Oregon State Credit Union

March 24, 2015

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

Re: 12 CFR Part 700, 701, 702, 703, 713, 723, 747 Prompt Corrective Action – Risk-Based Capital

Oregon State Credit Union appreciates the opportunity to comment on the Proposed Rule on Prompt Corrective Acton and Risk Based Capital.

Founded in 1954 to serve Oregon State University, Oregon State Credit Union currently serves a 24 county area in western Oregon as a community credit union. We have grown in membership to over 82,000 with assets totaling $932 million. Our members believe that we have their interest at heart and look to us for a full range of products including real estate loans (offered since 1986) and member business loans (offered since 2000), not just consumer loan products.

We respect the fact that NCUA is called by the Federal Credit Union Act to review the capital standards and ensure that the rules stay current and comparable to the banking industry. But we are still challenged to understand why NCUA continues to feel that the proposed capital rule for credit unions needs to be more stringent than BASEL III used by the banking industry.

We do not believe that the Act requires a capital standard to be more restrictive or punitive, only that the inherent difference in credit union structure be considered in the rule making process. The Act states that relevant risks be considered if the risks are not able to be mitigated through the basic net worth held on the balance sheet. We cannot believe that the intent of the Act was to place credit unions at a competitive disadvantage to other financial institutions. One of the basic reasons for credit union's existence was to stablize the credit structure of the United States providing an alternative to banks. If we cannot compete with banks, will we as an industry remain viable?

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Unintended Consequences

NCUA has brought forward many improvements to the newly proposed capital rule. Most of which brings the rule into closer parity with the bank regulations. Unfortunately, from our review of the proposed rule, there are still several risk weightings used to control loan concentrations that are excessive. These risk weightings are more punitive than the comparable risk weightings for bank capital requirements. This is a concern for Oregon State Credit Union as it places all credit unions at a competitive disadvantage in the financial industry. The result of this proposed rule will continue to have unintended consequences within the industry.

How will credit unions be able to remain relevant to their membership if the ability to bring financial value is constrained by the capital rule? Credit unions already live under a more restrictive set of regulations such as loan limits, investment types, and delinquency calculations. Why impose even more regulation that will hurt the competitive position for credit unions and impact our mission?

We believe and will continue to believe that the credit union industry has collectively maintained a strong level of capital without additional regulation. Throughout the economic downturn credit unions have fared far better than banks and have rebuilt excess capital after the economy improved. Penalizing the entire industry with new and costly regulation in order to prevent any future losses to the insurance fund is not a reasonable strategy. Credit Unions should not be treated as if they are too big to fail. We believe NCUA should reconsider the proposed rule.

Residential Mortgage Loans

Under the proposed rule, first lien residential mortgage loans are risk weighted by concentration levels at 50% and 75%. Under Basel III, the majority of loans fall under the 50% risk weight. The only higher risk weights for first lien mortgage is based on delinquent status or underwriting standards not based on amount of loans portfolioed. The movement from under 35% of balance sheet to over 35% does not change the credit quality of these loans. These fully collateralized real estate loans are lower risk than secured consumer loans which are both risk rated at 75%. Historic loss ratios provide plenty of proof that mortgage loans are lower risk. Concentration risk should be managed through supervision in order to identify strong management practices. Many credit unions manage higher levels of concentration very successfully. They should not be penalized. **Oregon State Credit Union believes that the Basel III weights of 50% should be adopted for all first lien mortgage loans. Concentration limits should be at least 50% for each category if defined in regulation. Otherwise, NCUA is mandating a standard balance sheet for the credit union industry. A practice that should not be exercised by a regulatory agency.**

Other Real Estate Mortgage Loans

Under the proposed rule, other real estate mortgage loans are risk weighted by concentration levels from 100% to 150%. Under Basel III, junior lien mortgage loans fall under 100% risk weight and are not based on the amount of loans portfolioed. The concentration limit of 20% is inappropriately low. The risk based weight of 150% for more than 20% of assets places credit unions in a significant disadvantage with the rest of the financial industry. This is the same risk weight for delinquent unsecured consumer loans. For Oregon State Credit Union, we would have to reserve the same level of capital for a fully collateralized, prime based variable rate HELOC with no interest rate risk as we would for a delinquent unsecured VISA loan. It should be obvious that the HELOC loan holds lower credit, interest rate and potentially less concentration risk since there is no mandated concentration limit for consumer loans. **Oregon State Credit Union believes that the Basel III weights of 100% should be adopted for all other real estate mortgage loans. Again, concentration limits of less than 50% should not be included in a regulation. Otherwise, NCUA is mandating a standard balance sheet for the credit union industry.**

Commercial Loans

In this proposal Commercial Loans are risk weighted by concentration levels from 100% to 150%. Under Basel III, all commercial loans carry a 100% risk weight except for high volatile commercial real estate loans used to finance acquisition or construction of real property other than 1-4 family residential property which is weighted at 150%. At least NCUA has proposed a higher level of concentration of 50%, but the rule continues to penalize the risk weight for strong commercial loans placing credit unions at a competitive disadvantage. **Oregon State Credit Union believes that the Basel III weights of 100% should be used.**

Investments

NCUA requested feedback regarding the appropriate risk weighting for investments that fund employee benefit plans in which all risk of loss is held by the beneficiary such as an employee funded 457b plan. These plans pose no risk to the credit union, the industry, or the insurance fund. These accounts are only on the balance sheet due to GAAP requirement. **Oregon State Credit Union believes these investments actually should be risk rate at 0%.**

Capital Adequacy

NCUA has incorporated a new statement within the proposal that a credit union defined as complex must maintain capital commensurate with the level and nature of all risks to which the institution is exposed regardless if they meet the standard in the rule. And, complex credit unions must have a process for assessing its overall capital adequacy in relation to its risk profile and comprehensive written strategy for maintaining an appropriate level of capital. The proposed rule is already imposed a requirement to increase capital for credit unions. This additional component allows individual examiner bias and subjectivity to determine whether a credit union is adequately capitalized. In addition, the inclusion of this statement limits the ability of credit union to comment thoroughly since the requirements and or guidance on such as action are not included in the proposed rule. **Oregon State Credit Union believes this section of the rule should be eliminated.**

Delayed Implementation Deadline

The newly proposed implementation deadline of 2019 is a much more reasonable timeframe for the industry than previously proposed timeline of 18 months. If the final rule is released in 2015, that would provide approximately 4 years. But the new time line is still significantly less time than banks were given to fully comply with Basel III. Basel III was approved by the banking regulators in late 2011 and final implementation for community banks will be completed in 2019, an eight year time period. The banking regulators felt it was appropriate to let the banking industry have this amount of time to move under the new capital rule in order to prevent potential damage to business models and service levels. **Oregon State Credit Union believes that NCUA should provide at least an equivalent amount of time for credit unions as was allowed for the banking industry.**

Interest Rate Risk

NCUA has over the last few years implemented many sets of guidance or regulation that have improved credit union's focus and the examination process for Liquidity Risk, Concentration Risk, and Interest Rate Risk. Regarding NCUA's request for suggestions surrounding an additional way to measure interest rate risk, **Oregon State Credit Union feel that the recent rule is adequate in defining the appropriate management of interest rate risk for credit unions.** Since interest rate risk is complex and requires the use of many assumptions for financial instruments located on both sides of the balance sheet, we feel that a single measure or ratio is inadequate to use for all credit unions. Interest rate risk is not well suited to be managed through a one size fits all measurement. **Oregon State Credit Union believes interest rate risk should continue to be managed through the supervision process.**

Oregon State Credit Union still believes that an additional capital regulation is not necessary. If NCUA decides to move forward, they should clearly note that they are putting credit unions at an unfair competitive situation which will damage the industry over time. The Board of NCUA should demand that the playing field be leveled especially in this far reaching rule.

Again, thank you for allowing the industry to comment on this far reaching and impactful proposal.

Sincerely,

Bonnie Humphrey-Anderson

Bonnie Humphrey-Anderson
Executive Vice President/Chief Financial Officer