



May 27, 2014

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

Re: Comments on Proposed Prompt Corrective Action - Risk-Based Capital Rule

Dear Mr. Poliquin:

I would like to thank the NCUA Board for the opportunity to provide comments regarding the proposed risk-based capital rules. While I agree with several of the Board's objectives, I believe the rule as proposed contains some flaws that need to be addressed.

I agree with the general objective that capital should be commensurate with risk, as well as modifying the current calculation method for computing Risk Based Net Worth to be more consistent with the risk-based capital measures used by the Other Federal Banking Regulatory Agencies.

As in previously proposed rules, the Board appears to be considering only one side of the balance sheet (assets), while ignoring the other side (liabilities). Using higher risk weights on long-term assets to deal with interest-rate risk is misleading without considering liability maturities, and departs from the notion of Asset Liability Management. Further, attempting to quantify both credit and interest rate risk using one set of balance sheet risk weights could lead to inconsistent and erroneous results. There are already separate rules NCUA has promulgated to "...promote safe and sound management of interest rate risk at credit unions and provide clear expectations for credit unions..." (NCUA Letter to Credit Unions 12-CU-05). While a zero percent risk-weight for U.S. Treasury obligations makes sense from a credit risk standpoint, it may not make sense from an interest rate risk standpoint dependent upon the maturity date of the instrument, especially for a long-term U.S. Treasury obligation.

The risk-based capital rules for banks weight investments by issuer. For example, bank investments in Government Sponsored Entities and Mortgage-Backed Securities are given a 20% risk-weight. The NCUA proposal risk-weights investments based upon weighted average life, ranging from a 20% risk-weight to a 200% risk-weight. Similarly, banks do not consider portfolio concentrations for real estate and member business loans as NCUA has proposed for credit unions. Bank rules also consider balances with the Federal Reserve Bank at a 0% risk-weight, unlike the 20% risk-weight proposed by NCUA. These departures from the other federal banking regulatory agencies will result in increased risk-weighted assets for credit unions, which will reduce risk-based capital



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levels for credit unions as compared to banks. This reality is in conflict with a stated objective of the regulation.

There are also two proposals that are troubling from the standpoint of examiner discretion. Despite indicating that the proposed risk-based capital rules are “rigorous and disciplined”, the Board has also proposed Individual Minimum Capital Requirements (IMCR) which could be imposed upon a credit union that would be higher than risk-based capital requirements. There are no objective criteria for the imposition of IMCR; NCUA may establish increased individual minimum capital requirements upon its determination that the credit union’s capital is or may become inadequate in view of the credit union’s circumstances.

In addition, Category 10 has been created to require a 1,250% risk-weight for “an asset-backed investment for which the credit union is unable to demonstrate, as required under paragraph (d) of this section, a comprehensive understanding of the features of the asset-backed investment that would materially affect its performance. The reference to a credit union’s ability to demonstrate a “comprehensive understanding of the features of the asset-backed investment” is vague. Is each credit union volunteer expected to fully understand the features of such an investment? If such an investment is a simple mortgage-backed security, how does that differ from a mortgage placed in portfolio on a credit union’s balance sheet? Will Category 10 also extend to a credit union’s mortgage portfolio?

In both these instances examiners are given an undue level of discretion and it raises the question of how the NCUA will ensure that the discretion of hundreds of examiners across the country will be applied uniformly and consistently.

If you would like to discuss these comments in further detail, please do not hesitate to contact me at (850) 747-4410.

Sincerely,



Steven E. Ravin  
Executive Vice President & Chief Financial Officer