



*Uniting Service and Technology*

1460 Broad Street, Bloomfield, NJ 07003

April 21, 2015

Gerard Poliquin  
Secretary to the NCUA Board  
1775 Duke Street  
Alexandria, VA 22314

Re: Notice of Proposed Rulemaking and Request for Comments- Risk-Based Capital, RIN 3133-AD77

Dear Mr. Poliquin:

We appreciate the opportunity to submit a comment on the National Credit Union Administration's (NCUA) proposed rulemaking on risk-based capital (RBC). We noted that there have been significant changes from the original draft of the regulation, but there are still a number of areas that need to be improved upon.

Even though there has been an improvement on the proposed risk weights compared to first draft of the proposal, the risk weights for CUSO Investments and Mortgage Servicing Assets still remain too high and excessive at a risk-weight of 250%. This could affect the credit union's ability to hold mortgage servicing rights. The NCUA finalized a rule on loan participations in 2013 that was intended to better manage the potential concentration risk in loan participations. The loan participation rule is working well and should be allowed to continue and set a lower the risk-weight of 150%.

In the Equity category, the 100 % risk weight for "Other reserves" should be reviewed. For example, XCEL's prefunding of our pension would be a detriment to the credit union according to the RBC2 calculation. XCEL feels that the Other Comprehensive Income (OCI), which pertains to the current portion of the pension, should be the only amount that is taken into account. Any additional OCI contributed to the overfunding should not go against the equity portion at 100%. The credit union believes funding the pension for the future will in fact benefit XCEL's capital when less expense is needed at that time.

In this draft, the NCUA asks for comments on alternatives approaches to Interest Rate Risk. We feel that the NCUA can account for IRR during the annual examination process by ensuring that the credit union maintains sufficient capital to absorb the level of IRR on their balance sheets. Currently, the NCUA has an interest rate risk rule in place that provides adequate protection and IRR should not be incorporated into the risk-based capital system.

A credit union should not be defined as "complex" simply based on asset size. Credit unions are distinctly different from one another based on the products and services offered and this should determine

their complexity not an arbitrary dollar amount. In addition, the Federal Credit Union Act directs the NCUA to base its definition of “complex” on factors such as deposit account types, member services, loan and investment types and portfolio composition.

Many credit unions are concerned about the requirement to develop a capital adequacy plan to assess the sufficiency of their capital on an ongoing basis and set aside capital that is over and above the 7% net worth and 10% RBC requirements. These requirements are not necessary depending on a credit union’s management, risk profiles and current level of capital. If NCUA examiners have concerns with the capital sufficiency of a credit union they supervise, then it should be addressed with that particular credit union. Therefore, we feel that a new rule should not be established that applies to the industry as whole. In addition, the NCUA should keep in mind that each credit union’s long term desired capital ratio is based on their own assessment of risk and tolerance for risk and is developed through strategic capital planning on an annual basis. With that being said, we feel that the NCUA should delete the capital adequacy provision from the RBC2 proposal.

The credit union industry is well capitalized already. Even though there have been significant changes in the proposal, it still negatively impacts XCEL Federal Credit Union from being a well-capitalized credit union to adequately-capitalized credit union and would force us to hold additional reserves to achieve the same capital cushions levels that we currently maintaining. Furthermore, the NCUA lacks the statutory authority to devise a separate risk-based capital threshold for “well capitalized” and “adequately capitalized” credit unions. The Federal Credit Union Act (FCU Act) provides NCUA with the authority to implement a risk-based net worth requirement and it does not authorize the NCUA to adopt a two-tier risk-based net worth standard.

Lastly, it is true that the Federal Credit Union (FCU) Act requires the NCUA to establish a risk-based capital system that is comparable to that in place for FDIC insured banks. However, it is very troubling that the NCUA did not take into the account the cooperative nature of credit unions when drafting their proposal and establishing a Risk-Based Capital system. Credit Unions are not banks and should not be regulated and supervised in the same way. We are member -focused, have a unique cooperative structure and do not have stock options or pressure from stockholders such as banks do.

I would like to take this time to thank you for the opportunity to comment on this proposed regulation. The issues listed above have a significant impact on the credit union industry and our ability to service our members. We urge NCUA to address some of the recommended improvements to the proposal.

Sincerely,



Linda McFadden  
President / CEO

