Securityplus
FEDERAL CREDIT UNION
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May 22, 2014

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

RE: Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital.

Dear Mr. Poliquin:

Security*plus* Federal Credit Union serves those who live, work, worship, or go to school in Baltimore, MD as well as our core sponsor group – the Social Security Administration, and Select Employer Groups including the Centers for Medicare & Medicaid Services and many others. We currently have approximately 36K members and $362M in assets. We appreciate the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule Prompt Corrective Action – Risk-Based Capital (RBC).

Security*plus* feels strongly that the proposed rule requires modification. If the proposed rule is adopted as written, it will place an undue burden upon credit unions to comply. Many affected credit unions would need to increase the amount of capital held in order to be well capitalized, and would likely face burdensome risk weightings that would serve as a disincentive to continue or enter into member business and mortgage lending programs. This would result in credit union members bringing their business to competitors and an overall decline in revenue of individual CUs.

The impact of this proposed rule upon our Credit Union would be immediate. Although Security*plus* would remain well capitalized in the proposed system, our capital cushion would shrink by a total of $1,860,805. That is a significant amount of money for a Low Income Designated Credit Union struggling to achieve sustained profitability.

Our largest concern with this proposal relates to the risk rating for Member Business Lending. The NCUA Proposed Rule creates a bias in favor of consumer loans as opposed to other assets such as member business loans. Security*plus* plans to implement a more robust Member Business Lending platform to serve members and fulfill a need to improve our loan income. In the proposal, consumer loans are assigned a 75% risk weighting while member business loans are subject to concentration-based tiered risk weights. Historically, credit unions have shown that business lending has outperformed consumer lending in both profitability and delinquency/charge-offs. According to Mike Schenk, CUNA Economist and Statistician, over the past 17 years, the loss rate of MBLs in the CU industry has only been .35%. The peak of losses in this area occurred in 2009, with a loss rate of .89%.

My Credit Union should not suffer as we work to improve our net income situation through a conservative lending strategy that has been very profitable for many CUs in the past two decades. If the Proposed Rule

7135 Windsor Boulevard
Baltimore, MD 21244
www.securityplusfcu.org
comments@securityplusfcu.org
PH 410-965-8908 or 1-866-4SECPLUS (473-2758)
FX 410-281-6273

were to become final, Security*plus* may opt to increase production in lesser quality indirect and unsecured consumer loans rather than higher quality, more secure member business loans in an effort to preserve capital. We are urging NCUA to reconsider and remove portions of the Proposed Rule that apply higher risk weights to member business loans based on a percentage of the credit union's assets in that category.

In general, we continue to review all aspects of the RBC proposal, its proposed effects on our individual credit union and our industry throughout Maryland and Washington, DC. We are also working with our trade association, the Credit Union National Association (CUNA) on their own analyses of the agency's proposed rule, its affects, and how it will affect our services and members.

CUNA has estimated that if all affected credit unions acted to adjust their capital levels to maintain current margins above the "well capitalized" thresholds according to the RBC proposed rule requirements; credit unions would have to raise up to $7.3 billion in additional capital. This would be detrimental to our industry. Other major concerns with the proposal are outlined below:

Proposed risk-weights
A number of the risk weights, especially for member business loan and mortgage concentrations as well as for CUSO investments, do not appear to be properly calibrated for credit unions. They are even higher than what is being imposed on banks by the BASEL III changes. Using higher risk weights on long-term assets to deal with interest-rate risk is misleading without considering liability maturities and other mitigating factors. Please consider these factors in the revised policy.

CUSO Investments
We encourage NCUA to implement regulations that encourage the use of CUSOs to generate net income and remove all regulatory impediments to CUSOs and collaboration. We recommend the removal of risk ratings for CUSO investments and loans. CUSOs, and the collaboration and economies of scale they facilitate, are a vital part of the credit union movement and cooperative philosophy. Security*plus* is currently a member of several CUSOs and looks forward to increasing our participation to return greater value to members.

NCUSIF 1% Deposit to be ignored
NCUA's requirement that the National Credit Union Share Insurance Fund 1% deposit be ignored in the risk-based capital calculation should be reconsidered. The justification for removing the deposit is unclear, yet quite significant.

Examiner discretion to change risk ratings
Proposed section 702.105(c) is troubling in that NCUA would assume additional authority to impose higher capital requirements on individual credit unions that could exceed even well capitalized level requirements. Unlike the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions would no longer have clear rules to avoid prompt corrective action imposed by NCUA if the agency establishes its authority to use "judgment" on a credit union-by-credit union basis to make changes to risk ratings. This section of the proposed rule opens the door to inconsistent and potentially arbitrary application of the intended rules. Our recommendation is to remove section 702.105(c) from the proposed rule entirely.

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Mortgage Loan Servicing Risk Rating

In our opinion, the mortgage servicing risk rating of 250% is excessive. The high-risk rating will likely discourage many credit unions from loan participations. In light of a recovering, currently active mortgage market, we recommend that the agency consider significantly reducing this risk rating. Without loan participations, many credit unions may not have sufficient interest income to survive.

Implementation Date

We are also recommending that the proposed implementation date of eighteen months after becoming final be extended. This proposed time-frame does not give credit unions sufficient lead time to plan for the new risk based capital ratio requirements and other proposed changes to part 702 and implement them properly. This is particularly important as many credit unions may wish to alter their balance sheet composition in response to the rule. This will take time and great effort. We urge the agency to provide a much longer implementation period.

In conclusion, Security*plus* Federal Credit Union appreciates the value of a financial institution's capital as a durable source of funding that can be readily deployed to shore up a balance sheet under duress and the need for regulatory oversight. In that spirit, we encourage NCUA to pursue the appropriate amendments to this rule that will ensure a viable, well-balanced risk-based capital system is implemented. Our Credit Union, like many others, is working hard to achieve consistent profitability. We feel the current proposal significantly limits our options and imposes an excessive burden on our organization that only contributes to the great challenge of achieving financial sustainability.

Thank you for your consideration and the opportunity to comment on the proposed Risk Based Capital rule.

Sincerely,

Brett T. Noll

Brett T. Noll
CEO

Cc: **Senator Barbara Mikulski**
Senator Benjamin Cardin
Congressman Elijah Cummings

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