May 28, 2014

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

Dear Secretary Poliquin:

Thank you for allowing Wings Financial Credit Union ("Wings") to comment on Agency's proposed rule, Prompt Corrective Action – Risk Based Capital. Wings is a federally insured credit union chartered under the laws of the State of Minnesota. Wings has approximately 200,000 members and $4.0 billion in assets. Wings appreciates the Agency's efforts to revise its current risk-based net worth requirements with new risk-based capital requirements ("RBC") for federally insured "natural person" credit unions, and believes that the proposed risk-based capital requirements are a step towards the regulatory risk-based capital measures used by the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve, and Office of the Comptroller of Currency ("Other Federal Banking Regulatory Agencies"). In order to remain competitive, it is important for credit unions to be consistent in measuring capital requirements with the methods used in the rest of the financial industry. Although the new method makes an attempt to be consistent with equivalent bank requirements, the differences are significant and much more punitive for long term assets. This type of methodology will require much higher capital levels for credit unions in relation to our competitors and fails to take into account that credit unions have no alternate method of raising capital other than through retained earnings.

Equally important to the credit union industry, as a whole, is that regulations should not prevent generating sufficient return on assets, restrict member growth or force adoption of a business model that holds in reserve, excessive amounts of members' capital. The system used to measure risk should not be a one-size-fits all model but one that reflects a fair assessment of the actual risk to capital.

The current proposal's attempt to combine measurement of credit risk, interest rate risk, liquidity risk and concentration risk results in a muddled and convoluted morass of thresholds which are internally and externally inconsistent. Further the proposal does not take into account all mitigating factors and represents an oversimplification of risk that results in overly conservative levels of capital requirements to the detriment of credit union members and the long term sustainability of the credit union industry as a whole. It does not differentiate or provide any relief for a well run credit union that manages risks appropriately or recognize the composition of the entire balance sheet. Member deposits are completely ignored in generating capital requirements. It is readily apparent in the risk weightings assigned in a number of areas that the proposed Risk Based Capital method has a strong bias towards short term assets over long term assets without regard to quality or appropriate balance sheet maturity matching. Sustainability of a business model requires matching of both sides of the balance sheet and venturing beyond the short term nature of consumer loans.

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Attached is an analysis of the current Risk Based Net Worth calculation, the proposed Risk Based Capital method as well as the Basel III method for Wings. The difference between the proposed RBC and the Basel III method are quite extreme. A whopping 10.86% of capital is removed from Wings' Risk Based Capital adjusted ratio under the proposed method. Under the current Risk Based Net Worth analysis, Wings maintains a capital level of 10.7% of total assets, a buffer of 2.69% over the "well capitalized" level. Under the proposed rule, Wings risk-based capital level would be 11.17%, which, while still in the well capitalized level, would represent a decrease in Wings buffer of over 75%. To make up this difference between the existing Risk Based Net Worth analysis and the proposed rule – and provide Wings with a buffer equal to what currently exists, would require an additional $64 million of capital. This additional capital can only be obtained through retained earnings, meaning Wings would have to scale back its growth plans or some of the products and services that Wings offers to its members, making Wings less competitive in an already highly competitive market. The net effect of the rule would be to place credit unions at a competitive disadvantage by imposing a new regulatory requirement that goes beyond the requirements imposed on the other financial service providers.

Listed below are a number of changes that would provide a more viable method for measuring credit union capital requirements and enable the industry to remain a competitive alternative to for-profit financials.

Investments

Investments are weighted solely by Weighted Average Life and ignore the unique characteristics of the investment portfolio. Mortgage-back securities with an implicit U.S. Government guarantee should be assigned the same risk weighting as FHA and VA residential mortgages (20%). Cash held in Federal Reserve bank account balances should not carry a 20% risk weight but rather zero, the same as U.S. Government obligations.

An investment with a WAL greater than 5 years should not be weighted more heavily (150-200%) than a delinquent first mortgage loan.

An investment with a WAL greater than 5 years should not be weighted equal to or greater than (150-200%) delinquent, unsecured loans, including delinquent credit cards loans, unsecured lines of credits and other loans.

While Wings disagrees with the approach taken by the Agency, if the purpose of the proposed risk-based capital ratio measure is to focus more broadly on a variety of risks, it seems counter-intuitive to ignore all other characteristics of each investment and focus soley on WAL. This disregards credit quality, securitization and collateralization, structure, purpose, fixed/floating rate, etc.

Loans

Credit unions that employ best practices and maintain the infrastructure to adequately underwrite, document, perfect liens, monitor and manage their portfolios should be given the ability to serve their members without lending cap limitations that require higher risk weights over a percentage of Assets. This stratification ignores the attributes of a healthy and sustainable loan portfolio that is used to mitigate the risk of the entire balance sheet and ensure long-term profitability.

Risk weights for Home Equity Lines of Credit ("HELOCs") do not take into consideration the equity position held by the credit union. All HELOCs are subject to a 100% risk weight regardless of the lien held. Junior lien real estate loans of 80% or less should be risk weighted at the residential risk weight of 50%.

Allowance for Loan Losses

The Allowance for Loan Losses is reflective of the risk of loss in the loan portfolio. There is no need to cap this level at 1.25%.

Delinquent Loans

It is excessive to assess delinquent loans as a separate category when they are properly accounted for in the Allowance for Loan Losses.

CUSOs

A 250% risk weighting for all Credit Union Service Organizations is arbitrary and excessive. Existing regulations place a limit on CUSO loans and investments making further restrictions unnecessary. CUSOs can be used effectively by credit unions to reduce cost and generate income. Applying a one-size-fits all rating to CUSOs does not take into consideration the type of services provided, the profitability history of the CUSO or whether the investment represents a savings of operational expenses. Rating all CUSOs the same is not reasonable.

Goodwill

The current proposal removes Goodwill from both the numerator and denominator of the equation. Goodwill is required by GAAP to be recognized and valued annually. Eliminating this asset from Capital negates any value acquired in a business combination.

NCUSIF Deposit

The NCUSIF deposit is a cash balance held by the National Credit Union Share Insurance Fund and NCUA has control of these funds. Because these funds are available to offset losses in the event of a credit union's liquidation, Wings sees no reason for them to be eliminated from the amount of Capital available.

Unfunded Commitments

The proposed rule penalized credit unions for having unfunded commitments on non-business as well as business loans. Members use of these funds for emergencies, seasonal needs and as a comfort cushion will be diminished in the event a credit union terminates or reduces these lines of credit to improve their risk-based capital position. There will have been no change to the overall risks of credit union assets but a great disservice will be incurred by members and drive them elsewhere for services, further depleting our existing loan volume and earnings.

Capital level required

Another area of concern over the proposal centers around the delegation of power to individual examiners to determine higher risk based capital requirements (and not lower requirements), based on their "experience". This delegation of authority adds a great deal of subjectivity to a standard that is meant to be objective. This allows NCUA total control of management of all credit unions, at the examiner level, with the ability to increase the amount of capital required for any reason. This moves into the realm of micromanaging credit unions and gives NCUA unlimited powers to tell boards of directors how to manage their credit union.

Dividend payments

The ability to restrict dividend payments as proposed is another step in micromanaging credit unions and goes beyond what NCUA is chartered to do. This is a dangerous precedent to set and NCUA is overstepping what their intended purpose is meant to be.

Implementation Period

Allowing an implementation period of only 18 months will greatly impact credit unions and their members. Forcing credit unions to restructure their business plans and balance sheets in such a short period of time would benefit no one – other than perhaps those that compete with credit unions, who would undoubtedly take advantage of the chaos caused by a short trigger implementation of the rule. Wings believes that an implementation period of at least 36 months should be allowed for a rule that could fundamentally affect so many credit unions.

In summary, the capital requirements as proposed in the Risk Based Capital method will impact the industry's ability to grow and offer expanded services to potential members. In attempting to capture a broad range of potential risks in a single capital calculation this measure has several objectionable components.

Thank you for the opportunity to comment on this proposed rule. As set forth above, Wings believes that a more balanced and thoughtful approach to a rule of this magnitude is required, and Wings respectfully requests that the Agency withdraw the proposed rule from further consideration.

Respectfully,

Timothy A. Keegan
Senior Vice President/Chief Investment Officer

Attachment

Wings Financial Credit Union

Dec-13

Current NCUA Risk Based Net Worth Requirement Calculation

Asset	Balance	% of Assets	Risk Threshold	Risk Weighting	Stand. Comp.
Long-term Real Estate loans	426,411,668	10.91%			
RE Loan reprice<5 years			0-25%	6	0.65
			Over 25%	14	
Member Business Loans	26,307,349	0.67%			
			0-15%	6	0.04
			>15 to 25%	8	
			Over 25%	14	
Investments					
	415,861,403	10.64%	0-1 years	3	0.32
	473,116,855	12.10%	1-3 years	6	0.73
	812,782,736	20.79%	3-5 years	12	2.49
	735,887,057	18.82%	5-10 years	12	2.26
	127,687,728	3.27%	>10 years	20	0.65
Total Investments	2,565,335,779	65.61%			
Low-risk					
Cash on Hand	11,136,184	0.28%	100%	0	-
NCUA Share Ins. Deposit	31,363,748	0.80%	100%	0	-
Average risk Assets					
Total Assets minus above	849,445,446	21.72%	100%	6	1.30
Total Assets	3,910,000,174	100.00%			

Other Additions/Deductions

Unused MBL commitments	318,762	0.01%	100%	6	0.00
Allowance for LL	16,627,000	0.43%	100%	100	(0.43)
			Sum of RBNW requirement		8.01

Capital	Balance
Undivided Earnings	304,296,626
Regular Reserve	95,144,304
Retained merger earnings	19,172,314
Regulatory Net Worth	418,613,244
Reg. NW%	10.70
Required	8.01
Excess	2.69

NCUA Proposed Risk-Based Capital Rule

Asset Category	Balance	Weight	Risk Adjusted Balance
Real Estate - 1st	517,877,610	50%	258,938,805
Member Business Loans	26,307,349	100%	26,307,349
Investments			
		0.0%	-
0-1 years	415,861,403	20.0%	83,172,281
1-3 years	473,116,845	50.0%	236,558,423
3-5 years	812,782,736	75.0%	609,587,052
Corp. Capital	10	100.0%	10
5-10 years	735,887,057	150.0%	1,103,830,586
>10 years	127,687,728	200.0%	255,375,456
Total Investments	2,565,335,779		2,288,523,807
Low risk			
Cash	11,136,184	0.0%	-
NCUSIF	31,363,748	-100.0%	(31,363,748)
Other			
RE-2nd	165,424,481	100%	165,424,481
Delinquent 1st Mort	4,450,775	100%	4,450,775
Delinquent 2nd Mort	2,120,984	100%	2,120,984
Consumer Loans	502,073,501	75%	376,555,126
Non Fed Student	1,386,193	100%	1,386,193
Delinquent Consumer	2,919,202	150%	4,378,803
Other Assets	53,078,599	100%	53,078,599
SBA's	10,782,223	70%	7,547,556
Goodwill	29,012,157	-100%	(29,012,157)
Investments in CUSO	3,358,389	250%	8,395,973
ALL	(16,627,000)		
Total Assets	3,910,000,174		3,136,732,545

Other Additions/Deductions

Unfund. Business Lns	239,072	100.0%	239,072
Unfund. Non Business	64,836,214	75.0%	48,627,160
Total Risk Adjusted Assets			3,185,598,777

Capital	Balance
Undivided Earnings	304,296,626.00
Regular Reserve	95,144,304.00
Allowance for Loan Losse	16,627,000.00
Goodwill	(29,012,157.00)
NCUSIF	(31,363,748.00)
Total Capital	355,692,025.00
Adjusted Capital Ratio:	11.17%

Basel III

Asset Category	Balance	Weight	Risk Adjusted Balance	Risk adj. Diff
Real Estate - 1st	517,877,610	50%	258,938,805	-
Member Business Loans	26,307,349	100%	26,307,349	-
Investments				
UST/GNMA/SBA/Fed.Reserve	403,510,525	0%	-	
Fed Agency, FI's, GO Munis	1,790,554,546	20%	358,110,909	(274,938,629)
Rev Munis, PI(A and above)	195,171,583	50%	97,585,792	138,972,631
		75%		609,587,052
Corp. Bonds, PI(below A to BBB)	163,104,044	100%	163,104,044	(163,104,034)
		150%		1,103,830,586
PI(below BBB)	12,995,081	200%	25,990,162	229,385,294
Total Investments	2,565,335,779		644,790,907	1,643,732,900
Low risk				
Cash	11,136,184	0%	-	-
NCUSIF	31,363,748	-100%	(31,363,748)	-
Other				
RE-2nd	165,424,481	100%	165,424,481	-
Delinquent 1st Mort	4,450,775	100%	4,450,775	-
Delinquent 2nd Mort	2,120,984	100%	2,120,984	-
Consumer Loans	502,073,501	100%	502,073,501	(125,518,375)
Non Fed Student	1,386,193	100%	1,386,193	-
Delinquent Consumer	2,919,202	100%	2,919,202	1,459,601
Other Assets	53,078,599	100%	53,078,599	-
SBA's	10,782,223	100%	10,782,223	(3,234,667)
Goodwill	29,012,157	-100%	(29,012,157)	-
Investments in CUSO	3,358,389	100%	3,358,389	5,037,584
ALL	(16,627,000)			
Total Assets	3,910,000,174		1,615,255,503	1,521,477,042

		Risk adj. Diff
Total Risk Adjusted Assets	1,615,255,503	1,570,343,274

Capital	Balance
Undivided Earnings	304,296,626
Regular Reserve	95,144,304
Allowance for Loan Losses	16,627,000
Goodwill	(29,012,157)
NCUSIF	(31,363,748)
Total Capital	355,692,025
Adjusted Capital Ratio:	22.02%

-10.86%