ISU Credit Union
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May 23, 2014

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

RE: PCA – Risk-Based Capital

Dear Mr. Poliquin:

Illinois State University Credit Union (ISUCU) would like to thank you and the board for giving us the opportunity to comment on the proposed PCA-Risk Based Capital rule. We feel that there are some changes that can improve the proposed rule.

NCUSIF Deposit

(1) Deducting the NCUSIF Capitalization Deposit from the risk-based capital calculation is not consistent with showing that the NCUSIF Capitalization Deposit has value. Subtracting the NCUSIF Capitalization Deposit from both the capital and risk weighted asset totals is equivalent to writing off the deposit. We are concerned that it becomes more difficult to prove the asset has future economic value when it has no value in the regulatory capital ratio calculation.

Risk Weighting

(2) The risk-weight for cash on deposit at the Federal Reserve Bank should be 0%. Since the Federal Reserve is one of the NCUA designated sources for emergency liquidity, its safety and soundness should be similar to that of the government agencies.
(3) For securitites, the 0% risk-weight for Treasuries and GNMA MBS, regardless of the weighted-average life, ignores any interest rate risk and is lower than the 20% risk-weight for cash on deposit at the Federal Reserve Bank.
(4) The 1,250% risk-weight category for an asset-backed investment for which the credit union is unable to demonstrate a comprehensive understanding of the features implies a loss greater than 100% of the principal.
(5) Share secured loans have a risk-weight of 75%, but since we have access to the collateral, these loans should have a risk-weight of 0%.
(6) We believe that increased risk-based capital requirements for higher concentrations of residential mortgage loans are too high, and exceed the capital requirements specified in for small banks in Basel III. For example, residential mortgage loans that exceed 35% off assets have a risk-weight of 100% in the NCUA proposal versus 50% in Basel III. A number of factors (type of loan, LTV, debt-to income, etc.) influence the risk of a loan, and this approach to risk-weighting mortgages seems short sighted.

Expanded Information to Enhance Risk Weightings

(7) Changes to the information required in the call report could be needed in order to properly assign risk-weights. For example, it might be necessary to report loan-to-value information in order to assign risk-weights to mortgage loans. In the current proposal, 50% and 150% LTV mortgages have the same risk-weight.

Allowance for Loan Loss Limitation

(8) We disagree with the proposed rule limiting the allowance for loan losses in the numerator calculation to no more than 1.25% of risk assets. The ceiling seems arbitrary at best, and given likely accounting rule changes in estimating the allowance, credit unions will be unfairly penalized.

Examiner Subjectivity

(9) The ability for examiners to require higher capital amounts for individual credit unions is not justified. The capital rule should be uniform for all credit unions.

Longer Average Life Liabilities Benefit

(10) Although the longer weighted average life of assets gets a higher risk-weight, having longer average life liabilities does not get any reduction in the risk based capital calculation.

Thank you for the opportunity to comment on this proposed regulation. Please feel free to contact me with any questions or comments regarding this response.

Sincerely,

Mike Ellsworth
VP of Branch Operations
ISU Credit Union