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May 27, 2014

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

Re: Comments on Proposed Rule: PCA – Risk Based Capital

Dear Mr. Poliquin:

I appreciate the opportunity to provide comments and observations to the National Credit Union Administration (NCUA) Board about the proposed rule on prompt corrective action (PCA) and risk-based capital. While Meadows Credit Union supports the overall concept of a risk based capital structure, we believe the proposal as written is harmful and leaves considerable room for improvement.

The following addresses specific areas of concern:

NCUSIF Deposit – requirement to deduct from Net Worth

- This requirement does not appear to be logical in terms of 'assessing risk'. Requiring that this deposit be subtracted from both capital and risk based assets essentially is the equivalent to writing off this asset, implying that this asset has no economic value. It appears illogical to consider this an 'intangible asset'. In addition, the deposit is refundable in the event of liquidation/conversion. Exclusion also raises the concern that this could lead to a requirement that it no longer be included in the base Capital Ratio calculation.

Risk Weighting – many areas appear arbitrary

- Deposits with the Federal Reserve – Risk Weight as proposed = 20%
    - Deposits with the Federal Reserve should be at 0%. Considering that the Federal Reserve has been designated by NCUA as a source for emergency liquidity, it should be treated similar to that of the government agencies.
- Share Secured Loans – Risk Weight as proposed = 75%
    - Share secured loans which as proposed carry a 75% risk weight are secured with readily accessible collateral and hence should be carried at a 0% weighting.

- Mortgage Loan Concentrations – Risk Weighting as proposed = 100%
    - In regard to higher concentrations, this Risk Weighting appears to be too severe and in the case of residential mortgage loans exceed the requirements of small banks. Basel III calls for a 50% weighting versus NCUA's 100%. The weightings do not account for other significant risk mitigation factors such as type of loan, LTVs, or DTI. The broad brush of simple asset concentration appears illogical.

- CUSO Investments – Risk Weight as proposed = 250%
    - This high risk rating appears punitive and is likely to have an unintended consequence of restricting credit union investment due to the sheer nature of this requirement. While there have been some CUSO losses in the past the vast majority are quite successful. At a minimum, there should be a substantially lesser burden for CUSOs that demonstrate successful performance.

- Member Business Loans - Risk Weight as proposed = 150% to 200%
    - The weightings are quite severe and similar to the comments above regarding CUSOs; we believe these high risk weightings will also have an unintended consequence of severely restricting member business loans. This loan type is already restricted by federal regulation as to asset concentration.

- General Commentary on Risk Weighting
    - It would be beneficial to see what quantitative analysis was performed to arrive at the proposed Risk Weights.

Allowance for Loan Loss Limitation

- We hope that the Board will reconsider the proposed limitation on the Allowance account to 1.25% of Risk Assets. The ceiling appears arbitrary and may cause further undue hardship given the potential for accounting rule changes in this area.

Individual Minimum Capital Requirements

- We strongly disagree and do not see the justification with this proposed item and do not believe examiners should have the ability to require higher capital amounts for individual credit unions. The capital rules should apply to all credit unions.

Minimum Capital Requirements - inequity with Basel III

- The requirement of a 10.5% minimum Ratio is too high especially given that Bank Ratio focuses only on credit risk whereas this proposal looks at Credit, Interest Rate and Asset Concentration risks.

Risk Weightings – inequity with Basel III

- The proposed rule indicates a higher risk (weighting) based on the length of the investment – i.e. an investment with a weighted average life > 1 year will be weighted at a percentage of 50-200%. Basel III is at 20%. Also, investments products are significantly more restrictive for credit unions, as almost all are 100% federal guaranteed.

Delinquent Loan Risk Ratings – inequality with Basel III

- The proposed regulation risk weights delinquent loans at 150% and 100% for banks. In addition, banks calculate delinquency at 90 days, while credit unions consider delinquency at 60 days.

- As proposed, this rule would have a transition time of only 18 months which is way too short. Banks which also have the ability to raise capital - have until 2019 to comply.

Consideration of Secondary Capital

- If the board is looking to create capital requirements beyond the current definition, we believe the Board should also look to address practical and expanded secondary capital resources that can be included in capital calculations. This includes the will to support/work through legislative issues that would likely be required. We believe this would be a very practical adjunct to this issue.

Adverse Impact on Members

- We believe the overly high risk weightings could cause credit unions to realign their assets by reducing residential mortgage loans, and loans to small businesses, thereby reducing credit availability to their members.
- The need for credit unions to increase net income in order to meet the substantially higher net worth capital requirements or to recover a portion of their current "buffer" above the well capitalized level would result in higher interest rate on loans, lower dividend rates on shares, and increased fees.

We hope that the final proposal allows for an avenue of growth. Our industry has become more competitive and as evidenced in the last recession – credit unions were the only segment of the financial industry that BOTH met its social mission of helping our members but also outperformed the other segments in managing its risk.

Again we support the concept behind risk based capital and appreciate the dialogue that is now taking shape within the industry.

Sincerely,

Ed Buettner

Ed Buettner
CEO