Foothills Credit Union

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April 29, 2014

MAY08'14 PM12:56 BOARD

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

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

Board of Directors:

This writing is to implore you to consider changes to the proposed Risk-Based Capital Rule. The rule will impose unnecessary increases in capital when credit unions already have high basic leverage requirements. I wish to list several areas of concern, and I'll finish with changes that I hope you will consider.

First, the implementation period is unreasonable and short. The NCUA proposes implementation of the rule 18 months after it is finalized. Not that we neither have to nor should, but banks will have an estimated nine years to meet their Basel capital standards that came out in 2010. We rely on retained earnings to build net worth, and without the ability to raise supplemental forms of capital other than retained earnings 18 months is simply not enough time.

The NCUA's proposed risk weights are the same or higher than those applied to banks under Basel, with the exception of consumer loans. That is very unfair to an industry that is better risk focused than our banking brethren. And in fact, and in two important loan categories – residential mortgages and member business loans – the weights would be double the comparable Basel weights. Many credit unions would be forced to realign their books, reducing assets deemed "risky" by rule, and thus reduce credit availability to our member consumers.

I recently spoke with a local credit union that books real estate mortgage loans, and then sells them with limited recourse to the Federal Home Loan Bank. Their estimated recourse in this example is $726,000, but the current proposed wording in the rule requires them to report their entire portfolio sold ($31 million) as loans sold with recourse in the calculation. That wording has not been well thought out and must be changed.

It is getting very tiresome to continually engage in disagreeable conversations with examiners over the risk weighting of a ten year mortgage loan versus a 30 year mortgage loan. They are not the same risk

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and should be rated differently. The rule needs to take maturity/average life of a loan or an investment into consideration in risk weighting. I would also like to make the point that we should take loan-to-value (LTV) into consideration as well. A 10 year mortgage loan made with an LTV of 75% is far less risky on the books than a 30 year mortgage at 90%. Exam teams are great about seeing these credit risks when they get to look at a loan file, but if our business operations are going to be impacted by rules like the one proposed then more time needs to be spent on weighting these risks appropriately before rules and regulations tie our hands.

To finish, I believe that the NCUA is overstepping its regulatory authority in two key areas relative to the Federal Credit Union Act (FCUA). The NCUA would redefine "complex" credit unions that are subject to the rule as those with over $50 million in assets. The FCUA clearly directs the NCUA to consider portfolios of credit unions' assets and liabilities in determining which credit unions meets the definition, not asset size period. An arbitrary asset size does not make one "complex". Also, the NCUA is required under the act to consider the unique structure of credit unions when implementing its risk-based net worth rule. The proposed rule does not do this because the risk-weightings in the proposal are far more stringent than the Basel risk-weightings for banks. Credit union loss rates on comparable loan types are typically lower than banks, thus the structure and performance of credit unions suggests the risk weights should be less stringent.

I would encourage the NCUA to address the following points for this proposed rule;

- tie any risk-based capital requirement to the adequately capitalized level, which is consistent with the FCUA, instead of the well capitalized level
- improve risk weightings for mortgages, business loans, mortgage servicing and long-term assets
- extend the transition period significantly, and;
- eliminate the provision allowing for additional case-by-case capital requirements

This is a very controversial rule, and one that will impact the business operations of credit unions for years to come. The rule proposed has many flaws, and I hope that the NCUA will take the responses of the industry to heart and make appropriate revisions.

Sincerely,

Scott E. McNeil
President

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