March 30, 2015

MR. GERARD POLIQUIN
Secretary to NCUA Board
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin,

I am writing on behalf of Lafayette Federal Credit Union (LFCU), headquartered in Kensington, Maryland, regarding the National Credit Union Administration's (NCUA) proposed rule governing risk-based capital (RBC). We very much appreciate the opportunity to provide our thoughts on this important regulatory proposal and to express some of our concerns about the potential negative impact.

This proposal would introduce a new scaled RBC measurement approach for assigning capital classifications for well-capitalized, adequately capitalized, and undercapitalized credit unions. Unlike the current system, which requires that a complex credit union's net worth ratio exceed its risk-based net worth (RBNW), the proposal would require complex credit unions to calculate a different ratio - the RBC ratio.

We believe the RBC rule is unnecessary and burdensome; it will put Lafayette at a competitive disadvantage to other financial institutions not regulated by the NCUA. In addition, we believe a single-tier framework such as the one contained in the current PCA requirements mandated by Congress is sufficient to provide the NCUA with the necessary means to regulate credit unions.

Under this current proposal the NCUA has, in effect, created a more stringent capital requirement for credit unions. This more restrictive capital requirement places credit unions at a competitive disadvantage with banks for the following reasons:

1. **Costly and Unnecessary**

   If finalized in its current form, the proposal will impose significant costs on Lafayette and our industry. Under NCUA's current estimates, this proposal will cost credit unions roughly $5.1 million to read the rulemaking and review it against their current policies. NCUA also projects that it will cost $3.75 million for the agency to adjust the Call Report, update its examination systems and train internal staff to implement the proposed requirements. NCUA also estimates credit unions would incur an ongoing $1.1 million expense to complete the adjusted Call Report fields.

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The costs associated with this proposal are shocking given how extremely well-capitalized the credit union industry is today. Furthermore, it creates an enormous regulatory burden on credit union resources to address potential concerns about a few credit union outliers. Lafayette is deeply concerned by how much money this proposal will eventually cost our institution.

**2. Concentration Risk Thresholds – Not Comparable and Regulatory Burdensome**

The proposed rule places credit unions at a competitive disadvantage to banks by requiring credit unions to hold incrementally more capital than banks given similar levels of asset concentration. The historical loss data provided by the NCUA in the proposed rule does not support establishing a higher capital standard for credit unions than banks, and, the NCUA has not provided any evidence that the proposed concentration risk thresholds align with increased capital at risk. In addition, the proposed calculation will be highly complex and technical involving varying risk weights based on the particular concentration of mortgages, equity loans and commercial loans on a credit union's balance sheet. Additionally, none of the other banking agencies have adopted concentration risk thresholds in their risk weights. The NCUA needs to eliminate the proposed concentration risk thresholds and manage concentration risk through the examination process as has previously occurred.

**3. Mortgage Servicing Assets Risk-Weight Is Artificially High and Excessive**

The proposal would set the risk-weight at 250 percent for mortgage servicing assets. The 250 percent weight is punitive and appears to be a measure for less loan participation.

In 2013, the NCUA finalized a rule on loan participations that was intended to help credit unions and the NCUA better manage the potential concentration risk in loan participations. The loan participation rule is working and should be allowed to continue working instead of higher risk-weights for mortgage servicing assets.

Under the current approach giving mortgage loan servicing assets a 250 percent risk-weighting is artificially high and excessive. An alternative recommendation would be to set the risk weights for Mortgage Servicing Assets at 150 percent. The NCUA could consider whether the loan is a recourse loan and assign those a higher risk-weight. The NCUA could then allow an even lower weighting of 100 percent if the loans are sold without recourse but are serviced.

**4. CUSO Risk-Weight Inappropriate**

The proposal would set the risk-weight at 150 percent for investments in CUSOs and 100 percent for loans to a CUSO. The proposal would exclude loans and investments in CUSOs if those assets were already consolidated into the credit union's statement of financial condition under generally accepted accounting principles (GAAP). While this proposal reduces the investment risk-weighting and accounts for the CUSOs consolidation into a credit union's books, it continues to assign different risk-weights to investments in CUSOs and loans to CUSOs.

The proposed 150 percent risk weight fails to consider the different types of services provided by a given CUSO. For example, an investment in a CUSO engaged in low-risk activities like providing compliance assistance would be assigned the same risk-weight as an investment in a

CUSO engaged in mortgage or commercial loan underwriting. Despite being lowered, the proposed 150 percent risk-weight could still be improved to assess a more meaningful risk distinction between the risks various types of CUSOs pose. Instead, CUSO investment should be weighted at 100 percent to better align it with loans to a CUSO and more accurately reflect the risk involved with investing in a CUSO.

Less than 22 basis points of credit union assets are invested in CUSOs and do not represent a systematic risk that could take down the share insurance fund, but this proposed rule could force credit unions to reconsider investments in CUSOs now and in the future. Any exceptions to potential credit union risk should be managed through the examination and supervision process and not by a system-wide capital regime.

Thank you very much for the opportunity to comment on this proposed regulation. The issues we have highlighted above will have significant impact on our institution and our ability to serve our members. We respectfully urge the NCUA to consider these concerns before finalizing this proposal. If I can be a source of any further information on this comment letter, please do not hesitate to contact me at jfarmakides@lfcu.org or by phone at (301) 929-7990, extension 3100.

Sincerely,

B. John Farmakides
President/CEO
Lafayette Federal Credit Union
Kensington, MD

cc: William Tracy
Rafael Galvan, Jr.