Beehive
FEDERAL CREDIT UNION

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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

Dear Mr. Poliquin:

I am the Chief Financial Officer for Beehive Federal Credit Union. We serve approximately 23,000 members in the state of Idaho and contiguous states, with assets of $188 million. I wish to comment on the proposed revision to the prompt corrective action – risk based capital requirement for credit unions.

First of all, let me say that I am very much in favor of risk based capital reform. I think this approach is the best way to address the diversity in credit union balance sheets and accurately assess the risk associated with the business decisions represented on those balance sheets. However, the current proposal seems to essentially add another layer of capital requirement overtop of the existing method rather than provide a true comprehensive risk based capital reform package. The result is an unnecessary and unjustifiable $7 billion addition to the existing capital levels of credit unions on an already burdensome system that requires credit unions to have 2% higher capital than banks to be adequately capitalized. Most natural person credit unions have come through the worst financial crisis in the last 80 years just fine, which is more that can be said for banks. I would suggest that the NCUA rethink this overlay approach in favor of a more appropriate and sustainable solution. To support this conclusion, I offer the following specific examples:

1. In various communications, the NCUA board has indicated that one of the primary purposes of this risk based net worth proposal is to bring credit union requirements more in line with Basel III so there is more consistency between bank and credit union capital requirements. The problem with that is banks typically have very different balance sheets from credit unions, at least credit unions of our size. This is particularly true in the investment section of the balance sheet. Even if this were not the case, this proposal strays from Basel III in some very important ways. For example, risk weighting of assets is not consistent in mortgage loans, business loans, and many types of consumer loans.

2. Within the proposal itself, there are inconsistencies that have no justification. For example, first mortgage loans are considered much more risky than MBS pass through investments so a credit union that reduces credit risk (which is something NCUA has encouraged many credit unions to do) by selling mortgage loans and purchasing mortgage backed securities with exactly the same interest rate risk profile, is penalized under this proposal. That makes no sense at all.

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3. The implementation time for parts of Basel III is 7 years, yet this proposal would require a much faster implementation schedule with no sound justification given as to why.

4. Speaking of risk, this proposal ignores much of the interest rate risk in the loan portfolio and ignores the risk mitigation efforts of managing the liability side of the balance sheet. In our loan portfolio, we have a significant amount of very short term mortgage loans (7-10 years) that we do not intend to sell. These loans are performing very well and give us a much better return than some of our other consumer loans. Although they carry with them much less interest rate risk than 15, 20, and 30 year mortgages they are risk weighted the same under this proposal. The weighting is significantly higher than Basel III if these loans are more than 10% of assets. In other ways, this proposal encourages taking on higher levels of credit risk at the expense of less risky assets, which would be a direct hit to capital if unanticipated losses occur. For example, delinquent real estate loans are considered less risky than similar real estate loan securities. Incredibly, delinquent consumer loans have the same risk weighting as a 5 year fully insured CD investment - it is difficult to come up with a justification for that.

Finally, it is true that 90 % of credit unions currently in the well capitalized category would remain so if this rule went into effect as written. However, the more important reality is that this proposal would significantly decrease the buffer these credit unions would have above that line. If already well capitalized credit unions are forced to build even more capital in order to maintain that buffer, it will have the effect of curtailing growth and expansion of services during a time when there is tremendous opportunity to grow and become financially stable. It would also affect the pricing of loans and services, which would disadvantage our members. If we cannot grow, and we cannot provide the services our members want and need, we are essentially sending them down the road our competition. That is certainly not good for consumers and there is a serious risk that we will become less relevant in the market place. This proposed rule is seriously flawed. It is not good for credit unions, and therefore is not good for the share insurance fund. I urge you to significantly amend this rule and reissue it for comment or withdraw it and start over.

Sincerely,

Tim Kershaw, V.P. and CFO
Beehive Federal Credit Union