



May 21, 2014

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

Submitted via e-mail to: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Re: **Comments on NCUA Notice of Proposed Rulemaking (Prompt Corrective Action; Risk-Based Capital) 12 CFR Parts 700,701,702,703,713,723 and 745**

Dear Mr. Poliquin:

This comment letter represents the views of the Virginia Credit Union League on NCUA's Risk-Based Capital proposal for credit unions with greater than \$50 million in assets. The Virginia Credit Union League is the state association providing regulatory and advocacy support for the Commonwealth's approximately 160 member-owned financial cooperatives. We appreciate the opportunity to respond and we generally agree risk-weighted capital is an appropriate measure for financial institutions. However, we are in strong disagreement with the Administration on the proposal in its current form. Further, we assert that credit unions and more importantly their members will be harmed if the proposed regulation is promulgated by NCUA. It has been estimated by the Credit Union National Association (CUNA) that credit unions will have to increase their current capital levels by more than \$7 billion in a relatively short period of time as a result of the proposed regulation. This will come at a cost of declining asset growth, member service, and member benefit as it relates to credit union pricing. The concerns of the Virginia Credit Union League and our members are highlighted below:

### **Lack of justification**

Credit unions and the National Credit Union Share Insurance Fund (NCUSIF) have performed well under current PCA rules. As stated earlier, we support risk-based capital for credit unions but only as part of an overall effort to reform the structure of credit union capitalization. We believe reform, which would necessitate changes to statutory requirements, should include **lowering** the base leverage ratio. Your proposal requires base levels remain the same and

overlays a risk-based system that requires credit unions to raise billions in unnecessary additional capital.

### **The Risk-Weights are too stringent**

With the exception of consumer loans, NCUA's proposed risk-weights are the same or higher than risk-weights imposed upon community banks under Basel III. Particularly troublesome, are the risk-weights assigned to mortgage loans and member business loans by NCUA which double the Basel weights. There can be no justification for this when credit union loss rates historically have been considerably less than the loss rates of community banks. The proposed rule likely would end the gains credit unions have experienced in these two important market segments. Higher reserve requirements will result in credit unions pricing loans higher. This will stifle a credit unions ability to compete with the community bank down the street. Further, the concentration component of the proposed credit union rule is in stark contrast to Basel where concentration is not addressed.

### **Unreasonable implementation period**

From a strategic planning perspective, it is reasonable to assume that credit unions that are well capitalized under current PCA guidelines will want to remain well capitalized if the new rule is passed. The collective differential between the two rules requires the estimated \$7 billion in additional capital. NCUA's proposal to implement the proposed rule in 18 months after it has been finalized will not give credit unions the time to restructure their balance sheets or retain sufficient earnings to remain well-capitalized.

### **Examiner and agency discretion**

Under the proposed regulation, NCUA will acquire the authority to impose a higher minimum risk-weighted capital ratio on a case-by-case basis. The conditions on which NCUA will be allowed this authority are exhaustive to the point of NCUA subjectively managing credit unions. Respectfully, we submit that this component of the proposed regulation be eliminated.

### **The proposal exceeds NCUA authority under the Federal Credit Union Act**

The Federal Credit Union Act requires NCUA to take into consideration the unique structure of credit unions when implementing a risk-based capital rule. We view the proposal as the Administration's attempt to mimic Basel (albeit more stringent) and our unique structure has not been considered. Again, we reference our limits to supplemental capital. At minimum, the NCUA should peg any risk-weighted system to the statute's adequately capitalized level of 6% versus the proposal which uses the well capitalized level of 7%.

### **Additional suggestions**

1. NCUA should not require credit unions to exclude the 1% NCUSIF deposit in calculating risk-based capital.
2. NCUA should not require credit unions to exclude goodwill in calculating risk-based capital.
3. The proposal should not address interest rate risk.
4. The proposal miscalculates appropriate risk weights for CUSOs (Mortgages and MBLs have been cited elsewhere in this letter).

In closing, we encourage the NCUA to work with the industry it regulates towards comprehensive capital reform for credit unions. Access to supplemental forms of capital will be needed in any risk-based capital proposal. We should not penalize a credit union system that has performed well by imposing an overly stringent risk-based system. Respectfully, we ask that the current proposal be withdrawn and the Administration should take into account the recommendations from credit unions prior to any future risk-based proposals.

Sincerely,

*Richard D. Pillow*

Richard D. Pillow, CLE  
President/CEO

Cc: Credit Union National Association  
Virginia State Corporation Commission