Submitter Info

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Public Comments on Prompt Corrective Action; Risk-Based Capital:========

Title: Prompt Corrective Action; Risk-Based Capital
FR Document Number: 2014-01702
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Submitter Info:
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Comment: April 30, 2014

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

Subject: Prompt Corrective Action - Risk Based Capital; RIN 3133-AD77

Dear Mr. Poliquin,

I wish to share with you some thoughts on the proposed risk based capital guidelines.

First of all, I fully agree with the need to have risk-based capital limits and a credit union model to protect the insurance fund and our credit union (Unitus Credit Union) from NCUA assessments that become necessary to repair damages to the fund from bad actors. The framework of a good risk-based capital model should serve to provide a measure of risk mitigation against concentrations in high risk assets and ensure adequate capital reserves are standardized and met for all credit unions. The current proposed draft is too heavy handed for some assets and it awkwardly attempts to manage risk associated with duration and concentration by not considering individual risk mitigation and risk practices at the individual credit union level.

As I review your math for the risk based capital calculation numerator, I don't fully understand the reasoning for reducing it by 100% for NCUA insurance funds. It seems excessive in treatment and a better approach would be to reduce it by 50%. I do think it is favorable that the numerator begins with Net Worth (excluding OCI) and adds back the allowance for loan losses. As for the denominator in this equation, I believe the proposed risk based capital guidelines goes too far and is excessive in the application of the risk adjustments to the denominator for the following: a) use of a risk multiplier for various duration levels of assets, b) use of a risk multiplier for concentration levels for loans, and c) 2.5 multiplier for investments in CUSOs and MSRs.

It is best to keep risk based capital focused on measures of risk associated with asset classes that stem from known and historical market conditions impacting asset classes commonly found on the balance sheet of credit unions. And remove provisions for attempting to incorporate duration and concentration risk levels. The best course of action is to provide a framework to the credit unions that separately deals with duration and concentration risks that are addressed in board approved policies and handled in the interest rate risk management and credit quality risk practices. These risk mitigation practices should continue to be developed and monitored at the individual credit union level. The NCUA and State chartered credit unions should continue to be reviewed for proper risk management of these areas during the normal course of conducting a regulatory safety and soundness exam.

Submitter Info

Thank you for your support on this very important matter.

Sincerely,
Greg Spear
Chief Financial Officer
Unitus Community Credit Union

April 30, 2014

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National Credit Union Administration
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Greg Spear

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