Federal Credit Union
CHARTERED 1936

May 24, 2014

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

RE: Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital.

Dear Mr. Poliquin:

The **HUD Federal Credit Union** serves the **employees of the Federal Department of Housing and Urban Development and several other groups and their families.** We currently have 5700 Members and $51 Million in assets. We appreciate the opportunity to submit comments on NCUA's proposed rule Prompt Corrective Action – Risk-Based Capital (RBC).

HUD Federal Credit Union feels strongly that this proposed rule is without merit. Furthermore, if the proposed rule is adopted, it will place an undue burden upon credit unions to comply. In fact, most affected credit unions would need to increase the amount of capital held in order to be "well capitalized," and would likely face burdensome risk weightings that would serve as a disincentive to continue or enter into member business and mortgage lending programs, and long-term investments, inevitably pushing members to our competitors.

Proposed risk-weights
A number of the risk weights, especially for member business loan and mortgage concentrations as well as for CUSO investments, do not appear to be properly calibrated for credit unions. They are even higher than what is being imposed on banks by the BASEL III changes. Using higher risk weights on long-term assets to deal with interest-rate risk is misleading without considering liability maturities and other mitigating factors.

Examiner discretion to change risk ratings
NCUA would assume additional authority to impose higher capital requirements on individual credit unions. Unlike under the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions would no longer have clear rules to avoid prompt corrective action if the agency establishes its authority to use "judgment" on a credit union to make changes to risk ratings. This opens the door to inconsistent and arbitrary application. It

P.O. Box 23273, Washington, DC 20026-3273
202.863.2800 • 800.345.8032 • fax: 202.863.2124
www.hudfcu.org

would also diminish the boards and management to make financial judgments and oversee policy. Our recommendation is to remove section 702.105(c) from the rule entirely.

Implementation Date
We also recommend that the proposed implementation date of eighteen months after becoming final be extended. This proposed time-frame does not give credit unions sufficient lead time to plan for and implement the new risk based capital ratio requirements. This is important as many credit unions may alter their balance sheet composition in response to the rule.

Conclusion
HUD Federal Credit Union is requesting NCUA to carefully weigh our comments and consider withdrawing this flawed proposal in favor of opening a new dialogue with the credit union community. At the very least, we urge NCUA to pursue the appropriate amendments to this rule that will ensure a viable, well-balanced risk-based capital system is implemented.

Thank you for the opportunity to comment on the proposed rule. If you should have any questions, please contact me at **202-863-2137 or <u>lhancock@hudfcu.org</u>.**

Sincerely,

Lee Hancock, President

Cc: Eleanor Holmes Norton