CO-OP SERVICES
CREDIT UNION

May 19, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1777 Duke Street
Alexandra, Virginia 22314-3429

Dear Mr. Poliquin:

I am writing to submit my comments regarding the National Credit Union Administration's (NCUA) proposal for risk based capital.

After reviewing the proposal, I have some significant issues with the document and how the proposal will impact Co-op Services Credit Union (CSCU) located in Livonia, Michigan.

I. At 3/31/14 CSCU's Net Worth ratio = 12.02%. We currently have a Net Worth ratio buffer of 72% over the 7% requirement to be "well capitalized". In order to maintain that same buffer with the proposal, CSCU would need to increase our NW ratio to 18.02 (72% of 10.5). This would equate to raising over $30 million in additional capital or a 33% increase in total net worth! In addition to our current capital, I think this grossly overestimates the risk that we have on our balance sheet.

II. The NCUA proposal requires much more capital than banks do under Basel. Using our 3/31/14 data, our RBC ratio under the NCUA proposal would be 14.94% but using the Basel weights, our ratio would be 26.10% - an increase of nearly 75% over the NCUA proposed weights!! Additionally, the weighting for any investment with a WAL over 1 year increases over our banking brethren. For banks, all investments are risk-weighted at 20% regardless of WAL. Credit unions get punished for holding longer-term investments and the punishment goes up as the WAL goes up—all the way to 200%.

III. How does the proposal address risk?

a) The new proposal addresses only concentration risk while mostly ignoring interest rate and credit risk. Two very different mortgage products with much different interest rate risk - 30 year fixed and a 1 year ARM--are treated the same. Also, two very different mortgage products with much different credit risk - a 50% LTV mortgage and a 100% LTV with no PMI - are treated the same. All of these products are assigned the same risk-weighting.

b) The new proposal has assigned risk weights that don't correspond to actual risk. For example a bond with a WAL of 3-5 years has a weight of 75% but one with a WAL of 5-10 years doubles to 150%. This means that a US Treasury (backed by the full faith and credit of the US government) with a WAL of 5.2 years is twice as risky as a corporate bond with a WAL of 4.79 years.

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c) Consider two different Credit Unions call them Credit Union A and Credit Union B. Credit Union A has $10 million in 30 year fixed mortgages. Credit Union B had $10 million in 30 year fixed mortgages that they sold to Fannie Mae and bought a Mortgage Backed Security (MBS) funded by the same $10 million in loans that they sold. Credit Union A has the credit risk of the mortgages. Credit Union B has a more liquid asset with no credit risk. Under the proposal, Credit Union A would have risk-weighted assets of $5 million (assuming this portfolio of mortgages is less than 25% of total assets, they are risk weighted at 50%) while Credit Union B would have up to $20 million (any investment with a WAL over 10 years is weighted at 200%). Credit Union B holds an asset with identical interest rate risk and less credit risk, yet has up to 4 times the risk-weighted assets under the new proposal."

d) The proposal dis-incentivizes holding longer term mortgages, investments, and MBLs regardless of the pricing, credit, or profitability.

IV. The proposal includes the ability to basically ignore the entire calculation and impose even higher RBC requirements on a case-by-case basis. This is unacceptable to me as it creates a subjective system based on interpretation of the NCUA. This will likely lead to disagreement between regulators and the credit union.

V. Comment period and Speed of implementation - Even though there was a short extension of the standard comment period provided by the NCUA, I don't understand why it cannot be extended longer. It seems to me that the magnitude of the proposed RBC should be afforded more time to study and understand the ramifications of the proposal. If adopted, the implementation period of 18 months is far too short. It is my understanding that the Banks have several years to re-build capital.

VI. Finally, I do not understand the need for this proposal at all. Credit Unions went through one of the worse times since the Great Depression and although there were some failures, the industry weathered the storm and emerged very strong.

Thank you for the opportunity to express my thoughts and opinions on this matter.

Sincerely,

Anthony M. Carnarvon

Anthony M. Carnarvon
President/CEO
Co-op Services Credit Union

cc: Michigan Credit Union League
The Honorable John Dingell
The Honorable Kerry Bentivolio
The Honorable Gary Peters
The Honorable John Conyers
The Honorable Carl Levin
The Honorable Debbie Stabenow