May 23, 2014
Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
Sent via E-mail to: regcomments@ncua.gov

Re: Community Resource Credit Union Comments on Proposed Rule: PCA- Risk-Based Capital

Dear Mr. Poliquin:

This letter represents the views of Community Resource Credit Union ["CRCU"] regarding the NCUA's proposal on Risk-Based Capital ["RBC"]. CRCU has assets over $335 million and serves over 35,000 members in southeast Texas. We appreciate the opportunity to comment on this very important issue.

CRCU understands that the primary mission of the NCUA] is to ensure the safety of soundness of federally insured credit unions. In that effort,NCUA must ensure that credit unions maintain capital ratios and asset levels that provide for a stable insurance fund and healthy financial structure for the system. Although CRCU supports a strong credit union system, we must oppose the proposal as drafted because it is flawed in several regards, as detailed below.

Congressional Letter to NCUA
CRCU strongly supports the comment letter submitted by Representatives King and Meeks, and signed by more than 320 members of the U.S. House of Representatives. CRCU agrees with the concerns raised in that letter including concern regarding potential adverse effects on credit unions and credit union members. Specifically, the letter encourages NCUA to:
1. Take into account the cost and burden of implementing new risk-based capital requirements beyond current ratios;
2. Provide justification and more clarity as to why the risk weights differ from those applied to other community financial institutions; and,
3. Give credit union more time to come into compliance.
CRCU urges NCUA to give serious consideration to the issues raised by our members of Congress.

Lack of Justification for the Proposed Risk Weights (Sec. 702.104}
CRCU opposes the risk weighting categories as proposed. Due to the lack of justification by NCUA in the proposal commentary, the risk weights appear to be unsupported and arbitrary. Many of the risk weights are inappropriate and do not accurately reflect actual risk. The weightings do not account for the individual management strength of credit unions and areas in which credit unions and/or investments have a history of proven success. The risk weights ignore the historical market experience of the industry. The revaluation of certain asset weighting under the proposal could change a credit union's PCA without any reasoned justification.

For some risk categories, the weighting is the same for all loans or investments in that area. The risk weight categories are over generalized. For example, category 4 includes both unsecured and secured loans. Secured loans carry less risk and should be assigned a lower risk weight than unsecured loans.

Several of the risk weightings are alarmingly excessive, especially the proposed weighting of 250% for CUSO investments. In the proposal, all CUSO investments are treated the same regardless of the type of CUSO or its record of performance. While CUSO investments do have a degree of risk, we believe this weighting to be higher than what is warranted. The proposal also fails to consider the nature and past performance of a CUSO, which greatly impacts its level of risk. The proposal penalizes growth in investment value. It is likely that many of our credit unions will look to divest their interests in CUSO's entirely, or severely curtail their ownership if such risk levels are applied. This will reduce opportunities for credit union growth and may reduce member service offerings.

The proposal imposes a high risk weight on residential mortgages, including those guaranteed by the federal government. The risk weight for government backed loans should be lowered to account for the reduced risk related to government guarantees. Additionally, other factors such as real estate loan-to-value should be considered, rather than the approach being solely concentration focused. The maximum weight assigned to residential mortgages by banks under Basel Ill is 50%. NCUA has failed to justify why credit unions should warrant as high as 100% for some residential mortgage loans.

The proposal also assigns a large risk weighting to member business loans ["MBLs"] without consideration to the quality of the loans and assets involved. The proposed risk weights for long-term investments do not take into account applicable credit or asset liability management considerations; it only captures interest rate risk concerns. A risk weighting focused solely on the average life of an investment does not accomplish the goal of addressing risk in its entirety. The proposed risk weights also imply that an "apples-to-apples" comparison is possible between different kinds of investments. It is absurd to assume that every investment in a CUSO and mortgage servicing asset would be equivalent, and to assign identical risk weightings to each would in no way be an accurate representation of the actual risk involved.
In many areas, the risk weighting is even more punitive than that for community banks under Basel Ill. We would ask that this risk-weighting be re-evaluated to more accurately reflect the risk to credit unions.

Consistency with Banks
NCUA states that it intends to make the credit union risk-based capital measure more consistent with the measures used by the banks. If Congress intended credit unions to be subject to the same requirements as the banks, it would have said so. Basel Ill, the system used for banks, is focused on credit risk. However, the NCUA RBC proposal covers not only credit risk, but also interest-rate risk, concentration risk, liquidity risk, operational risk, and market risk.

NCUA says it intends the RBC proposal to bring consistency between the bank PCA and credit union PCA, but that approach fails to take into consideration the unique aspects of credit unions, including restraints on how credit unions can raise capital. Unlike the activity of banks which led to the recent economic crisis, credit unions have proven responsible business practices and success over time. As a result, credit unions should be afforded regulatory relief and treatment commensurate with our responsible practices.

Subjective Determination of Higher Capital Amounts (Sec. 702.105)
Under the proposal, NCUA has the authority on a case-by-case basis to increase the amount of capital a credit union is required to maintain. In other words, even if a credit union is in compliance with the rules, NCUA could require more capital. Despite the proposed "process" we feel that the NCUA board would retain the ability to delegate such power down the chain, perhaps to the examiner level. CRCU opposes this provision of the proposal because such power is overly broad and not justified. It is unreasonable to think that a credit union that

plays by the rules and is in compliance could be subject to the will of an examiner.
We prefer an objective risk based assessment, so that our credit unions can operate without fear of prompt corrective action.

Regulatory Burden
The proposal increases the regulatory burdens of all credit unions, even those under $50 million in assets. Credit unions would experience increased costs associated with updating policies, data collection, and updating reporting systems. This is in addition to the countless other regulatory burdens currently hampering credit unions from serving their members.

Extension of Compliance Date
CRCU opposes the proposed eighteen months for compliance with a final rule and requests that NCUA provide substantially more time to comply. Eighteen months is unreasonable, especially in light of the fact that Basel Ill allows banks until 2019 to comply. Under the proposed timeline, credit unions looking to alter their investment portfolio due to the RBC method may be forced to sell investments at less advantageous terms. This is not in the best interest of the credit union or the credit union system.

Summary
In summary, we urge NCUA to remember that its job is to regulate credit unions so that they may thrive and grow; the NCUA should not be managing the credit union balance sheet. We support a risk-based evaluation, just not the particulars of this proposal. We hope that NCUA will give great thought and consideration to the flood of comments on this very important issue and revise the rule as requested.

Thank you for the opportunity to comment on this very important issue. Please feel free to contact me at 281.420.3710 with any questions you may have.

Sincerely,

David Frazier

President \ CEO

Community Resource Credit Union

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