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April 15, 2014

The Honorable Debbie Matz
The Honorable Michael Fryzel
The Honorable Richard Metsger
c/o Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

RE: 3133-AD77 – Prompt Corrective Action – Risked Based Capital

Dear NCUA,

Thank you for the opportunity to comment on the proposed Risk Based Capital requirements for credit unions above $50MM. We have a few recommended changes to the proposed regulation:

1. We are concerned about the lack of parity between the proposed regulation and the Basel III requirements that banks will adopt. This proposal attempts to incorporate an Interest Rate Risk (IRR) component and concentration risk component that is not addressed in the Basel III requirements. These additional components will put the credit union movement at a competitive disadvantage and make capital enhancement through earnings more difficult.

   With respect to the IRR component of the new requirements; a duration-based capital charge based solely on asset class is too simplistic. Best practices dictate that IRR must be assessed on a global balance sheet basis. Incorporating an Economic Value of Equity or income simulation results-based charge makes more sense. The Basel III requirements for non-credit unions don't include an IRR component, so we suggest not including an IRR component beyond what is included in the surviving RBNW standard.

2. We have reservations about the "one size fits all" approach of the regulation. The opportunities and challenges of a $100 million dollar credit union are dramatically different than those of a $10 billion dollar credit union. The regulation does not consider the operational differences of large and small credit unions. It would be helpful to divide the regulation into more appropriate size classification.

3. We are uncomfortable with the rapid adoption of the new risk-based capital requirement of 8.0% plus a capital buffer of 2.5%.Non-credit unions under Basel III have until 2019 to implement the new buffer requirements. From a competitive standpoint, the adoption of the new standards ahead of other financial institutions will put credit unions at a disadvantage. At the very least, it is prudent to adopt the new buffer gradually to coincide with the adoption of the Basel III requirements.

4. We oppose the potential limitless capital requirement based on the "discretion" of the examiner. Most of the rule is quantitatively written to outline what the new capital requirements represent, but then regulators are given great latitude to create a new number at their preference. This power should be dropped or severely restricted.

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5. There is no difference in capital treatment of the loans of a credit union that has historic credit losses well below peer versus an institution that has losses well above the peer average. We would like to see some capital credit given to institutions with a proven track record of credit performance. Perhaps, cut the capital charge by 50% if the historical chargeoff over the last five years is below 1% and by one third if it is below 2% for the same period.

6. Our remaining concerns relate to the disparity of some of the risk weightings between the asset classes. For example:

   - The disparity between high-quality, longer term investments and defaulted loans. We suggest modifying or eliminating the IRR component as suggested above. While taking a market value hit on a longer term asset may not be ideal, the credit union does receive the par value of the investment when it matures, unlike a defaulted loan whose value is questionable. We would like to see the IRR component eliminated or more balance exercised here.

   - CUSOs are weighted worse than defaulted loans. Well-run, historically important CUSOs that provide valuable member benefits should be given preferential capital treatment. Not all CUSOs have the same risk to the insurance fund. We would prefer more detail in this area, and lower overall levels more reflective of the actual risk to the fund.

   - The adverse treatment of Mortgage Servicing Rights (MSRs). Given that the market value of MSRs move in the opposite direction of real estate portfolios, and may provide a natural hedge; it is unclear why MSRs are penalized. In fact, an institution could use the right mix of MSRs and held mortgages to insulate the entire mortgage section of their balance sheet from the effects of a rate rise. In addition to that, the Wall Street Journal recently reported that many large banks are exiting the mortgage servicing business based on the Basel III capital requirements, which are the same as the NCUA's proposed capital level charges. As the article indicates, much of the servicing is moving to faceless hedge funds, which does not serve the best interest of credit union members.

   - We would like to see the 200% risk weighting on the paid in capital provided to the corporate credit unions lowered to 100%. The partnership between credit unions and their corporate credit union partners is mutually beneficial. We have already experienced the ultimate stress test of the corporate system, and the financial difficulties of the corporate system didn't transfer down to the natural person credit unions. We believe a 100% risk weighting is more indicative of the inherent risk.

We hope our comments will lead to a better, more competitive regulatory structure that will allow the credit union movement to continue to advance. The difference between banks and credit unions has never been more apparent to the public, and we hope to see this momentum continue.

Sincerely,

Christopher W. O'Connor
President and CEO

Drew Schmid
EVP - CFO

Bruce Clark
VP – Investment