MUTUAL SAVINGS
CREDIT UNION

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

May 16, 2014

Dear Board Members,

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

We very much appreciate the opportunity to comment on the proposed Risk-Based Capital Rule. We believe that risk adjusted capital measurement is a very sensible approach, however, consideration should be given to amending aspects of the proposed rule so there might be increased clarity and fairness as this methodology is implemented

Mutual Savings Credit Union would like to see a number of areas receive further analysis and refinement:

1. Risk-Weight Categories 1 through 4 -
   CD investments (Category 1) that are fully insured by NCUA/FDIC ($250,000 or less) should be considered direct US Government obligations and have a 0 (zero) risk-weight. This is not evident or present in the sample calculator. A great many CUs, like Mutual, use this prudent investment approach and they need to see the benefit under a risk adjusted methodology.
   US Agency securities (Category 2), direct or guaranteed, should be 20 percent risk-weighted. Carve-outs for specific loan/investment types (student loans/residential mortgages etc.) should be eliminated – these seem to be receiving special consideration based upon political priorities rather than financial fundamentals. Let's remove politics and create a risk-adjusted methodology that makes economic/financial sense. This would simplify the capital risk-weighting rules and move the NCUA model closer to the Basel III model.
   First mortgages (Category 3), we believe "residential" should be added to the first mortgage component/definition. Commercial or development first mortgage loans carry greater risk than residential mortgages and should not be 50% risk-weighted (75% weighting seems more appropriate).
   All other CU loans seem to be put into one risk-weight bucket (Category 4). This is not logical – secured loans (auto/RVs/boats etc.) carry far less risk than unsecured loans. Secured loans should be risk-weighted at 50% and moved to Category 3 – unsecured loans should remain risk-weighted at 75% and remain in Category 4.

2. Risk-Weight Category 5 –
   Corporate credit union capital (including perpetual capital investments) should be risk-weighted at 100% - eliminating the 200% risk-weighting proposed for perpetual investments. Given the recent corporate credit union regulatory overhaul and the continued and increased supervision of corporates by NCUA, the proposed 200% risk-weighting for perpetual capital seems to be unduly harsh (particularly since CUs really had no alternative other than making a "perpetual" investment).

3. Risk-Weighting Investments (term component) –
   Why is it that "investments" as an asset type, have a term/maturity component tied to risk-weighting when loan categories don't? This is not consistent treatment of interest earning asset categories and it penalizes CUs for developing/implementing a thoughtful term profile to their investment portfolio. This rule does not consider

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whether a credit unions interest rate risk is balanced with their asset liability management as a whole and is biased against longer-term, fixed rate securities. Risk-weighting for investment grade securities should be 50% and non-investment grade securities weighted at 75%. Term should be eliminated as a factor unless it is introduced as a weighting factor for loans.

4. NCUA can apply 1250% risk weight if a credit union is unable to demonstrate understating of asset-backed investment. The Rule does not define "asset-backed investment". The requirements to demonstrate understanding of "asset-backed investments" is long and must be reviewed, analyzed and documented quarterly. We recommend that this provision be removed or a definition of "asset-backed investments" be defined as part of the rule.

5. The rule gives authority to require a higher minimum risk based capital ratio for individual credit unions based on NCUA expertise. The rule of law needs to be more specific to prevent unfair and inconsistent interpretation and application.

6. Effective Date for the new Capital Rule should be no earlier than January 1, 2018. There is significant change in the risk-weighting methodology and CUs deserve a reasonable period of time to adjust and implement strategies which may be more appropriate for the new Capital Rule. Call Report formats need to be changed so that data reporting corresponds to the new Risk-Based Capital Rule.

Thank you, again, for the chance to comment on this proposal. The Federal Credit Union Act requires PCA rules to be comparable to the rules for banks. We feel without changes in the proposed rule suggested above and by other submitted comments the proposed rule would place credit unions at a competitive disadvantage and would result in the unintended consequence of requiring far more capital for credit unions than is required for banks. We will gladly comment on any proposal amendments should NCUA offer CUs the opportunity to continue their participation in this extremely important and impactful matter.

Sincerely,

Jennifer Fiorenza

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President & CEO

Delivered via E-mail to: regcomments@ncua.gov