SRP
FEDERAL CREDIT UNION

May 27, 2014

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

Re: Comment Letter for the Risk-Based Capital Proposed Regulation

Dear Mr. Poliquin:

On behalf of the Board of Directors of SRP Federal Credit Union, we would like to provide our official comment letter regarding the NCUA's recently proposed risk-based capital rule.

The NCUA has indicated a desire for consistency with the BASEL III requirements for banking institutions, however the proposed risk based capital requirements are much more restrictive than the BASEL III standards. While there are similarities in minimum levels of capital between BASEL III and the NCUA's proposed rule, the comparison of these measurement systems differ immensely in the risk weights that are assigned to the various asset categories. The application of the risk weights under the proposed rule is creating a very large umbrella of risk control over many categories of assets that don't share the same inherent risks. We feel this broad range of control will serve to restrict and diminish the role of all credit unions as a viable financial option to the citizens of our great nation. Let's not create additional restrictions that would hinder credit unions ability to offer and compete for financial services in a highly competitive marketplace. Current rules and restrictions are sufficient to insure the safe practice of all credit unions. Credit unions must be allowed to remain competitive in order to be relevant in the evolving financial marketplace.

We are summarizing our comments as follows by category as noted in the proposed rule. Please see attachment 1 which contains a comparative analysis of the risk based capital rule for credit unions and the BASEL III rule for banks.

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INVESTMENTS

The risk weights assigned to U.S. Government sponsored entities is unfair. The credit risk associated with these investments is no different than the credit risk associated with U.S. Government obligations. Currently both FNMA and FHLMC are conserved by the U.S. government and both agencies have implicit guaranties from the U.S. government. How can any investor look at these 2 agencies as having anything but an explicit guaranty from the U.S. government? Without these agencies there would be no market for lending made available for housing, farming, and other essential instruments for the U.S. economy. Instruments issued by these 2 GSE's are held worldwide by foreign governments and international investors.

Our recommended change:

- Risk factors for GSE type investments should be no higher than 20%, including those investments with longer terms >5 years.
- BASEL III requirements are no higher than 20% for GSE's, regardless of the duration.

CUSO

The risk weight of 250% assigned to investments in a credit union service organization is unfair and immediately labels all cuso organizations as an extremely risky endeavor. A broad and arbitrary risk weight to cover all cuso investments, regardless of service, will be a hindrance to future investments in service organizations. CUSOs provide a valuable service to a credit union's membership, and many CUSO types are a key differentiator in the market that the credit union serves. To apply a severe risk weight of 2.5 times the investment in a CUSO will certainly impede the development of future credit union service organizations. Monitoring and timely reporting of the CUSOs performance along with the required independent audit is sufficient for managing the risks associated with CUSO investments.

Our recommended change:

- Establish a risk weight factor of not more than 100% for investments in CUSOs.

NON-DELINQUENT FIRST MORTGAGE REAL ESTATE LOANS

The proposed risk weights for non-delinquent first mortgage real estate loans are too high and are contradictory to the low-risk and secure nature of first mortgage real estate loans. Establishing risk weights that are segmented by duration/term of the real estate loan would be more prudent when analyzing a real estate loan portfolio. Within most credit union loan portfolios, loans secured by real estate are the most secure and typically carry the least credit risk.
A more segmented approach to risk based on duration of real estate loans would more accurately address the interest rate risk associated with real estate loans.

<u>Our recommended change</u>:

- Apply risk weights to non-delinquent first mortgage real estate loans at the same level as the BASEL III requirements of 50%.
- Allow for the exclusion of all real estate loans that will contractually refinance, reprice, or mature within 5 years.

MORTGAGE SERVICING ASSETS

The proposed risk weights for mortgage servicing should consider whether the loan is without recourse or with recourse. Assigning a risk weight of 250% to all loans, regardless of whether the loan is sold without recourse, is not addressing risk equitably and would predispose any credit union to reconsider a mortgage servicing option.

<u>Our recommended change:</u>

Assign a lower risk to those loans that are sold without recourse.
Establish a risk weight of 150% for mortgage servicing assets.

MEMBER BUSINESS LOANS

In the increasingly competitive area of lending, offering member business loans is an area that will allow credit unions to remain competitive and serve the small business person, which is the backbone of the U.S. economy. Many small businesses are unable to obtain affordable financing from traditional commercial lenders. Credit unions with the appropriate experience can provide an alternative lending source for many small businesses. However, placing such high risk weights on member business loans may prevent many credit unions from pursuing this potential new market for lending.

<u>Our recommended change:</u>

Assign a lower risk to member business loans commensurate with the 100% risk weight established in Basel III for Banks.

CORPORATE PAID IN CAPITAL

The Corporate Credit Union structure today contains less risk than the Corporate structure that failed in 2009. With new regulations and monitoring in place for the Corporate Credit Unions, the paid in capital investments at Corporate Credit Unions are exposed to less risk even though it is uninsured. Natural person credit unions benefit with participation in the Corporate Credit Union network. Placing such high risk weights on paid in capital investments is indicative of pre-corporate bailout years and does not reflect properly the risk associated in today's Corporate environment.

Our recommended change:

Assign a lower risk weight of 100% on Corporate Paid in Capital to more accurately reflect the improved structure and strengthened regulations governing the Corporate Credit Unions.

INDIVIDUAL MINIMUM CAPITAL REQUIREMENT

This requirement is unnecessary and undermines the entire system of establishing measurable standards by allowing a subjectivity variable to override the system of measurements. If the Agency desires to add subjectivity to the rule, then the subjectivity should also be applicable in lowering the risk based capital requirement and not just raising the risk based capital requirement.

Our recommended change:

This requirement should be removed from the proposed rule. It serves no useful purpose to the proposed rule.

IMPLEMENTATION PERIOD

The proposed 18 month implementation period is too short for credit unions that need to make adjustments to their balance sheet structure to comply with the risk based capital levels. Such a short implementation period of 18 months may cause negative impacts that are unnecessary.

Our recommended change:

The Agency should follow the banking industry regulators and the BASEL III implementation period and allow for an implementation period of up to 3 years. This will allow for sufficient time to adjust balance sheet structures in a safe and sound manner once the RBC rule is finalized.

SUPPLEMENTAL CAPITAL

The proposed rule does not address a credit union's ability or authority to raise supplemental capital. We can only raise capital through our earnings. A well-managed and operated credit union can be subject to seasonal inflows of deposits which can impact a credit union's capital and potentially activate sanctions under the prompt corrective action rules. Seasonal deposit growth can be managed properly and result in no impact on a credit union's earnings, however it can have an enormous impact to a credit union's capital ratio, and potentially cause the capital levels to drop in such a manner that would trigger the Agency's prompt corrective action. If the restrictions in the current risk based capital proposed rule are approved, then a credit union's ability to raise supplemental capital will be more important than ever.

Our recommendation:

Supplemental capital should be an option for all credit unions.

GOODWILL

Consolidation in the credit union industry is a trend that will likely continue to grow whether from mergers of convenience and service or mergers of necessity and survival. Goodwill can be an incentive for credit unions to merge or takeover troubled credit unions. Removing goodwill may be a disincentive for an otherwise strong credit union to consider merging a troubled credit union because of the possible significant negative effect to its risk based capital.

Our recommendation:

We recommend that Goodwill be added back to the numerator for the risk based capital ratio.

We appreciate the opportunity to comment on this very important issue that will impact the entire credit union industry. We implore you to review the restraints that this rule will place on all credit unions as we face increasing competition from traditional and non-traditional financial service providers throughout the industry.

With kind regards,

Ed Templeton
President

SRP FCU
Attachment 1
May 27, 2014

PROPOSED RISK-BASED CAPITAL SYSTEM	Sub Categories	WEIGHTS	BASEL III FOR SMALL BANKS	WEIGHTS
MORTGAGE LOANS	% of Assets		**MORTGAGE LOANS**	
FIRST LIEN	0 - 25%	50%	1 - 4 FAMILY	50%
	25% - 35%	75%		
	GT 35%	100%	Regardless of concentration or maturity	
SECOND LIEN	0 - 10%	100%		
	10% - 20%	125%		
	GT 20%	150%		
MEMBER BUSINESS LOANS	% of Assets		**COMMERCIAL LOANS**	100%
	0 - 15%	100%		
	15% - 25%	150%	Regardless of concentration	
	GT 25%	200%		
CASH AND INVESTMENTS			**CASH AND INVESTMENTS (2)**	
Cash		0	Cash	0
Direct US Govt obligations		0	Direct US Govt obligations	0
WAL up to 1 Yr		20%	WAL up to 1 Yr	20%
WAL 1 to 3 years		50%	WAL 1 to 3 years	20%
WAL 3 to 5 years		75%	WAL 3 to 5 years	20%
WAL 5 to 10 years		150%	WAL 5 to 10 years	20%
WAL over 10 years		200%	WAL over 10 years	20%
CONSUMER LOANS*		75%	**CONSUMER LOANS**	100%
NCUSIF CAPITALIZATION DEPOSIT		0%	**NCUSIF CAPITALIZATION DEPOSIT**	na
FED GUARANTEED STUDENT LOANS		0%	**FED GUARANTEED STUDENT LOANS**	0%
AGENCY BACKED LOANS AND INVESTS		20%	**AGENCY BACKED LOANS AND INVEST**	20%
NONPERTUAL CORP CAPITAL		100%	**NONPERTUAL CORP CAPITAL**	100%
LOANS TO CUSOs		100%	**LOANS TO CUSOs**	100%
DELINQUENT FIRST MORTGAGES		100%	**DELINQUENT FIRST MORTGAGES**	100%
NON FED INSURED STUDENT LOANS		100%	**NON FED INSURED STUDENT LOANS**	100%
DELINQUENT CONSUMER LOANS		150%	**DELINQUENT CONSUMER LOANS**	100%
CORPORATE PERPETUAL CAPITAL		200%	**CORPORATE PERPETUAL CAPITAL**	100%
INVESTMENTS IN CUSOs		250%	**INVESTMENTS IN CUSOs**	100%
MORTGAGE SERVICING ASSETS		250%	**MORTGAGE SERVICING ASSETS**	
			Up to 15% of capital	100%
			Over 15% of capital	250%