Creighton Federal
CREDIT UNION

May 23, 2014

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 55314-3428

Sent electronically to: regcomments@ncua.gov
RE: RIN 3133-AD77

Subject: Risk Based Capital Proposal

Dear Mr. Poliquin:

I am writing on behalf of Creighton Federal Credit Union, which serves the faculty, staff and students of Creighton University, the College of Saint Mary, and the employees of the Alegent Creighton Health system. We have 10,500 members and $49 million in assets. Creighton Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital (RBC).

I'm concerned how this regulation will restrict our growth, curtail our lending, and limit our ability to serve member needs.

Even though Creighton Federal Credit Union is currently below the $50 million asset threshold for this proposal, our normal growth will soon cause us to be affected by this regulation. We currently have a comfortable margin over the level to be considered well capitalized. With this proposal, our margin disappears and we are just barely above the well capitalized level. Our capital cushion would shrink over well-capitalized by $286,000 or 59 basis points. This cushion has been built over the years as a buffer to an unforeseen circumstance or an economic downturn. In many ways, the risk based capital requirement puts my credit union at greater risk without this cushion.

I do not believe the NCUSIF deposit should be deducted from the calculation of the numerator in the RBC calculation. This should be treated as a risk free asset.

I encourage the NCUA to reconsider the proposed risk weights, especially those for first mortgage loans, long-term investments, perpetual contributed capital, member business loans, and all other assets.

Creighton Federal has responded to our members needs by developing a unique real estate loan product especially appealing to new college graduates, with lower down payments, and lower closing costs. We keep these mortgages in our loan portfolio. Along with members wanting to refinance into shorter-term mortgages, the credit union now has 39% of assets in first mortgage real estate loans. This portfolio has excellent credit quality and even during the recession, had few problems. The RBC proposal has a strong incentive to reduce first mortgage loans and restrict further growth in this very popular and profitable product. Applying a higher risk weight to first mortgage real estate loans over 35% of assets penalizes my credit union for providing a product my member's value and we have the expertise to manage.

As part of our asset liability management process, Creighton Federal has invested 20% of its investment portfolio in long-term government agency securities. These investments are classified as hold-to-maturity, have no default risk, and have been factored into our future cash flow needs. In this prolonged low interest rate environment, the added yield has been an important boost to earnings. Under the RBC proposal, the higher capital requirement for investments greater than 5 years will force a shorter investment horizon, result in less investment income and less capital. The risk weight on long-term investments seems disproportionately too high.

I believe the risk weight associated with a Perpetual Contributed Capital (PCC) investment in corporate credit unions is too high. Our credit union is a member of Kansas Corporate Credit Union (KCCU) and has a PCC investment in KCCU. We understood the risks we assumed when making this investment in KCCU, and felt it was necessary to receive financial services in a cooperative fashion. Like our members, we want to belong and be an owner of a cooperative financial institution that benefits its members/owners, instead of a for-profit financial services provider.

I agree with KCCU's business model that requires all members to have a PCC investment. As a result of a higher risk weight assigned to a PCC investment in a corporate, it will make attracting new capitalized members much more difficult and will negatively impact the ability for my corporate to expand their membership.

I believe the risk weighting is too high when considering the risk limitations that were placed on corporate credit unions when new regulations were adopted by NCUA several years ago. I believe the risk of future loss of our PCC investment has been diminished greatly and yet the proposed regulation requires us to maintain capital at twice the level of our PCC investment.

I believe that the risk weighting is too high when compared to the banking industry's risk weightings for a similar investment – stock investment in Federal Home Loan Banks (FHLB). Despite the investment being 100% at-risk, the banking industry risk weighting is 20% for FHLB stock.

Additionally, I believe that I'm being penalized twice for my PCC investment. On the front-end due to the higher risk weighting of our investment and then on the back-end when beginning in October 2016, a portion of our PCC investment will no longer be included in the calculation of KCCU's Leverage Ratio. I urge reconsideration of the risk weight associated with a PCC investment in a corporate credit union to a lower level.

Under the proposed RBC regulation, member business loans are all treated as one type, not distinguishing between lower risk real estate secured loans and higher risk construction and development, other secured, or unsecured member business loans. Creighton Federal is considering joining a member business loan originating CUSO in an effort to purchase real estate secured member business loan participations and put to better use a portion of our investment portfolio. With a risk factor of 2.00%, we may forego this opportunity to preserve our RBC position, earning less income and further restricting our growth. The risk factor should be less on real estate secured business loans compared to other types of member business loans.

Finally, the risk rating for All Other Assets, consisting of fixed assets, pre-paid accounts, and accrued interest should be less than 1.00% and not considered as risky as delinquent real estate loans.

I do not agree that the NCUA should be able to impose higher capital requirements on credit unions on a case by case basis as this determination would be highly subjective.

I think the NCUA's implementation time line should be longer for credit unions to comply. Our only way to achieve higher capital is through earnings or to reallocate assets, which would involve restricting services to members-something that is counter to the credit union philosophy.

In summary, I view many of the risk weightings to be improperly set. In order to properly plan for the implementation of the risk based capital regulation, I think credit unions should be given a longer time to comply. I am concerned about the negative affect this proposal will have on corporate credit unions. I'm also concerned this proposal will cause credit unions to restrict certain types of lending, especially real estate and member business lending, and force credit unions to deliberately downsize in order to meet the well-capitalized threshold. The incentives in the RBC proposal will force limitations that will hurt members with higher fees, higher loan rates, and lower dividend rates. Decisions will be made based on capital, not service to members. Investments and loans will be managed without consideration of member need. This is contrary to the credit union philosophy and why we work in this industry.

Thank you for the opportunity to comment on this proposed rule and for considering my views on risk based capital requirements.

Sincerely,

Thomas C. Kjar

Thomas C. Kjar
President/CEO