April 25, 2014

Gerard Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22713 – 3428

Re: RIN 3133-AD77
regcomments@ncua.gov

Dear Secretary Poliquin:

Thank you for allowing EECU to respond to the proposed regulation on risk-based capital. Please consider our comments in the construction and implementation of the new regulation.

We believe that the timing of implementation of the proposed regulation is problematic. The slow economic recovery and historically low interest rate environment have negatively affected the industry's ability to generate requisite profitability and additional capital as will be required in many credit union situations. This is particularly troublesome given the fact that the corporate credit union debacle has not been fully resolved or concluded, representing a significant risk to earnings and capital formation. Section 702.102 (a)(1) indicates that other federal banking regulatory agencies have until 2019 to fully implement the capital conservation buffer representing a nine year time frame, while credit unions have a far more stringent requirement of 18 months for implementation following final passage of the regulation. We believe that credit unions deserve a longer implementation period than proposed in the regulation particularly in light of the need for revising short- and long-term strategic direction, the potential need of some credit unions to restructure balance sheets, the need to revise product and service offerings, and development of new financial strategies. Further, the proposed regulation may have an unintended consequence of accelerating consolidation of the credit union industry by placing yet another significant regulatory burden on credit unions. A timeframe of 3 to 5 years appears more reasonable and consistent with the NCUA Board's desire for a transition period sufficient for credit unions to accumulate additional capital if necessary, change asset structures to achieve their desired capital classification, and to update internal systems, policies and procedures.

Section 702.104 (b)(2) discusses those items to be excluded from the risk-based capital numerator such as accumulated unrealized gains/losses on available-for-sale securities, accumulated unrealized OTTI losses, gains/losses on cash flow hedges, and other comprehensive income which appear inconsistent with the stated objective of achieving a risk-based capital numerator reflecting equity available to cover losses in the event of liquidation. We believe that the liquidation concept is more reflective of the true net capital position without these exclusions and inconsistency with generally accepted accounting principles.

Section 702.104 (b)(2) also includes a provision to allow for identified losses during the examination process which we believe is highly subjective, prone to examination process inconsistencies and interpretations, and provides a mechanism for field examiners to further degrade a credit union's regulatory classification, potentially rendering the institution insolvent. Several examples of these items are provided such as underfunded allowance accounts, underfunded pension plans, and unsupported valuations of bond claims receivable that contain a high degree of subjectivity and may be used to achieve certain regulatory change that may not be in the interest of the credit union or its members.

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Section 702.104 (c) discusses the various risk weight categories. Although consistent with the Basel III requirements, we believe that category 2 with a risk weight factor of 20% applied to cash on deposit and cash equivalents is an overly stringent risk weight assignment. Further, we believe that the arbitrary approach applied to CUSOs (i.e., 100% risk weight for loans and 250% for investments) does not reflect appropriate risk weights based on the specific activities in which the CUSO is engaged in or the composition of their balance sheets. For example, an investment in a wholly-owned CUSO engaging in low risk activities whereby the equity investment is fully offset by cash held in the CUSO does not appear to warrant a 250% risk weight. Further, these risk weight assignments may produce unintended consequences of restricting credit union development of CUSOs in the future.

Section 702.104 (2) assigns the NCUSIF capitalization deposit a category 1 risk weight of 0% and excludes the deposit from the numerator in the calculation. This exclusion does not appear consistent with sound business practices implying that the capitalization deposit is totally risk free.

Section 702.104 (c) (2) and (d) address a risk weight percent of 1250% for holding asset-backed investments for which the credit union is unable to demonstrate a comprehensive understanding of the features of the investment that may materially affect its performance. Although consistent with the Basel standard, this appears subject to interpretation and examiner opinion regarding the suitability of such investments and demonstration of the comprehensiveness of the credit union management's understanding. The "understanding" portion of this requirement cannot be demonstrated in a Call Report and is subject to potential examiner bias. Further, this requirement only appears to apply to asset-backed securities rather than any security that is not understood by credit union management regardless of whether or not the security possesses a high degree of risk. EECU has in the past invested successfully in asset-backed investments secured by home-equity loans and automobile loans which would not warrant this level of risk weight.

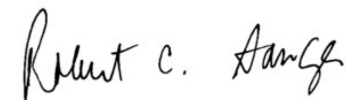
Section 702.105 (b) provides the leeway for deviating from the proposed risk-based capital requirements based upon NCUA's determination that the credit union's capital is or may become inadequate in view of the credit union circumstances. We believe that this amount of discretion and "subjective judgment as grounded in agency expertise" may lead to an abuse of power with little to no input from a state-chartered credit union's primary regulator.

In general, the proposed risk weights in Section 702.104 should not be more stringent than the Basel III standards for banks particularly related to residential mortgages, member business loans, and securities.

The Board's objectives of addressing credit risk, interest rate risk, concentration risk, liquidity risk, operating risk, and market risk in the capital requirements do not appear to have been achieved by the regulation. The regulation appears to focus primarily on concentration and credit risk (i.e., delinquent loan balances, MBL and real estate loans, equity investments, and off-balance sheet exposures), ignoring other risks such as compliance, interest rate, liquidity, market, operational, reputation, and strategic risks apparently contrary to the objectives and goals stated by the NCUA Board. Further, we do not believe that the proposed regulation will enhance stability of the credit union system or meet the NCUA Board's objective of being easy to understand and implement based upon the extent of discretionary powers afforded to NCUA's examination staff.

Thank you for considering our concerns.

Sincerely,



Robert C. Sanger, Chief Financial Officer

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