



April 9, 2015

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

Subject: Comments on Proposed Rule: Risk-Based Capital

Dear Mr. Poliquin:

We appreciate the opportunity to comment on the Proposed Rule: Risk-Based Capital. We will address a variety of areas in the proposal. Overall, the proposal adds more regulation to the credit union industry, which is a distraction from serving our members, while it is not an accurate assessment of the level of credit risk.

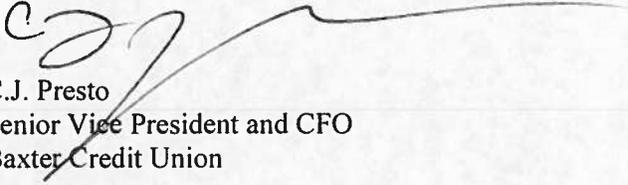
- (1) The risk-weights and concentration percentages do not take into account any of the standard credit risk factors such as loan-to-value (LTV), credit score, or origination channel. The concentration percentages are not correlated with historical loss experience. The proposal cannot capture credit risk accurately if it does not distinguish the appropriate credit risk characteristics. The only factor that is considered is whether a loan is 90 days delinquent, which is a very late indicator of credit risk. The appropriate credit risk factors should be considered in the proposed risk-weights. The desire to not trigger the greater risk-weights associated with the concentration percentages could push us to diversify into riskier assets.
- (2) Deducting the NCUSIF capitalization deposit from the risk-based capital calculation does not seem to be consistent with showing that the NCUSIF capitalization deposit has value. Subtracting the NCUSIF capitalization deposit from both the capital and risk weighted asset totals is equivalent to writing off the deposit. We are concerned that it becomes more difficult to prove that the asset has future economic value when it has no value in the regulatory capital ratio calculation.
- (3) In the proposal, mortgage servicing rights (MSRs) have a risk-weight of 250%, which is much higher than the risk-weight for the mortgages that were sold to create the MSRs. The credit risk associated with MSRs is the same as the credit risk of the underlying mortgage. If the higher risk weight is due to interest rate risk, then it is not consistent with the proposal's focus on credit risk.
- (4) Second lien loans should have the same risk-weights as first lien loans as long as the credit union originated both the first and second lien loans. It should not matter if the credit union sold the first lien loan or not. The same credit risk criteria have to be met at origination whether the first lien loan is retained on the balance sheet or sold. There is the same level of due diligence made at origination whether the first lien loan is retained on the balance sheet or sold.
- (5) Although it will require changes to the call report and how credit unions classify these loans, we are glad to see the distinction in risk-weights between commercial loans and member business loans since we are not seeing different credit risk between member business loans and consumer loans.
- (6) Introducing new capital requirements without giving the industry sufficient time to organically grow its capital through retained earnings will curtail necessary investment in security, technology and compliance due to already constraining income statements. New capital requirements must be implemented concurrently with allowance of new capital sources through secondary capital.

- (7) Regarding the control of interest rate risk, we recommend using a supervisory, rather than regulatory, approach and examining the risk exposure based on a holistic depiction, including all assets, liabilities, and off-balance sheet positions.

Thank you for the opportunity to comment on this proposed regulation.

Please feel free to contact me or my staff with any questions or comments regarding this response. We would be happy to work together with the NCUA staff to design an effective solution.

Best regards,

A handwritten signature in black ink, appearing to be 'C.J. Presto', with a long, sweeping horizontal line extending to the right.

C.J. Presto
Senior Vice President and CFO
Baxter Credit Union