Velocity[SM]
CREDIT UNION

May 21, 2014

To: 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:

Velocity Credit Union (VCU) appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise Prompt Corrective Action related to Risk-Based Capital. VCU is a $683 million state-chartered credit union headquartered in Austin, Texas that serves over 74,000 members. VCU agrees there may be a need to modernize capital standards to identify excessive risk in credit union balance sheets. However, we have concerns the current Proposed Rule will have negative effects on VCU members and discourage investments in beneficial long-term strategies. VCU is asking the NCUA to consider revising risk weightings to more reasonably assess concentration and interest rate risk and to better align the proposed risk-based well-capitalized requirements to existing net worth requirements. The Proposed Rule, in its current state could inhibit VCU's growth and discourage the credit union from investing in branches and new technology.

Below are comments VCU is requesting the NCUA consider in developing the final version of the Risk-Based Capital Rule:

RISK WEIGHTINGS

1. **Several of the risk weightings under the Proposed Rule appear to be too general or excessive. Under the Proposed Rule, credit union risk weights would be higher than that of banks for the same assets. This is a concern to VCU as it would place credit unions at a competitive pricing disadvantage in an already highly competitive marketplace. In addition, using higher risk weights on long-term assets to deal with interest rate risk is misleading without considering liability maturities.**

<u>Cash Held at the Federal Reserve</u>

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 little risk in holding cash balance at the Federal Reserve. Under Basel III, central bank reserves are

P.O. Box 1089
Austin, Texas 78767
phone 512.469.7000
fax 512.469.7191
www.velocitycu.com

deemed to be highly liquid assets during a time of stress and carry a 0% risk weighting. VCU believes cash balances being held at the Federal Reserve should be given a 0% risk weighting in the final version of the Rule.

Investments

Under the Proposed Rule, investment risk weightings for credit unions are significantly higher than that of banks. The NCUA risk weights appear to be punitive and inconsistent when compared to banks putting credit unions at a disadvantage. All Treasury securities and those securities guaranteed by the NCUA or FDIC carry a 0% risk weight, no matter what the maturity. Other Agency backed securities with no credit risk, such as FMNA and Freddie Mac, are risk weighted based on weighted average life. Investments with weighted average lives greater than 5 years are given risk weights of 150% for 5 to 10 year average lives and 200% for average lives greater than 10 years. This compares to 20% risk weightings for similar securities in the banking model. In addition, a 30 year whole loan mortgage on VCU's balance sheet would carry a 50% risk weighting while securitizing the same loan into a 30 year FNMA security, with enhanced liquidity, would carry a 150% risk weighting. VCU believes the final version of the Rule should more closely mirror bank risk weightings for investments.

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. A 30-year fixed rate mortgage gets the same risk weight as a one 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. VCU believes that the capital requirement for adjustable rate mortgages and shorter maturity fixed rate mortgage loans should be lowered in the final version of the Rule to take into consideration the reduced risk associated with these adjustable and shorter term mortgage loan products.

Also, the NCUA Proposed Rule for Other Real Estate Loans, depending on the level of concentration, assigns a weighting as high as 150%, compared to a Basel Standard of 100%. This approach is an oversimplified and inconsistent attempt to manage concentration, credit and interest rate risk by using on simple risk-based model to produce a numeric representation of overall risk. Proper risk quantification requires additional sophistication and judgment that the Proposal does not provide and further ignores other proven risk management tools and methodologies designed to appropriately quantify risk. In effect, the "one-for-all" approach used in the Proposal will not yield desired results.

Member Business Loans

The NCUA Proposed Rule creates a bias in favor of consumer loans as opposed to other assets such as member business loans. Consumer loans are assigned a 75% risk weighting while member business loans are subject to concentration-based tiered risk weights. Under the proposed rule, member business loans in excess of 15% of total assets would require risk weightings from 150% up to 200% compared to the 100% Basel Standards risk weighting. As discussed above, this approach is an oversimplified and inconsistent attempt to manage concentration, credit and interest rate risk.

Non-delinquent 1st Mortgage Real Estate Loans Greater Than 25% of Total Assets
The NCUA Proposed Rule, depending on the level of concentration, assigns a weighting as high as 100%, compared to a Basel Standard of 50%. As discussed above, this approach is an oversimplified and inconsistent attempt to manage concentration, credit and interest rate risk.

NCUSIF DEPOSIT

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

The National Credit Union Share Insurance Fund 1% deposit is being ignored in the risk-based capital calculation. The NCUSIF deposit is a valid asset that can be refunded for various reasons including conversion to a bank or savings institution charter, a credit union electing private insurance instead of NUCA or voluntary liquidation. In addition, the deposit can specifically be attributable to a failed credit union providing an additional buffer against NCUSIF losses in addition to the failed credit union's capital.

ARBITRARY ASSIGNMENT OF CAPITAL RATIO REQUIREMENT

3. VCU has concerns with an examiner being able to arbitrarily decide if a credit union needs a higher capital ratio, even if the calculation indicates the credit union is well capitalized.

The Proposed Rule gives the NCUA authority to require a higher minimum risk-based capital ratio for individual credit unions based on NCUA examiner expertise. This discretion could lead to inconsistent interpretation and application of the Rule and will lead to mistrust between credit unions and the NCUA.

INVESTMENT IN CUSOs RISK WEIGHTING

4. Investments in CUSOs should be risk weighted at 100 percent as opposed to 250% under the Proposed Rule.

The proposal's 250% risk weighting for CUSO investments does not permit distinction with respect to risks regarding the wide array of authorized CUSO activities. The NCUA already limits a credit union's investment in CUSOs, under NCUA Rule 712.4. VCU is concerned the inflated risk weighting on CUSO investments may hinder collaboration among credit unions. Credit unions view CUSO relationships as a tool to consolidate functions in an effort to reduce operating expenses and offset declining net interest income and non interest income levels.

In summary, the current Proposed Risk Based Capital Rule is too general in assigning risk weightings, focuses on a regulator's model designed to identify concentration and interest rate risk and not member needs. The Proposed Rule, in its current form, will most likely reduce the risks to the NCUSIF but at a significant cost to credit unions and their members through reduced returns and higher-cost residential and member business loans. In addition, it will place credit unions at a competitive disadvantage as it would require credit unions to hold more capital than banks of a similar size.

Thank you for the opportunity to comment on the Proposed Rule. Please feel free to contact me with any questions or comments regarding VCU's comments on the Proposed Rule.

Sincerely,

Debbie Mitchell

Debbie Mitchell
President/CEO