Mid-Atlantic Federal Credit Union
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May 22, 2014

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

Via e-mail: regcomments@ncua.gov

RE: Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital.

Dear Mr. Poliquin:

The Mid-Atlantic Federal Credit Union serves Montgomery County, Maryland, its residents, employees and many family members in surrounding areas. We currently have **23,591** members and $280 million in assets. We appreciate the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule Prompt Corrective Action – Risk-Based Capital (RBC). We are committed to our members and the communities we serve through the strong leadership of the credit union movement in Maryland and Washington, DC by creating a collaborative environment that adds value through shared services, consumer awareness, and innovative market development.

Mid-Atlantic Federal Credit Union feels strongly that given that credit unions managed to remain strong through the worst financial crisis in the past 80 years, this proposed rule is without merit. Furthermore, if the proposed rule is adopted as written, it will place an undue burden upon credit unions to comply. In fact, most affected credit unions would need to increase the amount of capital held in order to be well capitalized, and would likely face burdensome risk weightings that would serve as a disincentive to continue or enter into member business and mortgage lending programs, and long-term investments, inevitably pushing members to credit unions' competitors.

We continue to review all aspects of the RBC proposal, its proposed effects on our individual credit union and our industry throughout Maryland and Washington, DC. We are also working with our trade association, the Credit Union National Association (CUNA) on their own analyses of the agency's proposed rule, its affects, and how it will affect our services and members.

CUNA has estimated that if all affected credit unions acted to adjust their capital levels to maintain current margins above the "well capitalized" thresholds according to the RBC proposed rule requirements, credit unions would have to raise up to $7.3 billion in additional capital.

Proposed RBC effects on credit unions

NCUA estimates that over 90% of the credit unions with assets over $50 million, under the proposed rule applied today, would meet the minimum risk-based capital requirements. NCUA also estimates that only 200 credit unions would experience a decline in their PCA classification from well capitalized to adequately capitalized if the proposal were in effect now and 10 well capitalized credit unions would be downgraded to under-capitalized. However, CUNA estimates that a greater number of credit unions would fall from being comfortably well capitalized under the current system to being merely well capitalized under the proposed system. This is of great significance, as many credit unions may not be aware of the punitive nature of this rule when basing their analysis simply on the information provided by NCUA.

Proposed risk-weights

A number of the risk weights, especially for member business loan and mortgage concentrations as well as for CUSO investments, do not appear to be properly calibrated for credit unions. With respect to member business loans, not all business loans are considered equal. Some MBL's are considered very low risk, therefore we should get credit for them. These weights are even higher than what is being imposed on banks by the BASEL III changes. Using higher risk weights on long-term assets to deal with interest-rate risk is misleading without considering liability maturities and other mitigating factors. At the very least, risk weightings on MBL and investments should be reduced so as to be comparable to what is imposed on community banks under BASEL III. The fact is that credit union delinquency and losses on these loans are demonstrably lower than community banks.

CUSO Investments

Not all CUSO's are created equal. We encourage NCUA to implement regulations that encourage the use of CUSOs to generate net income and remove all regulatory impediments to CUSOs and collaboration. We recommend the removal or at least lowering of risk ratings for CUSO investments and loans as immaterial, inapplicable to CUSO investments and to encourage CUSO investment for policy reasons. Simply put, if a CUSO has paid for itself it should not be counted as a risk asset.

NCUSIF 1% Deposit to be ignored

NCUA's requirement that the National Credit Union Share Insurance Fund 1% deposit be ignored in the risk-based capital calculation should be reconsidered. The justification for removing the deposit is unclear, yet quite significant.

Examiner discretion to change risk ratings

Proposed section 702.105(c) as currently worded is troubling and unclear in that NCUA would assume additional authority to impose higher capital requirements on individual credit unions that could exceed even well capitalized level requirements. Unlike under the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions would no longer have clear rules to avoid prompt corrective action imposed by NCUA if the agency can establish its authority to use “judgment” on a credit union-by-credit union basis to make changes to risk ratings. This section of the proposed rule if left unclarified, could open the door to inconsistent and potentially arbitrary application of the intended rules. In addition, it would significantly diminish the responsibility of boards and management to make critical financial judgments, determine the strategic direction of the credit union, and oversee policy. Our recommendation is to remove section 702.105(c) from the proposed rule entirely. However, at the very least amend the language to make clear the intent with respect to the examiner’s authority to use “judgment.”

Mortgage Loan Servicing Risk Rating

In our opinion, the mortgage servicing risk rating of 250% appears out of sync. What is the rationale for such a relatively high weight, which mirrors FDIC’s weighting? The high-risk rating will likely discourage many credit unions from loan participations. Indeed, in light of a recovering, currently active mortgage market, we recommend that the agency consider eliminating mortgage servicing rights completely as risk asset. Without loan participations, many credit unions may not have sufficient interest income to survive. The fact is it is a good hedge against interest rate risk and the change in value should be recognized on a monthly basis.

Implementation Date

We are also recommending that the proposed implementation date of eighteen months after the regulations becoming final be extended. This proposed time-frame does not give credit unions sufficient lead time to plan for the new risk based capital ratio requirements and other proposed changes to part 702 and implement them properly. This is particularly important as many credit unions may wish to alter their balance sheet composition in response to the rule. We are urging the agency to provide a much longer implementation period, particularly in light of the multi-year development and implementation of Basel III for banks which initially allowed for a three year period but has since been extended.

Conclusion

Mid-Atlantic Federal Credit Union appreciates the value of a financial institution’s capital as a durable source of funding that can be readily deployed to shore up a balance sheet under duress and the need for regulatory oversight. In that spirit, we are asking NCUA to carefully weigh the comments received and consider withdrawing this flawed proposal in favor of opening a new productive dialogue with the credit union community regarding warranted and balanced risk-based capital reform. Short of that, at the very least, we urge NCUA to pursue the appropriate amendments to this rule that will ensure a viable, well-balanced risk-based capital system is implemented.

Thank you for the opportunity to comment on the proposed rule Prompt Corrective Action – Risk-Based Capital. If you should have any questions, please contact me at **scottd@mafcu.org** **or (301) 944-1743.**

Sincerely,

Scott Dinkel
VP/Chief Financial Officer

Cc: Sen. Barbara Mikulski
Sen. Benjamin Cardin
Rep. John Delaney