May 27, 2014

To: regcomments@ncua.gov

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:

West Community Credit Union (WCCU) is appreciative of the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise Prompt Corrective Action related to Risk-Based Capital. After careful and thoughtful review of the proposed changes, we believe that without substantial modifications, this rule will negatively impact our members, community and the potential long-term sustainability of the credit union. WCCU is asking that the NCUA suspend implementation of the rule and use a collaborative task force comprised of regulators, credit union leaders and credit union trade organizations to craft a revised proposal that will enhance the credit union model while ensuring long-term safety and soundness.

Under the proposed risk-based capital rule, WCCU will see its capital rating fall from “well-capitalized” to “adequately capitalized”. This could force Management and the Board of Directors to make material changes to its business model, a model that has proven successful for many decades, through both economic expansion and recession. This change could reduce WCCU’s competitiveness against other financial institutions, reduce access for members to lending products that WCCU currently provides and harm our reputation in the surrounding communities as our brand promise to meet such needs can no longer continue as before. We believe the impact would reduce our ability to maintain the financial strength to invest in new technology and retain key managers and staff, which would risk the sustainability of the organization in the long-term.

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WCCU does not criticize the fact that NCUA has considered modernization of the current risk based capital requirements given the recent economic crisis and Basel III. It is understandable that the question should be asked if there can be lessons learned from the most recent shock to the system. However, with more than 25 years of history under similar risk based capital requirements to the ones proposed, banks have twice cause the FDIC to go negative in its equity position and today remains under 1 percent in their equity ratio. On the other hand, credit unions have not caused the NCUSIF equity ratio to fall below 1.22 going back over that same period of time, even given the impact of the recession in 2008. Additionally, in those cases where credit unions failed during the most recent economic collapse, it appears that research would show that less than 10 of the top 200 failures would have been proactively identified by this new risk based capital requirement.

We suggest that the credit union charter is inherently less risky than the bank charter and this has been proven through multiple economic recessions. While banks can achieve scale and obtain capital more readily, they can also create systemic risks individually (due to their sheer size) where credit unions cannot. By requiring a risk based capital model that is more similar to that of banks, the credit union charter is devalued much more than the reduction in risk NCUA is attempting to achieve. In fact, a devalued charter could present significantly more risk to the NCUSIF as the largest credit unions with material deposits with the NCUSIF could weigh the option to convert to a bank charter, reducing the strength of our insurance fund. The bank charter could become more appealing if a more restrictive capital rule is placed on credit unions since banks have additional avenues to generate revenue, such as through more flexible business lending rules, and the ability to acquire capital outside of earnings.

Since 2008, the regulatory burden has increased significantly for credit unions as part of overarching financial industry reform. New requirements related to asset-liability management and concentration risk have been issued by regulators. Not only is the credit union charter less risky as proven by historical experience, new regulations issued by NCUA and other government agencies should further reduce risk. If current regulations are truly proactive and effective in the eyes of the regulators in addressing risk, then why would additional, risk-based capital requirements also be necessary? This further increases the burden under which credit unions operate.

WCCU suggests that NCUA suspend implementation of the proposed rule and partner with key industry experts and credit union leaders to craft a new rule where potential system risks are addressed while ensuring that the credit union charter is positioned for success in the long term. Below are the comments that WCCU is asking the NCUA to consider in developing the final version of the Risk-Based Capital Rule.

1. The proposed risk weightings are excessive for several categories and do not appear to be based on the realistic risk that has been proven through over three decades of economic expansion and contraction. The weightings are more punitive in some cases than those established for banks, yet historical data demonstrates credit union balance sheets have posed significantly less risk than banks. The following areas should be re-evaluated and substantially altered before implementing the rule:

    - Cash held at the Federal Reserve is given a 20% weighting – What risk does the Federal Reserve pose to the system when it is in fact established by the federal government and deemed by the NCUA and FDIC as a source of emergency liquidity? Unless risk can be somehow defined and proven to exist, an arbitrary weighting such as 20% for these balances should be removed and mirror the 0% risk weightings established for Treasury Securities.

    - Investments in Agency backed securities – Investments with average lives greater than 5 years are weighted at 150% and 200% for over 10 years. This is substantially higher than the bank weighting of 20% for similar investments. There is no credit risk for these types of investments and interest rate risk is based on a multitude of factors, such as the overall mix of investment duration and structure of investments in the portfolio, as well as the liquidity profile of the institution and potential other hedging strategies and composition of the balance sheet. This proposal oversimplifies risk management approaches and will put credit unions at significant disadvantage compared to banks. Since credit unions can only raise capital through earnings, this will decrease the long term sustainability of credit unions, rather than protect it. Investment weightings should not exceed those established for banks and in no case exceed 100% in any scenario.

    - Real estate loans – WCCU has managed interest rate risk through a very conservative ALM strategy where 30-year, fixed rate mortgages are primarily sold to the secondary market and in no case may exceed 6% of assets. Our real estate portfolio is primarily comprised of first and second lien home equity loans that re-price on average within 3-years and position the credit union to successfully navigate the next rising rate environment. In terms of its first mortgage portfolio that is comprised of primarily adjustable rate mortgages, WCCU would be held to the same capital requirements as a credit union that holds all 30-year, fixed rate mortgages. Additionally, WCCU would be significantly penalized for its concentration in second-lien home equity loans. WCCU has been a strong participant in this market in the St. Louis area for three decades. Throughout this time and under two significant recessions, loan losses were negligible. For example, in the two years of the height of the Great Recession (2008-2010), WCCU charged off only 45 basis points on average, almost equal to the amount of credit card losses in dollars. However, the risk weightings for second-lien home equity loans due to our concentration requires significantly more capital than consumer loans such as credit cards. In both cases, our risk profile is extremely low due to a number of factors: the region in which the credit union is located, our extensive experience in this type of

lending, the short-term nature of these loans, the carefully managed loan-to-values and strong credit profile of the portfolio. If WCCU is required to hold significantly more capital for this portfolio, it will be placed on an uneven playing field with banks and could be forced to exit this market. While at first NCUA may find this would reduce risk from the perspective it is currently using, it in fact increases risk. If WCCU must move significant balances out of its home equity portfolio to re-balance, earnings (the only source of capital) would be negatively impacted. In re-deploying funds into other consumer loans, WCCU would have to consider loans that have less risk weighting in the current Proposed Rule yet actually have similar credit loss experiences, such as credit cards and unsecured loans or indirect auto loans. This demonstrates that the rule does not adequately assess risk. In the case for WCCU, we have successfully been a strong lender in our market for years and demonstrated far better asset quality than our peers. WCCU recommends:

   - First Lien Mortgage risk weights be lowered for those loans that have adjustable rates and shorter durations
   - Second Lien Mortgage risk weights not exceed 100% at any level

- Member Business Loans – While there have been a few high profile examples of credit union failures due to business lending, these were not systemic issues. Overall, credit union business loan portfolios are lower risk (due to more restrictive regulations, such as the 80% loan to value requirement on real estate loans) than banks and have not been a more prevalent cause of failures than other factors unique to many of those situations. WCCU has been in business lending for many years. Over the past seven years, which included the severe economic recession, WCCU experienced fewer loan losses in this portfolio than any other category in both dollars and percentage. The escalated risk weightings based on a percentage of assets appears to not be needed, especially given the already restrictive rules in place in terms of how much credit unions can hold in business loans compared to banks. This category should not exceed the weights compared to consumer loans. If this Proposed Rule were implemented as written, WCCU would be encouraged to make loans in riskier consumer categories, such as unsecured loans.

2. The National Credit Union Share Insurance Fund 1% deposit should not be removed in the risk-based calculation. It is a legitimate asset of the credit union and the equity ratio of the fund has not been lower than 1.22% in the past 25 years through two major recessions. It can be refunded and is significantly safer than the FDIC, which has twice become negative in equity. The risk based capital for banks does not exclude the FDIC deposit in the numerator so it does not make sense why NCUA would exclude it. WCCU recommends keeping the NCUSIF deposit included in the risk-based capital numerator.

3. WCCU disagrees with the language in the Proposed Rule that provides NCUA authority to require higher minimum risk-based capital ratios for individual credit unions based on NCUA examiner expertise. This is far too discretionary and would be inconsistent and unfair in its application. WCCU recommends that this part of the rule be eliminated or also allow examiners the ability to reduce the risk-based capital requirement based on the individual and unique risk profile of the credit union.

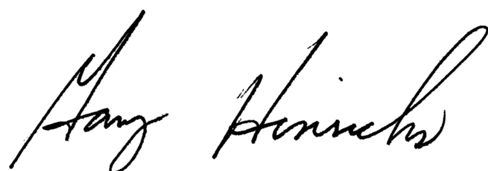
4. The 1.25% allowance limit for adding to the numerator will not be sufficient should FASB adopt the Current Expected Credit Loss model. In most recent studies, credit union reserves will most likely increase 30% to 100% based on the FASB rule. This will cause significant challenges to credit unions in terms of meeting the Proposed Rule for risk based capital. WCCU recommends that the allowance limit be increased to 2.00% for adding into the numerator given this significant and pending change.

5. Supplemental capital options are not addressed in this rule. Credit unions should be given options to raise capital through alternative methods if higher capital standards are put into place. Credit unions remain the only financial institution charter that does not provide for additional sources of capital other than retained earnings. However, if risk based capital measures are put into place to put credit unions more on par with other types of institutions, then supplemental capital must be part of the changes too.

In summary, WCCU believes that the Proposed Rule for risk-based capital should be suspended and substantially revised, taking into consideration all of the points above and those of other credit unions and credit union industry partners. Historical data overwhelming demonstrates that the credit union charter and rules, as written today, are far ahead of the bank charter in terms of mitigating risk to the insurance fund. The case has not been made why a change to risk based capital requirements is needed or how it would reduce risk and ensure sustainability of the credit union model. In fact, more threats are apparent in the new rule than benefits.

Thank you for the opportunity to comment on the Proposed Rule and for listening to WCCU's concerns. Please feel free to contact us with any questions regarding WCCU's comments on the Proposed Rule.

Sincerely,



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