From:	Todd Erickson
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Thursday, May 01, 2014 9:31:40 AM

Dear Secretary of the Board Poliquin,

I am writing on behalf of Capital Educators Federal Credit Union, which serves the State of Idaho and those who work or volunteer in the educational industry. We have 48,000 members and 380 million in assets. Capital Educators appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.
If the rule were implemented Capital Educators FCU would drop from a "Well Capitalized Credit Union" to an adequately capitalized credit union. The main reason this would occur is due to long-term investments on our balance sheet with average lives of over 3 years. These investments have no credit risk associated with them because they are backed by governmental agencies, and the long-term average life of these investments is much shorter than most real estate loans. The ironic aspect of the proposal is that if we sold investments for example that have a 5 year average life and purchased 30 year mortgages, we would actually improve our RBC ratio. This makes no sense. Selling an asset with no credit risk and a relatively a middle range average life and replacing it with an asset with credit risk and a long term average life is in reality increasing risk on the balance sheet. The way the proposal stands, it benefits a credit union to do just that. The solution is to lower the risk weightings on the investments that lack credit risk. WAL investments in the 5 to 10 year bucket are risk weighted at 150% and I would recommend that those investments that contain no credit risk be lowered to match the 50% risk weighted average of non-delinquent 1st Mortgage Real Estate loans. I also recommend that the over 10 year bucket of investments currently risk weighted at 200% be lowered to 100% if they contain no credit risk. Another area that is over risk weighted is our Contributed Capital in our corporate credit union. This has a 200% risk weighting. I fail to understand that risk weighting due to the very restrictive investment requirements that NCUA has put on Corporate Credit Unions. If NCUA's reasoning for risk weighting Corporate Credit Unions at 200% is because of past losses sustained from the recent corporate credit union crisis which is causing natural person credit union assessments, then it is saying that the new rules put in place to limit the risk of the corporate credit unions are ineffective. Recapitalizing the corporate industry was important for the credit union movement, however this proposal is penalizing credit unions who have done that. NCUA needs to move this risk rating to 100%. Another risk rating that should be moved lower is the non-delinquent business loans that are less than 15% of assets. Most of these loans I would venture to guess are secured by commercial real estate with LTV's of 80% or less, and in many cases much much less than 80%. Also, these loans have 5 and 7 year re-pricing options built into their contracts which greatly reduce the interest rate risk. This risk rating needs to be changed from its current 100% risk rating to match the non-delinquent 1st mortgage real estate risk rating for real estate loans less than 25% of assets of 50%. Another question is the risk weighting of the All Other Assets section of the balance sheet risk weighted at 100%. These assets are either covered by insurance or are prepaid assets that have little or no risk to the current capital and should be risk weighted to zero.
Another provision in the proposal that is suspect is the 18 month timeline. That is too short for a credit union to adjust to such a drastic change in capital position. I ask that that timeline be lengthen to 5 years.
In general Capital Educators agrees that a risk based capital structure is beneficial to the industry, however, the current proposal is somewhat of an overreaction to past industry problems. Most credit unions, including Capital Educators FCU weathered the past economic recession and Corporate Capital crisis just fine with the current capital requirements, so one would wonder what justification there is for increasing the capital requirements as allowed in the Federal Credit Union Act and Prompt Corrective Action.
In summary Capital Educators agrees with a risk based capital provision in the current PCA rule, however, this proposed rule has serious flaws that need to be addressed. I ask NCUA to follow the suggestions in this letter and change the risk limits and time frame as suggested.

Sincerely,

Todd Erickson

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