NASA FEDERAL CREDIT UNION
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May 23, 2014

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

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

Dear Mr. Poliquin:

The NASA Federal Credit Union (NASA FCU) serves the employees and family members of NASA Goddard Space Flight Center, NASA Headquarters, NASA Wallops, NASA contractors, and many high tech employer groups. The vast majority of our members live and work throughout Maryland, Virginia, and the District of Columbia. We currently have over 90,000 members and $1.3 billion in assets. Our core purpose is to empower people to achieve a brighter financial future. And, we have a long history of making good loan and investment decisions as a commitment to our members/owners.

We appreciate the opportunity to submit comments on the National Credit Union Administration's (NCUA) proposed rule Prompt Corrective Action – Risk-Based Capital (RBC).

NASA Federal Credit Union first and foremost believes the NCUA Board is acting in haste by providing such a short comment period to a rule that needs to be fully evaluated and analyzed especially given the importance and possible ramifications of it.

We continue to review all aspects of the RBC proposal, its proposed effects on our individual credit union and our industry. We are also working with our trade associations, the Credit Union National Association (CUNA) and the National Association of Federal Credit Unions (NAFCU) as they conduct their own analyses of the agency's proposed rule and its affects.

Proposed risk-weights

Many of the proposed risk-weights appear to be arbitrary, lacking sufficient rational and do not reflect the actual risk of: investing in or lending to a CUSO; holding investments with maturities of less than 5 years; having mortgage servicing assets; MBLs made by credit unions with proven track records in business lending; or for corporate paid-in capital. We believe NCUA has much work to do in this area – making broad statements to account for these risk weights is not adequate. Many of the risk weights are even higher than what we are seeing 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.

CUSO Investments

The proposed rule doesn't effectively explain the difference in the risk-weights for investing in

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or lending to a CUSO. The assigned weighting would indicate that it is much less risky to make a loan to a CUSO than it is to invest in one. NASA FCU encourages NCUA to at minimum align the risk-weights and manage any exceptions to the potential risk through the examination and supervision process. Less than 22 basis points of credit union assets are invested in CUSOs, which would not pose a systematic risk of taking down the share insurance fund. Regulations should not discourage the use of CUSOs to generate net income.

Investments

The NCUA Board appears to penalize credit unions for being diversified in their investment strategy and forgets that we are limited in what we can invest in. There are some risks involved with longer term maturities; however, it has been long understood that diversification also reduces the overall risk of a portfolio.

For those investments that credit unions are permitted to make, the FDIC does not incorporate interest rate risk into the investment risk-weights for community banks. Instead, it generally weighs the investments that credit unions can do with a single risk-weight regardless of maturity. FDIC takes into consideration the steps its institutions take to mitigate interest rate risk in its capital requirements. NCUA on the other hand does not account for any mitigation efforts in the proposed rule, such as variable-rate assets or derivatives, which would offset some exposure for credit unions to interest rate risk.

Individual Minimum Capital Requirement

NASA FCU strongly believes section 702.105(c) should be removed from the proposed rule as we believe it could lead to tremendous uncertainty for credit unions. We are extremely concerned about the legal authority of NCUA examiners ability to decide on their own the material risks not accounted for in the statutory floor prescribed by the Federal Credit Union Act. It is very troubling that examiners could solely and subjectively increase a credit union's individual risk-based capital requirement during an examination or a supervisory assessment. This additional authority to impose higher capital requirements on individual credit unions could exceed even well capitalized level requirements. Credit unions should have clear and concise rules to avoid PCA. This section of the proposed rule significantly diminishes the role and responsibility of our boards and management teams to address these issues internally.

Mortgage Loan Servicing Risk Rating

The arbitrary risk weight of 250% is artificially high for mortgage servicing assets. And, it does not take into consideration whether a loan was sold without recourse or the recently finalized rules on loan participations. These rules are undermined by this proposal. The loan participation rules were designed to help credit unions better manage potential concentration risks and we believe they should be allowed to work. Such high risk weighting could discourage some credit unions from loan participations which can help provide interest income and diversify concentration risks.

Member Business Loans (MBLs)

NASA FCU currently has less than 15% in MBL assets and we have a proven track record in this area. We believe other factors should be taken into account before increasing the risk weights for concentrations higher than 15%. Additionally, NCUA may want to consider the types of loans within the portfolio and appropriately align the risk weights to the actual risk. Again, diversified portfolios, sound underwriting, and experience are all factors in reducing overall risk in a portfolio.

Implementation Date

NASA FCU is strongly recommending that NCUA make recommended changes to the rule and provide credit unions with a reasonable period to implement them. The current proposed 18-month timetable is not adequate. Credit unions will need to adjust their balance sheets, make system changes, operational changes and review and revise policies. Many credit unions may also need to raise additional capital. It is imperative that the NCUA Board give credit unions ample opportunity to plan for the new risk based capital ratio requirements and the other proposed changes to part 702 in order to implement them properly. We urge the NCUA Board to provide a longer implementation period and to consider the multi-year process used for banks to develop and implement Basel III.

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.

Based on our calculations it appears NASA FCU would remain well capitalized even under the proposed rules. However our capital cushion would shrink by as much as $7,072,220 if it were in effect today. Additionally, our Credit Union stands to lose 56 basis points in our cushion over the well capitalized levels.

Conclusion

NASA Federal Credit Union again appreciates the opportunity, in the short window provided, to make comments on this proposed rule. We do understand the purpose of leveraging risk through risk based capital requirements - rules and appropriate risk weights can help strengthen the quality and loss-absorbance safeguards provided by regulatory capital and enhance credit unions' abilities to continue functioning during periods of financial stress. We however believe NCUA should engage the credit union community in a more open dialogue and re-pen this proposal with the additional insight it receives from individual credit unions and their trade associations. We believe together we can come up with a more reasonable and agreeable solution and framework while achieving the same intended goal of this proposal.

Sincerely,

Douglas Allman
President
NASA Federal Credit Union

cc: Maryland, DC Credit Union Association