Member Service Centers

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4444 S. Pulaski Rd.
Chicago, Il 60632-4011
773-376-6000

EVERGREEN PARK
9730 S. Western Ave., Ste. 633
Evergreen Park, Il 60805-2863
773-843-9300

CHICAGO NORTH
5901 N. Cicero Ave., Ste. 106
Chicago, Il 60646-5711
773-843-8500

CHICAGO EAST
1526 E. 55th St.
Chicago, Il 60615-5550
773-843-8900

May 22, 2014

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

Dear Mr. Poliquin:

On behalf of United Credit Union, we appreciate the opportunity to comment on the Proposed Rule: PCA-Risk-Based Capital.

We support the proposal as it will likely shape the credit union landscape for years to come. We support the implementation of a risk based capital structure, but we have a very strong reservation regarding the considerably higher risk weightings proposed for credit union assets vs. what is in place for banks. Please note that under both current and proposed measures United Credit Union remains within the well capitalized category. We will, like most credit unions, suffer a reduced cushion over the "well-capitalized" benchmark. As a result, we view the proposal as written, to be yet another constraint upon our ability to deliver competitive products and services to our Members.

We strongly question the need for the aggressively high risk weightings proposed on credit union assets especially when considering that the "financial crisis" was created and born by the for-profit banking community. Research shows that over the period of 2007 through 2013, the FDIC incurred over 8 times the deposit insurance losses per $1.000 of insured shares than the NCUSIF. In spite of that information, the proposed risk weightings to be applied against credit union assets will cause us to hold considerably more capital that a for profit bank. This does not make sense.

This one-size-fits-all nature of the proposal fails to recognize individual credit union performance within various types of lending. It sets increased reserve requirements based upon arbitrary percentage of asset levels by product line. Has any consideration been given to past performance, loan to value metrics, interest rate types (adjustable vs. fixed rate), credit quality, funding sources, etc.? The proposal seems to penalize credit unions that have been successful in certain product lines.

NCUSIF Deposit

Deducting the NCUSIF Capitalization Deposit from the risk-based capital calculation is not consistent with showing that the NCUSIF Capitalization Deposit has value. Subtracting the NCUSIF Capitalization Deposit from both the capital and risk weighted asset totals is equivalent to writing off the deposit. We are concerned that it becomes more difficult to prove the asset has future economic value when it has no value in the regulatory capital ration calculation.

Risk Weighting

First Mortgage Lending

Why would the fact that a credit union has exceeded a certain, somewhat arbitrary percent of total assets in the first mortgage necessitate additional equity capital? This one size fits all approach takes no account of offsetting liabilities, fixed or variable rate products, credit quality, individual field of membership characteristics, or the credit union's historical success in first mortgage lending.

Other Real Estate Loans

Given the fluctuation in real estate values over the past few years, it is understandable why 100% weighting has been assigned to subordinate real estate loans, however, the increasing risk ratings based on the outstanding percentage of total assets makes little sense, particularly when considering that allowance for loan loss accounting rules already require the assessment of specific loan classifications and resulting reserves against know or potential losses.

The proposed weightings appear to assume that all credit union are collateral based lenders, and that any pre-grant underwriting is limited to appraised value. These excess weightings are very troubling and especially for any credit union whose field of membership holds a high level of home ownership. Is there any justification that supports these additional capital requirements in terms of NCUSIF deposit insurance losses?

Delinquent Loans

It is inconsistent and duplicative to require additional equity against delinquent loans when proper allowance for loan loss and lease accounting already addresses anticipated losses via provision for loan loss expense. It is unclear why the allowance for loan loss account is only applied to 1.25% of outstanding loans. Our credit union is very conservative in our lending practices. The end result is still the same in any situation the loan will either perform or become a charge-off.

Investments
Given the many items that credit union can and do have in place to mitigate and monitor interest rate risk, it seems illogical to place yet another one size fits all asset weighting to investments. The proposed weightings are excessive considering that permissible credit union investments are, for the most part, limited to U.S. Treasuries and Agencies.

Investments in CUSOs
United Credit Union solely owns a CUSO for the opportunity to provide Financial Planning for our Membership. A 250% risk weighting will slow innovation and unfairly penalize smaller credit union that cannot cost justify certain products or services without cooperatively sharing resources and cost with other credit union.

Consideration should be given to the services a CUSO provides, its financial condition, balance sheet composition and legal form of incorporation. Requiring capital allocations of 20 to 25% of an investment is arbitrary and inconsistent with the associated risk.

We again appreciate NCUA's initiative in terms of risk based capital and agree with the importance for the credit union industry. However, it is our belief that the agency has taken an extremely conservative approach which will be damaging for our ability to compete. This will eventually cause credit unions to redirect their focus from our cooperative environment and act like banks.

Sincerely,

Gary M Peck

Gary M. Peck
President