ROGUE CREDIT UNION

May 6, 2014

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

Re: Comments on Proposed Rule related to Prompt Corrective Action; Risk-Based Capital

Dear Mr. Poliquin,

Please accept this letter as Rogue Federal Credit Union's official response to the proposed regulation related to risk-based capital (RBC). Rogue has 14 full service branches throughout Southern Oregon, serves more than 77,000 members and manages more than $880 million in assets. We support the NCUA's efforts in ensuring a safe and sound credit union movement. Furthermore, we agree with the underlying concept of a risk based capital weighting system and believe that a dynamic capital ratio calculation should account for the diverse risks associated with different types of assets. However, we have significant concerns with the details of the proposed rule and ask that significant modifications be made prior to any implementation. The specifics of many of our concerns are outlined in this letter.

Negative Consumer Impact Due to Unnecessary Increase in Capital Buffer: The proposed rule not only adjusts for different asset risk categories, it drastically increases the amount of capital needed to be classified as "Well Capitalized". In our case, Rogue would need to accumulate an additional $8.5 million in retained earnings to maintain our current capital buffer above the "Well Capitalized" level. The Credit Union National Association (CUNA) estimates that the proposed rule would require credit unions to earn an additional $7.3 billion in retained earnings just to maintain the same level of capital buffer that the movement has today. If you assume no credit union needs more than a 4% buffer the requirement is still over $6 billion. The result of this new requirement would be that credit unions, including Rogue, will be forced to focus on increasing capital levels by limiting the value that we return to our members. The overwhelming majority of natural person credit unions had sufficient capital through the recent "Great Recession" and we do not believe that higher capital requirements are needed or justified.

Examiner Authority to Arbitrarily Assign Additional Capital Requirements: The proposed rule grants additional authority to examiners to impose arbitrary capital requirements on individual credit unions. We believe that the current system provides adequate oversight of the risk. If examiners are uncomfortable with the risk associated with a specific practice within a credit union they currently have tools to address them via exam findings, documents of resolutions and ultimately prompt corrective action steps. We believe that the proposed additional authority goes beyond the regulatory need to

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ensure safety and soundness and puts individual examiners in a risk management role at specific credit unions. This is clearly our role as credit union management and not the role of our regulators. Furthermore, this expanded authority will likely result in inconsistency from different individual examiners causing inconsistency from credit union to credit union and even exam to exam within the same credit union. We believe this additional authority is unwarranted and should be removed from the rule.

Investment Risk Weightings: The investment risk weighting criteria should be expanded to more fully reflect the risks inherent among different investment types. The current proposed weighting sacrifices precision for the sake of simplicity in its current two bucket form - zero risk weighting for treasury securities and a second risk weighting methodology being applied to all other investment securities regardless of the significant differences that exist in this second all encompassing bucket.

The proposed rule, in some cases, would create inconsistencies in treatment among similar assets. For example, a residential mortgage retained on our books has a 50% risk weight whereas the residential mortgages that are part of agency mortgage backed securities have a 75% or 150% risk weighting. This is despite the significantly reduced credit risk on the mortgage backed securities that are part of the mortgage backed security.

One of the more troubling aspects of having such limited risk weighting categories for investments is that federal government backed securities are lumped in with other investments that inherently have more risk. While federal treasury bonds are weighted a 0%, bonds from other federal government agencies that have very similar risk characteristics are lumped in with all other types of investments. We recommend considering a 20% risk rating category for bonds guaranteed by federal government agencies.

We have concerns that the proposed ruling could result in actions that, while increasing risk based net worth, may actually increase the risk of a given financial institution. As part of our due diligence related to the proposed rule, we performed scenario analysis using our ALM software. One scenario involved replacing our current investment portfolio – which is widely diversified among investment types and maturities, with solely treasury securities. The results made it apparent that such action, while certainly dramatically increasing our risk based net worth, may not be directly correlated with a reduction of risk on our balance sheet. In fact, scenarios which included replacing our current investment portfolio with mid to longer term treasuries, while significantly increasing our risk based net worth, resulted in NEV results in the + 300 scenario that were well out of our comfort level and policy limitations. While efforts made by the NCUA to reduce the regulatory burden are appreciated, in this instance we believe that increased reporting requirements allowing for more granular risk weighting of investments would be welcome by the movement.

Member Business Lending and Real Estate Loan Tiers: The proposed rule segregates Member Business Loans (MBL) and different types of real estate loans into different risk categories based on the concentration of these portfolios compared to assets. For example, MBLs are broken into two categories, one category for loans up to 15% of assets and a separate category for loans greater than 15% of assets. Similar category segments are proposed for the different types of real estate loans. This implies that loans booked after reaching a certain threshold inherently contain more risk. In reality, there are several plausible scenarios in which adding additional high quality loans to a specific portfolio could strengthen the credit union's risk position. We believe that the current NCUA's guidance on asset/liability management and concentration risk is more than adequate in addressing this issue. Therefore, we recommend consolidating all of these various categories into the lowest related risk category as follows: Non-Delinquent First Mortgages - Category 3 (50%), Other Real Estate Secured Loans - Category 5 (100%), MBLs - Category 5 (100%).

Allowance for Loan Losses: The entire balance of allowance for loan losses should be included in the capital calculation. Excluding a portion of this balance creates a disincentive to having an ALL balance higher than what can be included in the risk based net worth calculation and will likely result in lower overall ALL balances across the movement.

Supplemental Capital Options: We request that consideration be given to including supplemental capital as part of the risk based net worth calculation. While inclusion of supplemental in the standard net worth calculation would require legislative action, it is within the power of the NCUA to include such options in risk based net worth. Supplemental capital options have previously been endorsed by members of the NCUA board and would provide credit unions more flexibility in effectively managing growth.

Implementation Time: Significant changes will need to take place in many credit union balance sheets in order to conform to the spirit of this proposed rule. Deliberate and measured changes to the mix of loan and investment portfolios will take time. Therefore, a lead time of no less than 3 years should be used for implementation of this rule.

We would like to reiterate that we support the NCUA's efforts in ensuring a safe and sound credit union movement. Furthermore, we agree with the underlying concept of a risk based capital weighting system and believe that a dynamic capital ratio calculation should account for the diverse risks associated with different types of assets. However, significant changes should be made to the proposed rule to avoid unintended negative consequences.

Thank you for considering our feedback.

Sincerely,

Matt Stephenson
Executive Vice President
Rogue Federal Credit Union