Workers' Credit Union
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May 15, 2014

To: regcomments@ncua.gov

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

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

Dear Mr. Poliquin:

Workers Credit Union appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise Prompt Corrective Action related to Risk-Based Capital. Our credit union serves the State of Massachusetts with 77,000 members and $1.1 billion in assets. We agree there may be a need to modernize capital standards to identify excessive risk in credit union balance sheets. However, management feels the current Proposed Rule will have negative effects on our members and discourages investments in long term strategies essential to our success. We are asking the NCUA to consider revising several elements of the current proposal which we believe unduly penalizes certain prudent investments and even certain required investments. Under the proposed risk-based capital rule, our credit union will see its well-capitalized buffer fall 32%, from $56 million to $38 million. This could force management to reshape the credit union's business model as it relates to long term investment, lending and expansion strategies which will negatively impact the member experience and make the credit union less competitive with banks and other competing financial institutions.

Below are the comments that Workers is asking the NCUA to consider in developing the final version of the Risk-Based Capital Rule.

1. **Several of the risk weightings under the Proposed Rule appear to be too general or excessive. Under the Proposed Rule, credit union risk weights would be higher than that of banks requiring credit unions to hold more capital than banks for the same assets. This is a major concern as it would place our credit unions at a competitive pricing disadvantage in an already highly competitive marketplace. In addition, using higher risk weights on long-term assets to deal with interest rate risk is misleading without considering liability maturities.**

<u>Cash Held at the Federal Reserve</u>

Although Workers does not hold a large amount of cash at the Federal Reserve there appears to be little risk in holding cash balance at the Federal Reserve as an alternative to short term investments and as a source of liquidity. Under the Proposed Rule, cash balances being held at the Federal Reserve are given a 20% risk weighting. Under Basel III, central bank reserves are deemed to be highly liquid assets during a time of stress and carry a 0% risk weighting.

Workers' believes cash balances being held at the Federal Reserve should be given a 0% risk weighting in the final version of the Rule.

Investments
Under the Proposed Rule, investment risk weightings for credit unions are significantly higher than that of banks. The NCUA risk weights appear to be punitive and somewhat inconsistent when compared to banks thus putting credit unions at a disadvantage. All Treasury securities and those securities guaranteed by the NCUA or FDIC carry a 0% risk weight, no matter what the maturity. Other Agency backed securities with no credit risk, such as FMNA and Freddie Mac, are risk weighted based on weighted average life time buckets. Investments with weighted average lives greater than 5 years are given punitive risk weights of 150% for 5 to 10 year average lives and 200% for average lives greater than 10 years. This compares to 20% risk weightings for similar securities in the banking model. In addition, a 30 year whole loan mortgage on our balance sheet would carry a 50% risk weighting while securitizing the same loan into a 30 year FNMA security, with enhanced liquidity, would carry a 150% risk weighting. Workers' believes the final version of the Rule should more closely mirror bank risk weightings for investments so as not to create such a competitive disadvantage.

Real Estate Loans
Under the Proposed Rule, no distinction is made on the risk weightings assigned to mortgage loans of various maturity and repricing terms. A 30 year fixed rate mortgage gets the same risk weight as a 1 year adjustable rate mortgage and a 30 year fixed rate home equity loan gets the same risk weight as a variable rate home equity line of credit. As opposed to implementing risk-based capital standards that unfairly lump all mortgage loans together there should there be more diversity in the risk weighting. In recent years, Workers has been selling nearly all 20 and 30 year fixed rate mortgage production and most 15 year fixed rate production. Through the refi boom we have also focused on originating 7-12 year high equity loans, variable rate home equities and most recently shorter term hybrid ARM's. As a result, our balance sheet is well positioned for a rising rate environment. The mortgages being held in the balance sheet either have short term repricing characteristics or are producing strong, stable principal cash flows that limit exposure to rising interest rates. Under the Proposed Rule, there would be no difference between Workers capital requirement for its diverse mortgage portfolio and the capital requirements for a credit union that holds all 30 year mortgages in the balance sheet. Workers believes that the capital requirement for adjustable rate mortgages and shorter maturity fixed rate mortgage loans should be lowered in the final version of the Rule to fairly take into consideration the reduced risk associated with these adjustable and shorter term mortgage loan products.

2. The NCUSIF deposit should not be deducted from the risk-based capital numerator or denominator.

The National Credit Union Share Insurance Fund 1% deposit is being ignored in the risk-based capital calculation. The NCUSIF deposit is a required asset that can be refunded for various reasons including conversion to a bank or savings institution charter, a credit union electing private insurance instead of NUCA or voluntary liquidation. In addition, the deposit can specifically be attributable to a failed credit union providing an additional buffer against NCUSIF losses in addition to the failed credit union's capital. The proposed rule for this deposit is the same treatment that is given to intangible assets like goodwill but this is a tangible cash deposit that is made with the NCUA. Workers' recommends not deducting the NCUSIF deposit from the risk-based capital numerator or denominator.

3. Workers' has concerns about the examiner being able to arbitrarily decide if the credit union needs a higher capital ratio, even if the calculation indicates the credit union is well capitalized.

The Proposed Rule gives the NCUA authority to require a higher minimum risk-based capital ratio for individual credit unions based on NCUA examiner expertise. This discretion could lead to unfair and inconsistent interpretation and application of the Rule and will lead to mistrust between credit unions and the NCUA. Workers' strongly recommends the elimination of individual minimum capital ratios from the final version of the Rule.

4. Investments in CUSOs should be risk weighted at 100 percent as opposed to 250% under the Proposed Rule.

Workers' has been actively involved with business lending, student lending and operational CUSOs over the years. Workers' involvement with these CUSOs has increased the credit union's profitability by contributing to increased loan production and by helping to reduce operating expenses. We are a part owner in these CUSOs and exposure is limited to the credit union's investment in each of the CUSOs. The NCUA already limits a credit union's investment in CUSOs, under NCUA Rule 712.4, so it makes no sense to impose a 250% risk weighting on CUSO investments. We are very concerned that the inflated risk weighting on CUSO investments may hinder collaboration among credit unions at a time when such collaboration is vital to the future success of the industry. Many credit unions are looking at CUSO relationships as a way to consolidate functions in an effort to reduce operating expenses and to offset declining net interest income and non-interest income levels. Workers' believes CUSO investments should be risk weighted at no more than 100%.

In summary, we feel the current Proposed Risk Based Capital Rule unduly penalizes the credit union for certain investments resulting in a reduction in a significantly lower buffer over the well capitalized level of capital. The Proposed Rule, in its current form, will most likely reduce the risks to the NCUSIF but at a significant cost to credit unions and their members. In addition it will place credit unions at a competitive disadvantage as it would require far more capital than what is required for banks, especially when considering a credit union's inability to raise supplemental capital. We feel that with modifications to the Proposed Rule based on objective criteria, the final version of the Risk-Based Capital Rule could in fact be a significant improvement over current Risk Based Net Worth.

Thank you for the opportunity to comment on the Proposed Rule and for listening to our concerns. Please feel free to contact me with any questions or comments regarding our comments on the Proposed Rule.

Sincerely,

J Timothy Smith
SVP – CFO and Treasurer