BLUE EAGLE
CREDIT UNION

May 19, 2014

VIA EMAIL – 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:

Blue Eagle Credit Union appreciates the opportunity to comment to the National Credit Union Administration (NCUA) regarding its proposed rule to revise Prompt Corrective Action - Risk-Based Capital. Blue Eagle Credit Union has over $127 million in assets and serves almost 12,000 members in central and southwestern Virginia. While we believe NCUA's intentions in proposing this rule are to strengthen the credit union industry's ability to survive future financial crises, we feel there are consequences of the proposed rule that will have negative ramifications not only to our credit union but to the credit union industry as a whole.

Blue Eagle Credit Union would remain well capitalized under the proposed rule; however, our current well-capitalized buffer would fall by 54 basis points or 9.44%. We believe many of our long-term strategies aimed at growth and future expansion may be severely curtailed due to this rule, thus limiting our ability to compete in the marketplace and attract and serve additional members. We feel that similar limitations will be felt by the entire credit union industry.

As you know, we have just emerged from the worst financial crisis in 80 years with unprecedented pressures caused by negative economic growth, high unemployment, and severe decreases in real estate values; yet under the current PCA capital system, the credit union industry fared remarkably well. The fact that the FDIC loss rates per $1,000 of deposits was enormously higher than that of the NCUSIF suggest that the risk-based capital requirements imposed on banks did nothing to prevent the recent crisis or reduce the large number of bank failures.

We recognize the $765 million loss to the NCUSIF during the crisis was large and avoidance of such losses in the future is a high priority, but we also recognize that most credit unions survived the crisis with strong capital levels intact. We feel many of the weaknesses that contributed to credit union failures during the recent crisis and the subsequent losses to the NCUSIF have been addressed with NCUA's focus on strengthening areas such as concentration

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risk, interest rate risk, and liquidity risk. Assurance that these risks are properly monitored and any weaknesses are corrected is occurring every day through the exam process. Going forward, burdensome risk-based capital standards will only serve to stifle the growth and expansion that will ultimately produce the levels of net income and capital growth needed to protect credit unions from future financial upheaval.

Blue Eagle Credit Union recognizes that the adoption of new risk-based capital standards for credit unions is inevitable. We appreciate NCUA's commitment to protecting credit unions from the dangers illuminated by the recent financial crisis. We agree aligning credit union standards with those of BASEL III and international banking standards does make sense. However, we believe several changes are needed to the current proposed rule to provide more fairness. Below are comments regarding changes Blue Eagle Credit Union would like considered when developing the final version of the Risk-Based Capital Rule.

1. **Several of the risk weightings under the proposed rule are too general and in some cases excessive. Under the proposed rule, credit union risk weights would be higher than those of banks thus requiring credit unions to hold much more capital than banks for the same assets despite the fact that credit unions are much more limited in ability to raise capital. We believe this would place credit unions at a competitive pricing disadvantage in an already highly competitive marketplace.**

<u>Cash Held at the Federal Reserve</u>
Blue Eagle Credit Union currently holds larger amounts of cash at the Federal Reserve as an alternative to short term investments. This provides a reliable source of liquidity should there be an increase in liquidity stress on credit union operations. Under the proposed rule, cash balances being held at the Federal Reserve are given a 20% risk weighting. Given that the Federal Reserve has been designated as a source for emergency liquidity for the entire credit union industry, there appears to be no risk in holding cash balances at the Federal Reserve. Under Basel III, reserves held at central banks are deemed to be highly liquid assets during a time of stress and carry a 0% risk weighting. We believe cash balances being held at the Federal Reserve should be given a 0% risk weighting in the final version of the proposed rule.

<u>Investments</u>
Under the proposed rule, investment risk weightings for credit unions are significantly higher than those for banks under Basel III. Investment risk in credit unions is already suppressed given the regulatory constraints that exist on allowable investments. Assigning higher risk weights to already conservative investment portfolios seems punitive. In addition, there are inconsistencies in the proposed rule. For example, all Treasury securities, as well as securities guaranteed by the NCUA or FDIC, carry a 0% risk weight, regardless of the maturity. However, other Agency-backed securities such as FNMA and Freddie Mac, with no credit risk, are risk weighted based on weighted average lifetime buckets. Investments with weighted average lives 5 to 10 years are given a risk weight of 150% and investments with average lives greater than 10 years carry a 200% risk weighting. Risk weightings for similar securities in the banking

model are 20%. Also, a 30-year mortgage loan residing on credit union's balance sheet would carry a 50% risk weighting but a 30-year FNMA security securitizing a 30-year mortgage, would carry a 150% risk weighting – three times more risk weight for a much more liquid asset. We believe the final version of the rule should more closely mirror the risk weightings for investments currently used by banks under Basel III.

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. So 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. Risk-based capital standards that unfairly lump all mortgage loans together should be modified to allow for more diverse risk weighting. In recent years, Blue Eagle Credit Union has elected to only keep short-term fixed rate mortgage loans on its balance sheet. We believe that a balanced portfolio of adjustable rate and short-term fixed rate real estate loans is prudent given the current interest rate environment. Our current real estate portfolio has short-term repricing characteristics and is producing strong, stable principal cash flows that limit exposure to rising interest rates. Under the proposed rule, there would be no difference between capital requirements for our shorter term, more diverse real estate portfolio and the capital requirements for a large portfolio of 30-year mortgages. We believe that the final rule should take into consideration the reduced risk associated with adjustable and shorter term real estate loans.

Loan Held for Sale

Under the new proposal, Loans Held for Sale will have a risk weight of 100%. Under Basel III, risk weights are 0% if sold within 120 days. We believe a risk weight of 0% is more appropriate given that these assets act more as a receivable than a loan with credit risk.

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

The proposed rule does not account for the NCUSIF deposit in the risk-based capital calculation. The NCUSIF deposit is a valid asset that can be refunded for various reasons. We believe it should be allowed in the numerator of the calculation.

3. Blue Eagle Credit Union has concerns about the ability of NCUA to impose higher capital requirements on a case-by-case basis.

The proposed rule gives the NCUA authority to require a higher minimum risk-based capital ratio on a case-by-case basis. We have concerns that the proposal as written, will allow an NCUA examiner to require a credit union maintain additional capital unnecessarily. We believe this authority is too far reaching and introduces the possibility for inconsistent and erroneous interpretations by an examiner. Again, by introducing the new rule for Risked Based Capital, NCUA is instituting additional capital risk measures on an already strongly capitalized industry. Additional constraints resulting from individual opinions without clearly defined criteria will only hurt credit unions. Blue Eagle Credit Union strongly recommends the elimination of individual minimum capital ratios from the final version of the proposed rule.

4. Consideration should be given to eliminating or increasing the 1.25% limit assigned to Allowance for Loan Loss balances allowed in the RBC calculation.

Due to the increased risk weightings associated with delinquent loans under the new rule and given the potential increase in reserves necessitated by FASB's proposed new standard on Allowance for Loans Losses, we believe this 1.25% limit should be eliminated or increased.

5. Consideration should be given to lengthening the 18-month timeframe for complying with the new proposal.

Given the potential impact that this proposal will have on many credit unions, 18 months is not enough time to implement the strategic changes that will be needed by many credit unions in order to maintain or achieve the acceptable capital levels of the new proposal. We recommend at least a 3-year time period to fully implement the new rule.

In summary, Blue Eagle Credit Union feels the current Proposed Risk Based Capital Rule may be too general and inconsistent in assigning risk weightings. We believe that many of the risk weightings and overall risk-based capital calculations should be more closely aligned with those used in Basel III standards. In addition, we believe the 18-month compliance timeline for the new proposal is too aggressive and the provision in the new proposal giving NCUA authority to impose additional capital requirements on a case by case basis is overreaching and unnecessary. For Blue Eagle Credit Union, immediate impact of this current proposal will reduce our current capital cushion and negatively affect our ability to competitively offer our products and services to additional members in our field of membership. We also believe that the additional pressures felt by Blue Eagle Credit Union will be felt throughout the entire credit union industry. Longer term, credit unions, because of their unique structure and limitations on increasing capital, will have the dual burden of stricter capital requirements and diminished ability to operate in a profitable manner necessary to maintain and increase capital. The proposed rule, in its current form, will likely reduce perceived risks to the NCUSIF but at a significant cost to credit unions' ability to grow and deliver low cost products and high level service to its current and future members.

Thank you for the opportunity to comment on the Proposed Rule and for considering Blue Eagle Credit Union's concerns.

Sincerely,

Jeff Thompson	William Tawney	Robert S. Hartsel, Jr.
CEO	EVP-CFO	President, Board of Directors