May 13, 2014

MAY19'14 PM 2:03 BOARD

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, Virginia 22314

Dear Mr. Poliquin:

On behalf of Energy Capital Credit Union, I would like to offer the following comment letter on the recent NCUA proposed Risk Based Capital rule. While our credit union recognizes the need for a well-balanced and credit union specific set of capital standards as an alternative to the current net worth standard established by Congress in 1998 that specifies 7% net worth as the standard to be well-capitalized of all credit unions regardless of their individual risk profiles, we have serious concerns about the proposed Risk Based Capital rule that we feel must be addressed or the result could be a less workable capital standard putting the credit union charter at a competitive disadvantage to our competitors. We would like to respectfully address the following concerns and offer possible improvements to the regulation in these specific areas:

- 9% Risk Based Capital Ratio to be considered well capitalized would be sufficient at 200 bps cushion above already high 7% net worth ratio (Basel community bank at 6% risk based, just up from 4%);
- Incorporate credit risk performance in MBLs and mortgages – 50 bps reduction in each concentration category if CU charge off rate is below 2% five year average;
- Exempt credit unions with history of making business loans (church, ag, taxi medallion, etc.) as per 1998 statute from concentration risk multipliers and leave risk weight at 100% for all business loans in these credit unions;
- CUSO risk weighting should be at 100% rather than 250% as CUSOs promote collaboration and risk sharing, have largely been successful and risk can be managed through NCUA credit union examination/supervision authority;
- Mortgage servicing should have additional Call Report question as to accounting method used and those credit unions using amortization method at 100% and fair value at 150% - would no longer allow the 250% proposed rating to discourage risk management through secondary market and loan participations, plus encourages more conservative accounting treatment;

18540 Northwest Freeway • Houston, TX 77065
Phone: (832) 604-4848 • Fax: (832) 604-4854

- Bank and Credit Union CD investments ≤1 and ≤3 years as 20% rather than 50%. Investments are fully insured and can be redeemed with little impact on earnings;

- Paid-In Capital at corporate credit unions should be weighted at 150%, recognizing that there is some risk as proven by the corporate crisis, but not so high at 200% that it discourages corporate capital building under the new corporate credit union rules and adversely impacts NCUSIF;

- Remove subjective examiner discretion to increase required Risk Based Capital Ratio beyond 10.5% as too subject to arbitrary determinations and inconsistency of application, plus it is crucial for credit unions to know concretely what their regulatory capital expectations are and to be able to manage to a specific number;

- If both the statutory net worth ratio under PCA is above 7% and the regulatory Risk Based Capital ratio under this regulation is above 10.5% (or more appropriately 9%), the well-capitalized credit union that exceeds both high standards should receive blanket waiver authority on fixed assets, personal guarantee requirements on business lending and elongated 18 month examination cycles;

- If a credit union is above the statutory PCA net worth ratio of 7% but below the Risk Based Capital ratio to be considered well capitalized under this regulation, the required action should be solely a Risk Based Capital Restoration with a three year tiered phase in period to allow time for credit unions to recover from assessments due to corporate credit unions that have significantly impacted earnings over the last five years;

- Incorporate a supplemental capital provision into the regulation and put it out again for further public comment – supplemental capital from subordinated debt (capital accounts to either members, non-members or both) can legally count for a credit union's regulatory Risk Based Capital Ratio, even though it cannot for statutory PCA net worth ratio (although over 2000 low-income credit unions can count it under PCA and need regulatory authorization and guidelines). The time is right to address the issue; and

- Delay effective date until December 31, 2017, providing three full years (assuming a 2014 regulation approval date) for credit unions to prepare and adjust their balance sheets effectively and with strategic planning – not rushed.

In closing, we appreciate your willingness to allow Energy Capital Credit Union to comment on this important regulatory proposal. We respectfully and strongly encourage you to consider possible improvements to the Risk Based Capital Rule in accordance with our recommendations included in this comment letter. The strength, safety, soundness and long term viability of the credit union industry will be impacted by the capital structure under which we operate in the years and decades to come. It is crucial that any changes to the credit union capital system be appropriate to the risk and balanced with the ability to effectively manage that risk. If I can be a source of any further information about this matter, please do not hesitate to contact me.

Sincerely,

Randall Dixon

Randall Dixon
President/CEO

RD/vbk