Nebraska Credit Union League

April 24, 2014

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 55314-3428

Sent electronically to: regcomments@ncua.gov
Re: RIN 3133-AD77

Dear Mr. Poliquin:

The Nebraska Credit Union League (League) is the non-profit trade association that represents the interests of Nebraska credit unions and their members. On behalf of the League, I appreciate the opportunity to comment on the National Credit Union Administrationó (NCUA) proposal concerning risk-based capital requirements for federally insured credit unions. The League understands the need for capital requirements but is concerned that the calculation of risk weightings and discretion of individual examiners contained in this proposal will restrict the growth of credit unions in Nebraska and inhibit services to members across the state.

The League encourages NCUA to reconsider the proposed risk weightings as they do not account for the individual situation of Nebraska credit unions and their level of expertise in specific asset categories. The broad asset classifications contained in this proposal will impact both credit unionsô present situations as well as the long-term growth of Nebraska credit unions.

The League is concerned that the proposed rule creates requirements based on general asset type rather than the individual credit quality and management of the asset. The risk weights do not take into account the strength of an individual credit unionó policies, processes, and level of staff expertise to evaluate the risk of each unique loan or investment product. Nebraska credit unions with a concentration in specific areas have more extensive policies, processes and specific expertise to properly evaluate the risks. The method of determining risk and capital requirements in this proposal restricts Nebraska credit unions that have the expertise to effectively deliver these services to the community, especially underserved communities, and have the systems in place to properly manage and mitigate the associated risks.

Nebraska credit unions of all asset sizes have faced an unprecedented increase in regulatory restrictions over the last few years and have had to decide whether they will be able to devote the necessary resources to comply with new rules or limit certain services. Specifically, real estate lending has been significantly impacted within the last year. Nebraska credit unions that were able to comply with the new regulations issued by the Consumer Financial Protection Bureau and plan for growth within their loan products will now need to reevaluate whether real estate lending is a possibility given the new risk weightings.

In addition, seventeen (17) Nebraska credit unions are members of FHLBank Topeka. These Nebraska credit unions rely on the Mortgage Partnership Finance ® (MPF) Program as a reliable secondary market alternative to Fannie Mae, Freddie Mac and their large-institution competitors. The MPF ® Program provides credit unions important mortgage lending option ï credit unions retain the credit risk in their loans and transfer the interest rate and prepayment risks to FHLBank Topeka. Of the seventeen credit unions, eight (8) credit unions have either sold mortgage loans to FHLBank Topeka in the past, are actively selling loans to the FHLBank today, or are approved and contemplating selling FHLBank Topeka mortgage loans in the future. Nebraska-based credit unions currently have $261,936,074.56 in mortgage loans sold to FHLBank Topeka. This represents 21.62% of the credit union volume sold to FHLBank Topeka through the MPF® Program. The League is concerned the proposal will cause those credit unions utilizing the MPF® Program to reconsider their participation going forward thus placing the interest rate and prepayment risks back on the credit unions. We believe that a formula-based approach to calculating Risk-Based Capital (RBC) would far better reflect actual risk, as compared to a rigid percentage.

Nebraska credit unions and the League have continued to urge Congress to increase the member business loan cap to meet the needs of Nebraska members. However, the proposed risk weighting for member business loans would prevent Nebraska credit unions from fully utilizing any potential increase in the cap and would restrict the ability of small businesses to access necessary credit. Nebraska credit unions have a long history of providing member business loans. Nebraska is also home to a credit union chartered for the specific purpose of providing agricultural loans. Since this credit union currently has more than 25% of its lending portfolio in agricultural related loans any future lending would count 200% against their risk based capital. Credit unions should not be forced to discontinue its mission specific agriculture lending activity (which may not be possible in some rural areas) or be placed in the unenviable position of selling off good, long standing loans, and replacing them with loans that may pose an even greater credit risk. Increasing risk weights based on concentration penalizes Nebraska credit unions for developing expertise in those areas and expanding these particular services.

The proposed risk weights for long-term investments does not take into account applicable credit or asset liability management considerations, it only captures interest rate risk concerns. NCUAôs current regulations provide a regulatory framework that more accurately allows for credit unions to individually identify, manage and mitigate risk exposure.

The League also requests that NCUA remove the Allowance for Loan and Lease Losses (ALLL) cap of 1.25% of total risk weighted assets. This cap does not account for managementôs determination of the credit quality of the credit unionôs portfolio. The League also requests that NCUA reconsider the exclusion of the 1% deposit each credit union makes to the National Credit Union Share Insurance Fund (NCUSIF) in the risk-based capital ratio calculation. Excluding the deposit inappropriately lowers a credit unions risk-based capital position and does not account for the credit unionôs asset.

The proposed risk weightings do not allow Nebraska credit unions to grow in areas according to their individual strengths and membersô needs. Under this proposal, the League is concerned that consumers in Nebraska will have fewer options in the marketplace to obtain certain credit products.

In addition to the method of calculating the risk-based capital ratio, the League is also concerned about the proposed language that would allow NCUA to require an individual credit union to hold higher levels of risk-based capital to address unique supervisory concerns. The ambiguous power concerns the League as it is not clear when a credit union will be required to hold higher capital amounts. Nebraska credit unions under $50 million will need to consider whether growing their model is financially feasible due to the potentially higher capital requirements that can be assessed without warning and increased regulatory burden placed on credit unions over the stated threshold.

Changes to risk weightings or capital requirements will require each management team to closely evaluate the credit unionôs future plans for growth. As credit unions do not have the same ability as other financial institutions to raise capital, the League is also requesting that any changes to capital requirements have a longer implementation period.

Throughout the recent economic crisis, Nebraska credit unions maintained strong capital reserves and high net worth ratios. They have demonstrated their ability to adequately account for risks based on their individual circumstances during a difficult financial climate. The risk weightings and additional capital requirements in this proposal will not serve to increase the protection to the credit union system but instead restrict growth and impact member services. The League asks that NCUA consider the needs of Nebraska communities and the important role the credit union system plays in our state when evaluating risk-based capital regulations and examiner discretion to require higher capital levels.

Sincerely,

J. Scott Sullivan

J. Scott Sullivan
President/CEO
Nebraska Credit Union League

Cc: The Honorable Deb Fischer
The Honorable Mike Johanns
The Honorable Jeff Fortenberry
The Honorable Lee Terry
The Honorable Adrian Smith