May 14, 2014

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

RE: Comments on Proposed Rule: PCA - Risk-Based Capital; RIN 3133-AD77

Dear Gerald Poliquin,

I am writing on behalf of Xceed Financial Federal Credit Union, a workplace credit union that focuses on meeting the needs of working adults employed by our many Select Employer Group (SEG) partners. We have over $1 billion in assets under management, 60,000 members nationwide, and operate 13 Financial Centers in 5 states. We appreciate the opportunity to provide comments to the National Credit Union Administration Board on its proposal regarding Risk-Based Capital requirements under its prompt correction action (PCA) rules.

In concept, Xceed Financial fully supports risk-based capital for credit unions. However, we are very concerned about this proposal and the impact it will have on how we lend to our members and manage our business.

Xceed Financial is a strong mortgage lender. However, under this proposal, we would be required to hold additional capital even though our loan portfolios are high quality and low risk. This additional capital requirement will not be in our member-owners' best interests, as it will hamper our ability to remain competitive and operate profitably for them. Furthermore, it is our understanding that the proposal as written would lead to credit unions industry-wide needing to hold as much as $7.3 billion in additional capital. This would not only be bad for the individual credit unions, it would be bad for the economy overall.

We are also concerned about the proposal's risk weightings, which in many cases are much higher than BASEL III and do not accurately reflect actual underlying risks. Investments, for example, require additional capital be held for what are extremely low risk vehicles, simply based on the term of the investment. The proposal appears to be trying to capture IRR, as well as portfolio risk, by requiring higher capital levels for longer term assets. However, this approach is inappropriate, as the liability side of the balance sheet is not considered. Similarly we disagree that weightings should increase as a function of percent of assets. The underlying credit worthiness of our borrowers and our underwriting standards are not a function of portfolio concentration. Therefore, our position is that the weightings need to be calibrated across all assets types to capture actual risk before this rule is put in place.

Moreover, we believe that updated risk-based capital requirements should be in relation to the adequately capitalized, 6 percent net worth ratio (as the Federal Credit Union Act requires), and not to the well capitalized level.

The implementation timeframe is also cause for significant concern. When this rule is put in place, our balance sheet may need to be restructured to remain well capitalized. That is not something that can be accomplished quickly, without severely impacting profitability and our members' well-being. We think it is important for NCUA to recognize that there were good reasons it took banks years to implement BASEL III, and allow credit unions a similarly-appropriate timeframe to mitigate the impact on our business and our member-owners.

We are also very uncomfortable with the notion of giving individual examiners or the agency the ability to impose additional capital requirements at their own discretion. Like any other rules, capital requirements ought to be objective and knowable in advance by credit unions. Leaving them to the subjective opinion of examiners on a case-by-case basis is completely inappropriate.

Finally, while we are not opposed to a risk-based capital approach, we do not believe the proposal as it is currently written will serve Xceed Financial's member-owners or our industry. Credit unions came through the most recent economic downturn more favorably than banks, so it is unclear why we should be held to much more rigid capital guidelines than banks. Our view is that the NCUA should reform PCA in its entirety, including lowering leverage ratios for well and adequately capitalized credit unions and including the ability to acquire supplemental capital.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk-based capital requirements.

Sincerely,

Teresa Freeborn
President & CEO
Xceed Financial FCU

cc: CCUL