April 29, 2014

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

Subject: Comments on Proposed Rule: PCA-Risk-Based Capital

Dear Mr. Poliquin:

On behalf of Baxter Credit Union (BCU) we appreciate the opportunity to comment on the Proposed Rule: PCA-Risk-Based Capital. While we applaud the NCUA for taking steps to address deficiencies in the industry's current risk based net worth approach, we believe there are still numerous changes necessary to improve the proposed rule.

Additionally, in the context of updating the risk-based capital rule, we believe there needs to be a greater effort and emphasis to expand secondary capital opportunities for all credit unions. The framework of the proposed rule should contemplate this expansion.

As for the proposed rule, we will address a variety of areas.

NCUSIF Deposit

(1) Deducting the NCUSIF Capitalization Deposit from the risk-based capital calculation is not 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 the asset has future economic value when it has no value in the regulatory capital ratio calculation.

Risk Weighting

(2) The risk-weight for cash on deposit at the Federal Reserve Bank should be 0%. Since the Federal Reserve is one of the NCUA designated sources for emergency liquidity, its safety and soundness should be similar to that of the government agencies.

(3) For securities, the 0% risk-weight for Treasuries and GNMA MBS, regardless of the weighted-average life, ignores any interest rate risk and is lower than the 20% risk-weight for cash on deposit at the Federal Reserve Bank.

(4) The 1,250% risk-weight category for an asset-backed investment for which the credit union is unable to demonstrate a comprehensive understanding of the features implies a loss greater than 100% of the principal.

(5) Share secured loans have a risk-weight of 75%, but since we have access to the collateral, these loans should have a risk-weight of 0% or 20%.

(6) Applying a 250% risk weight to an investment in a CUSO may result in the unintended consequence of restricting credit union investments in CUSOs due to the punitive risk weighting. Additionally, many CUSOs are highly successful and owners of those CUSOs will be penalized for growing investments in profitable CUSO entities. At a minimum, there should be a lower tiered risk weighting depending on success and longevity of a CUSO.

(7) The risk-weights assigned to member business loans are too severe, given the restriction on the percentage of members business loans compared to assets. As with the CUSO comments above, we feel the MBL restrictions could have the unintended consequence of restricting growth in this asset class.

(8) We believe that increased risk-based capital requirements for higher concentrations of residential mortgage loans are too high, and exceed the capital requirements specified in for small banks in Basel III. For example, residential mortgage loans that exceed 35% of assets have a risk-weight of 100% in the NCUA proposal versus 50% in Basel III. A number of factors (type of loan, LTV, debt-to income, etc.) influence the risk of a loan, and a broad brush approach to risk-weighting mortgages seems short sighted.

(9) It would be beneficial for credit unions to understand the statistical data that is used to support the increased risk-weights for the asset concentration percentages.

Expanded Information to Enhance Risk Weightings

(10) Changes to the information required in the call report could be needed in order to properly assign risk-weights. For example, it might be necessary to report loan-to-value information in order to assign risk-weights to mortgage loans. In the current proposal, 50% and 150% LTV mortgages have the same risk-weight.

Mortgage Servicing Rights

(11) We feel that the risk weighting for mortgage servicing rights is too high because the interest rate risk benefit for rising rates from mortgage servicing rights is not given any credit. When interest rates increase, the value of mortgage servicing rights increases, which offsets some of the interest rate risk from the balance sheet. Regardless of the accounting treatment (Lower of Cost or Market vs. Market Value), the interest rate risk modeling should recognize the change in market value for the mortgage servicing rights.

Allowance for Loan Loss Limitation

(12) We disagree with the proposed rule limiting the allowance for loan losses in the numerator calculation to no more than 1.25% of risk assets. The ceiling seems arbitrary at best, and given likely accounting rule changes in estimating the allowance, credit unions will be unfairly penalized.

Examiner Subjectivity

(13) The ability for examiners to require higher capital amounts for individual credit unions is not justified. The capital rule should be uniform for all credit unions.

Longer Average Life Liabilities Benefit

(14) Although the longer weighted average life of assets gets a higher risk-weight, having longer average life liabilities does not get any reduction in the risk based capital calculation.

Interest Rate Risk Benefits from Derivatives

(15) For derivatives, only the counterparty risk is used in the risk based capital calculations but there is no benefit for reducing the corresponding interest rate risk.

Again, we believe the timing is appropriate for industry dialogue to address risk based capital, however the rule as proposed falls short for the practitioners who have to apply it.

Thank you for the opportunity to comment on this proposed regulation. Please feel free to contact me with any questions or comments regarding this response.

Sincerely,

Thomas G. Moore, CFA
Executive Vice President & Chief Financial Officer
Baxter Credit Union

cc: BCU Finance Committee, BCU Senior Management