members choice
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May 27, 2014

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

Sent via E-mail to: regcomments@ncua.gov

Re: Members Choice Credit Union - Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

This letter represents the views of Members Choice Credit Union (MCCU) regarding the NCUA's proposal on PCA – Risk-Based Capital. MCCU is based in Houston, Texas and serves over 40,000 members. We appreciate the opportunity to comment on this very important issue.

MCCU endorses the view that every credit union should pursue a strategy that maintains an adequate level of capital given its total risk profile so as not to pose a threat to the National Credit Union Share Insurance Fund (NCUSIF). However, in our case, the proposed risk weightings will discourage us from pursuing such a strategy.

During the past several years, MCCU has implemented a strategy to service the rapid growth in our local community while maintaining sufficient capital. Today, we:

- are classified as "well capitalized",
- are considered low-risk by NCUA standards for interest rate risk. In addition, we have positioned our balance sheet to be slightly asset-sensitive so we will benefit financially when interest rates increase,
- have built a loan portfolio of $265 million with a low delinquency rate to minimize our credit risk. Further, we have invested excess liquidity in mainly government-guaranteed securities to further keep our credit risk low and maintain adequate liquidity.

The proposed rule will change the strategy that has worked well for us. If the new risk-based capital methodology was implemented today, our classification will change from "well capitalized" to barely "adequately capitalized". That classification would seem to contradict the results of our latest ALM analysis described above.

What makes the proposed rule even more frustrating is that we could regain our "well capitalized" classification by simply selling the government-guaranteed, liquid mortgage – backed securities in our investment portfolio and purchasing individual mortgages. In other words, our classification would improve under the proposed rule although our aggregate risk profile would increase by virtue of higher credit and liquidity risk. Ironically, our classification could be improved and, at the same time, have the credit union become a greater threat to the NCUSIF by taking on higher credit and liquidity risk.

Clearly, the proposed weightings regarding investments are too high when considering the risks associated with these investments as compared to other loan types. These weightings will encourage credit unions, such as us, to possibly make irrational capital allocation decisions and increase our risks to obtain a "well capitalized" classification.

We understand the difficulty in providing a fair and consistent methodology for all credit unions, but strongly recommend the NCUA reconsider its weightings for investments. Maintaining the current weightings will create unintended consequences as credit unions invest excess liquidity.

Sincerely,

Randy Theilig

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