Advantis
credit union

P.O. Box 14220
Portland, Oregon 97293-0220
Phone 503-785-2528
www.advantiscu.org

May 14, 2014

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

RE: Comments on the Proposed Risk-Based Capital Prompt Corrective Action Rule

Dear Mr. Poliquin:

Thank you for providing the opportunity to comment on the proposed risk-based capital rule. We fully support NCUA's primary mission of providing for a safe and sound credit union industry.

Advantis Credit Union has been returning financial value to its members since 1928. We currently serve 55,000 members and have assets of $1.1 billion.

We agree with the risk-based capital concept and believe that it could address the risk profiles of credit unions. However, we have concerns with various sections of the proposed rule. Specifically, we would like to see the rule more closely aligned to the Basel III rule but modified for the credit union industry. We would support changes to the call report to facilitate the alignment. This proposed rule should focus mainly on credit risk rather than trying to incorporate interest rate, liquidity, concentration, operational and market risks into a risk-based capital measurement model. Other regulations adequately address these risks and they do not need to be incorporated into the risk-based capital rule. Attempting to capture multiple risks in the proposed risk-based capital rule puts credit unions at a competitive disadvantage with the banking industry. For example the risk weight for first mortgages under Basel III is 50% while the proposed risk weights for credit unions would range from 50% to 100%. While the banking industry has access to supplemental capital, credit unions rely solely on earnings to build capital. Implementing higher capital requirements on the credit union industry creates more of a disadvantage in the market. In general, the credit union industry demonstrated sound management before and during the "Great Recession" and the industry maintains a strong capital position. We do not believe higher capital requirements are justified.

We believe that the risk weights for investments and loans should be re-evaluated. Applying higher risk weights to the credit union industry over the Basel III risk weights is unjustified. Based on the proposed risk weights, the credit union industry will be penalized for managing diversified loan and investment portfolios that helps protect against varying interest rate cycles. Investments are risk weighted based on weighted average lives rather than the type of investment and is inconsistent with the first mortgage risk weights. Mortgage backed investments with a weighted average life of 5 to 10 years and reduced credit risk is weighted at 150% while a 30 year first mortgage would be weighted at 50%. In addition, a lower risk weight of 20% should be applied to guaranteed government agency bonds because of the reduced inherent risk. Consistent with the Basel III model, current first mortgage loans should be risk weighted at 50% and junior real estate and delinquent first mortgage loans should be risk weighted at 100%. Currently, limited details of terms and interest rates on the mortgage loan portfolio are submitted on page 13 of the call report. This information could be used to further define risk weights for the mortgage loan portfolio if the final rule attempts to capture multiple risks rather than focusing on credit risk. However, we believe that examinations and current regulations for interest rate and concentration risks sufficiently address these risks. In addition, the business loan risk weighting should be more consistent with the Basel III model, using 100% for commercial real estate and 50% for multi-family real estate rather than being based on a percentage of assets. We currently report business loan details on page 15 of the call report and this information could be used to further refine risk weights.

We also have concerns with the 1250% risk weight on asset backed securities and the individual minimum capital requirements. The risk weight on asset backed securities should be based solely on the risk of the security type and not based on an examiner's opinion of a credit union's comprehensive understanding of the security features. A subjective risk weight is not warranted for asset backed securities. The individual minimum capital requirements section appears to give individual examiners the ability to impose additional capital requirements and would add inconsistent capital requirements within the credit union industry based on an examiner's opinion of risk. The NCUA currently has the ability to reclassify capital; therefore, this section is unnecessary and should be removed.

One final concern relates to the implementation period. Because many credit unions will need to realign their balance sheet based on new risk weights, the implementation period should be extended to a minimum of 3 years. Well planned and measured changes to a balance sheet take time to implement. A short implementation period could have dire consequences to the industry.

Once again, we appreciate the opportunity to submit comments on the proposed risk based capital rule and support NCUA's effort to ensure the safety and soundness of the credit union industry. The credit union industry was a welcome resource to consumers and small business owners who could not obtain credit from the banking industry during the "Great Recession". Generally speaking, our industry did not contribute to the financial crisis and enforcing higher capital standards than the banking industry standards is unjustified.

Respectfully Submitted,

Laurie Wilson

Laurie Wilson
SVP/CFO