CP Federal
CREDIT UNION
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Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Proposed Prompt Corrective Action – Risk Based Capital 2 Regulation

Mr. Poliquin,

Thank you for the opportunity to respond to the proposed risk-based capital 2 (RBC2) regulation. While we appreciate the work that was done on the original RBC proposal, RBC2 remains fundamentally flawed and unnecessary. The primary issue is that RBC2 attempts to be a solution to a problem that does not exist. Given the potential impact of this rule and our concern over the lack of necessity for this rule, we felt it imperative to comment on the proposal and to express our concern with the implementation of the rule in its current proposed state.

CP Federal Credit Union has been serving its members since 1953. We provide consumer loan and deposit products, including indirect lending and mortgages, business loan and deposit products, and have an investment interest in a CUSO. Specifically, CP Federal Credit Union has always been a credit union with a large concentration of mortgages. It is one of our niche markets. Many of our operational initiatives could be jeopardized if this proposal is implemented. Simply stated, the risk-based capital proposal stands to negatively impact our members, employees and community and we cannot allow that to happen.

We support the concept that each financial institution should maintain adequate net worth to support its strategy and to manage its risk to ensure there is no threat to the National Credit Union Share Insurance Fund (NCUSIF). However, the level of subjectivity in the proposal causes us great concern. There is no way to effectively standardize risk-weightings to include all material risks due to the fact that each credit union has its own unique risk profile and strategic direction. The subjectivity of this rule will cause well-run credit unions to have to put the brakes on strategically.

We continue to question NCUA's authority to establish a risk-based capital standard for the purposes of determining whether a credit union is well-capitalized. The 7% net worth requirement under the existing rule was sufficient to sustain the credit union industry through the recent financial crisis, and credit unions did not require a taxpayer bailout. If credit unions were able to succeed during that time, the need for this rule requires additional explanation that has not been provided. In our opinion, the NCUA has failed to provide a satisfactory explanation for the compelling need for this proposal.

Additionally, we are concerned with the proposal's language regarding risk-weights, and the implementation timeframe. We also believe strongly in the importance of the use of supplemental capital as it relates to this proposal. We appreciate your review of our concerns which are detailed below.

Obligation to Consider Cooperative Structure of Credit Unions

Of primary concern, is the fact that NCUA has ignored its obligation to consider the cooperative nature of credit unions when creating a risk-based capital regime comparable to FDIC. Credit unions prevailed during the trying economic times of the Great Recession. It was evident during that time that credit unions were responsible in their planning and managed their risk effectively to ensure the stability of the credit union industry. For this reason and many more, the burdensome RBC2 proposal is simply unnecessary and unwarranted. Credit unions are not banks and as such, credit union regulations should not be written to mirror banking regulation. While the Federal Credit Union Act does require NCUA to establish a risk-based capital system comparable to that in place for FDIC insured banks, it also instructs NCUA to take into account the cooperative nature of credit unions.

The consideration of the credit union structure and purpose is not evident in this proposal. It appears to be a comparative approach that ignores the credit union difference. Unfortunately since the financial crisis, the NCUA has been driven by comparison rather than further differentiating the credit union structure. This should be a time of praising us for our successes when the banks were unable to survive without assistance, not penalizing the credit union industry through unnecessary regulation. NCUA supervision of credit unions should not change because a counterpart in the financial services arena wreaked havoc on the industry.

Risk Weights

We appreciate the number of positive changes to RBC1's proposed risk weightings that are evident in the RBC2 proposal. Many of the improvements related to investments and higher concentrations of real estate and member business loans were important changes that we wanted to see. Unfortunately, RBC2's risk weights remain too high in key areas, given the minimal level of risk most credit unions operate under. Specifically, they should be lower than what the federal bank regulators require for assets such as mortgage loans, member business loans, servicing and certain investments due to the structure of credit unions.

These risk weights should be adjusted downward to levels that more accurately reflect the low risk credit unions maintain as well as the prudent risk management practices credit unions employ. Lowering risk weights for higher concentrations of real estate and commercial loans would imply lower risk weights for lower concentrations of these loans compared to bank risk-weights, but this is entirely appropriate given lower loss rates at credit unions.

We support the proposed treatment of consolidated credit union service organization (CUSO) investments and loans in which no separate risk weighting would apply. The risk weight for unconsolidated CUSO investments, though, is still too high and should be the same as for CUSO loans, which is 100% under RBC2. CUSOs provide a method of cooperation and collaboration that are critical to credit union operations. The credit union's investment in a CUSO not only supports the cooperative but also leads to greater economies of scale and efficiencies which reduces expenses and allows the credit union to provide superior member service. Implementing a rule that essentially discourages investment in a CUSO sends the wrong message.

In addition, we believe the 250% risk weighting for mortgage servicing, which was unchanged from the first proposal and is the same as for banks, is too high and should be significantly lower in any final RBC2.

We also do not support the 300% risk weighting for publicly traded equity investments which should be much lower so that credit unions will not be unduly limited in their investments for employee benefit funding. We also urge NCUA to assign a risk weight of no more than 100% to charitable donation account investments to help encourage credit unions to continue supporting charitable endeavors, such as the National Credit Union Foundation.

It seems irresponsible of the NCUA to try to impose a "one-size-fits-all" approach as it relates to risk-based capital. The only way the credit union industry is going to continue to prosper is for examiners to assess each credit union objectively on its own merit using its own risk appetite including all risk mitigation strategies employed by the credit union. Arbitrary risk-weightings for the masses simply won't cut it. The one-size-fits-all approach is a disservice to the credit union industry that has worked so hard to ensure it is one of significant sustainability and responsibility.

Supplemental Capital

Along with CUNA and many of our other peers, we urge NCUA to allow the use of supplemental capital for any complex federally insured credit union to meet its RBC requirements. As discussed below, NCUA has the authority to permit supplemental capital for RBC purposes, and we believe NCUA should include such a provision if a final RBC2 rule is approved.

While supplemental capital cannot be included in net worth for most credit unions without a change in federal law, there is nothing in the FCU Act or GAAP that prevents NCUA from including supplemental capital in the numerator of the risk-based capital ratio for RBC, which already includes items that are not part of net worth.

Further, we strongly encourage NCUA to aggressively pursue the enactment of legislation that would authorize the use of supplemental capital as net worth for the purposes of prompt corrective action. We note NCUA has long supported such legislation and we encourage the Board to actively advocate for its enactment.

Interest Rate Risk

We are also very concerned with the implied Advance Notice of Proposed Rulemaking (ANPR) on interest rate risk (IRR) that is contained in the RBC2 proposal that suggests a separate IRR rule is needed.

We strongly disagree with the notion that a separate IRR standard is needed to reasonably account for IRR at credit unions. Over the last several years, NCUA has issued numerous rules and letters addressing the issue of interest rate risk. For example, on September 30, 2012, the NCUA Board's final interest rate risk rule took effect. The rule imposes different requirements on federally insured credit unions depending on their asset size. Such requirements include the development and adoption of a written policy on IRR management and a program to effectively implement that policy as part of their asset-liability management responsibilities. The rule is highly complex and covers IRR in its entirety.

There is absolutely no need to burden the overwhelming majority of credit unions—those that are clearly not severe IRR outliers—with a new and complicated one-size-fits-all IRR approach. Instead, NCUA's focus should be squarely on the exceedingly small number of institutions that might be considered severe outliers. NCUA should concentrate resources on them separately in the supervisory process. Any additional rulemaking related to IRR goes directly against the NCUA's agenda that has been touted regarding regulatory relief for credit unions.

Implementation Timeframe

We appreciate that NCUA has proposed a significant delay in the implementation of RBC2, but we encourage the agency to delay implementation even further—until 2021—to coincide with the termination of the corporate stabilization fund, at which time credit unions will receive refunds. The refunds will be important to those credit unions that will need to increase capital levels in order to comply with RBC2.

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Conclusion

In conclusion, CP Federal Credit Union is committed to making a difference by being a high performance credit union dedicated to our members, employees and community. We want to be the primary choice for our members' financial needs by providing the best service our members have ever experienced. That vision and mission are made possible by offering mortgages, member business loans, indirect loans and student loans. That vision and mission are made possible by taking some risks, yet managing them effectively. The proposed risk-based capital 2 rule would cloud our vision and be an obstacle to our mission.

We would like to reiterate our support for prudent risk management measures at each credit union. However, regulator intervention that ties the hands of strategic growth of the credit union industry is not effective. Enforcing arbitrary limits could be harmful to the credit union industry and the members served

We recommend the NCUA Board abandon the entire proposed RBC2 rule. We further recommend the NCUA Board continue with the current risk-based net worth requirement structure in place as it has stood the test of time and is suitable for the strategic growth environment credit unions are faced with today.

If you have any questions or would like to discuss this response in further detail, please don't hesitate to contact us at 517-784-7101.

Sincerely,

John Crist, President/CEO

Ed Konrad

Ed Konrad, Vice President of Finance

Chrissy Siders, Vice President of Risk Management/Specialized Lending