VISIONS
FEDERAL CREDIT UNION

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May 15, 2014

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

Re: Comments on NCUA Proposed Risk Based Capital Rule

Dear Mr. Poliquin:

I am writing on behalf of Visions Federal Credit Union. We are a $3.2 billion federally chartered credit union headquartered in Endicott, New York. Please note that as of 3/31/14, Visions Federal Credit Union would be considered well capitalized under the proposed rule with a net worth of 12.62% and a risk based capital ratio of 17.89%

Visions Federal Credit Union recognizes the importance of classifying and identifying inherent risk to the Insurance Fund and the membership, however, the proposed risk based capital rule generates concerns that the rule would result in potentially placing credit unions at a serious disadvantage to our competitors. In general, the proposed rule would add a layer of complexity to balance sheet management processes. Decisions for lending and adding investment assets would need to be scrutinized from a risk based capital standpoint.

Specifically, we respectively would like to address the following concerns and offer possible improvements to the proposed regulation:

- 104(b)(1) – *Capital Elements of the Risk-Based Capital Ratio Numerator*
    - Agree with adding the ALLL to the numerator. However, there should be no limit to the amount being added. The limit of 1.25% of total risk-weighted assets is subjective without sufficient support in the proposal.
- 104(b)(2) – *Risk-based Capital Numerator Deductions*
    - Deducting NCUSIF Capitalization Deposits from the numerator and denominator appears to make the statement that this other asset should be expensed when assessed and has no value to credit unions. Such treatment would be equal to bank treatment of FDIC assessments.
    - Deducting Goodwill and Other Intangible Assets makes the statement that all goodwill and core deposit intangibles (CDI) acquired as a result of a merger should be expensed and be a deduction to net worth/capital. Visions' has

completed 3 emergency mergers and 1 purchase & assumption since 2010 where goodwill and/or CDI were calculated. It is unlikely that Visions would have completed these transactions to help the NCUA and the share insurance fund if this part of the Risk Based Capital measure was in place.

- 104(c)(2) – *Risk-Weights for On-Balance Sheet Assets*
  - Category 2 – Cash on deposit in insured financial institutions that is fully covered by FDIC or NCUSIF insurance should have a risk-weight of 0%. The call report can easily be modified for credit unions to report these balances.
  - Category 2 – Cash on deposit in a Federal Reserve Bank should have a risk-weight of 0%. The call report can easily be modified for credit unions to report these balances.
  - CUSO – The risk weight for investments in CUSOs and loans to CUSOs should be consistent and it is suggested that the risk weight be 100%. We contend that each is of equal risk of loss based on past experience and that a 100% risk weight is adequate.
  - Mortgage Servicing Assets (MSA) – MSAs appear to be subject to similar risk of loss due to impairment similar to Goodwill, which in the proposal is deducted from the numerator and denominator. MSAs should be treated the same and if subject to risk weight, should not be more than 100% risk weight.
  - Corporate Credit Union Paid-In Capital (PIC) – Agreed that the capital investment lacks liquidity, but should not be more than 100% risk weight. PIC owned by Visions earns dividends from corporate credit union issuers and have more value than Other On-Balance Sheet Assets that have 100% risk weight. Further, regulation and oversight of corporate credit unions is at a higher level than before the financial crisis of 2008, reducing the risk of loss to natural person credit unions.
  - There appear to be inconsistencies with risk-weights for some categories, probably due to the attempt to capture several different risks (liquidity, concentration, interest rate and credit risk). NCUA personnel should complete a more thorough review of the categories and risk weights to improve consistency. Examples of inconsistencies are as follows:
    - A portfolio of 30-year, first mortgage loans with less than 25% of assets has a risk weight of 50%. The same asset class purchased in a GSE security with a weighted average life of 5 to 10 years is risk-weighted as an investment at 150% even though there is no default risk.
    - A member business loan with a seven-year balloon maturity and MBLs less than 15% of assets is assigned a 100% risk weight. A seven-year bullet agency security with no credit risk is assigned a 150% risk weight

- 105(b) – *Appropriate Considerations for Establishing Individual Minimum Capital Requirements*
  - This section of the proposal does not define the authority level at NCUA that can require higher minimum capital requirements of individual credit unions. It is recommended that such requirements be approved at the Regional Director level at a minimum.

- In addition, 18 months is too short for an implementation period. 3 or more years is needed for credit unions to make balance sheet changes, at minimal impact to capital, to position their risk profile to levels that they deem adequate to maintain Well Capitalized status even in distressed economic conditions.

I would emphasize the importance regarding any changes to the credit union capital system be appropriate to the risk and measured with the ability to effectively manage that risk.

We appreciate the opportunity to comment on the proposed regulation and for considering our views regarding risk based capital requirements.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Tyrone Muse

Tyrone Muse
President/CEO