit unions would need to have their balance sheet in one hand and the Risk-Based Capital requirement in the other hand to determine what they can offer to their members with no flexibility to manage the Credit Union when the financial environment changes.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk - based capital requirements.

Sincerely,

Michael M. Ligon, CFO

Belvoir Federal Credit Union