GECU™
WE'RE WITH YOU

May 21, 2014

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

Re: RIN 3133-AD77 Prompt Corrective Action – Risk-Based Capital Proposal

Dear Secretary,

On behalf of GECU, the largest locally owned credit union in El Paso, TX, this letter is in response to the request for comments regarding the proposed Prompt Corrective Action – Risk-Based Capital Rule. GECU currently serves a membership of over 315,000 with assets greater than $2 billion.

The primary goal of this proposal is to ensure the safety and soundness of federally insured credit unions by amending the National Credit Union Administration's (NCUA) regulations concerning prompt corrective action and replacing the current risk-based net worth requirements with new risk-based capital requirements for federally insured natural person credit unions. In doing so, the proposal would revise the risk-weights for many of NCUA's current asset classifications, require higher minimum levels of capital for federally insured natural person credit unions with concentrations of assets in real estate loans, member business loans, longer-term investments, or higher levels of delinquent loans; and set forth the process for NCUA to require an individual federally insured, natural person credit union to hold higher levels of risk-based capital to address unique supervisory concerns raised by NCUA.

Although we understand and value NCUA's ongoing efforts to ensure the continued safety and soundness of federally insured credit unions, the proposal, as presented, raises serious concerns for all federally insured natural person credit unions as further outlined below.

The proposal would result in increased capital requirements for credit unions to remain classified as well-capitalized. Further, the proposal would reduce the buffers that credit unions hold above the well-capitalized requirements by approximately $7 billion. Credit unions would be required to raise billions in superfluous capital to sustain the same proportion of capital buffers currently maintained. As most credit unions do not have access to supplemental forms of capital, raising this amount of capital through retained earnings alone would be challenging. GECU's current buffer between well-capitalized and adequately capitalized would be reduced by $11 million. GECU may be forced to realign our asset mix, reduce assets deemed "risky" by the rule, and reduce credit availability, particularly mortgages and business loans which are assigned high risk-weights. In addition, GECU may be forced to raise loan rates and fees, or forego other services to boost net income to raise capital. As written, the proposal would thus have a radical impact on how GECU serves our membership.

The proposed risk weights are the same or higher than risk weights applied to community banks under Basel III. In two important cases – residential mortgage loans and member business loans – the weights would be double the comparable Basel weights. This would limit our ability to extend mortgage and business loans to our members. The risk-weights also do not consider the nature of the credit union movement as they encourage the reduction of member service offerings of residential mortgage loan and member business loans, while creating a need to raise additional capital which could result in higher loan rates and fees.

Further, the risk weights proposed for long-term investments do not consider applicable credit or asset liability management considerations; only interest rate risk concerns are addressed. Specifically, the weighting for CUSO investments does not take into account the nature of the CUSO, or the historical performance of the CUSO. Many credit unions would be less likely to invest in CUSOs, thus reducing opportunities for credit union growth and reducing critical member service offerings.

The proposed implementation period of 18 months is not sufficient time for credit unions to implement the necessary changes to ensure compliance, particularly in the absence of authority to raise supplemental forms of capital other than retained earnings. In contrast, small banks have been provided nearly nine years to implement the Basel Capital standards.

The proposal would allow NCUA to assume additional authority to impose even higher capital requirements on individual credit unions on a case-by-base basis that could exceed even the well-capitalized level requirements. This determination would be based on the assumption that a higher minimum risk-based capital requirement is appropriate. This would allow a determination to be made that requires a compliant credit union to adhere to stricter requirements based on a subjective assessment.

As it stands, the proposed Prompt Corrective Action – Risk-Based Capital Rule would significantly inhibit credit union's ability to provide essential services to members by implementing stricter requirements for GECU's assets deemed risky by the rule, including residential mortgages, member business loans, and long-term investments. We urge the Board to consider the potentially adverse impact this proposal may impose on credit unions and its members by reconsidering the risked based capital requirements, revaluating the proposed risk weights, dividend restrictions, and extending the implementation period.

We appreciate the opportunity to comment on the proposal. If you have questions regarding our comments, please contact me at (915) 774-8203.

Sincerely,

Crystal Long
President/CEO

CL: dp