ELEVATIONS
CREDIT UNION

May 27, 2014

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

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

Dear Mr. Poliquin:

We greatly appreciate the opportunity to comment on NCUA's proposed rule for "Prompt Corrective Action – Risk-based Capital". Elevations Credit Union ("Elevations") is located in Boulder, Colorado, and has over 100,000 members and $1.4 billion in assets. We strongly support a modernization of the industry's capital requirements, and believe the implementation of a well-designed risk-based capital system would be a significant and necessary evolution.

That said, we believe the NCUA's proposed approach to risk-based capital is flawed to such an extent that it essentially needs to be rewritten rather than refined. **We strongly advocate that the NCUA adopt an approach that relies upon Basel III's risk-based capital requirements for community banks as its template.** Deviations from this template should be limited to those instances where a compelling economic difference exists between the two industries. Taking this approach would have the following critical advantages:

- It would enable the credit union industry to benefit from the 26 years of refinements that have occurred since risk-based capital was introduced into banking.
- It would help ensure that regulatory capital requirements are comparable for banks and credit unions (consistent with Congressional mandate).

There is no economic justification for credit unions to operate under a risk-based capital approach that is materially different than the ones that community banks operate under. The proposal places credit unions under significantly more punitive risk-based capital requirements, despite the fact that credit union losses and failures have historically been much lower than those experienced in banking. This will create serious and unintended consequences. In fact, it threatens the future viability of the credit union industry given the competitive disadvantage that would result. **The proposal is onerous to such an extent that it provides credit unions with significant financial incentive to convert to a bank. We believe this to be wholly inappropriate.**

Elevations Credit Union, along with the rest of the credit union industry, will be adversely impacted as our capital cushion (the extent to which our capital position exceeds regulatory capital requirements) would shrink. This limits our ability (along with the industry's ability) to grow, to lend to our members and to create value for our existing and potential membership.

The following summarizes additional, specific concerns we have concerning the proposal:

1. **We disagree with the proposal's attempts to encompass interest rate risk, liquidity risk and concentration risk.** We believe the primary focus of risk-based capital should be upon credit risk. **Note that this is consistent with the views and approach taken by banking regulators, over the past 26 years.** There is no economic basis for the NCUA to take such a divergent approach. **Risk-based capital can be an effective tool, but it should not be viewed as a cure-all to address all of the risks that a financial institution bears.** Regulatory requirements are already in place and are sufficient to address interest rate risk, liquidity risk and concentration risk. Therefore, the following are examples of items which we believe should be removed from the proposal:
    a. Removal of tiered risk weightings for assets such as mortgages and member business loans, intended to address concentrations: The NCUA should assign a stable risk weighting to these assets (and others), consistent with the approach utilized by banking regulators.
    b. Removal of tiered risk weightings for investments based upon weighted average lives: Note that this approach completely ignores the manner in which the credit union's assets are funded. **The presence of securities with longer average lives may actually lower a credit union's interest rate risk and add considerable value to its viability, depending upon its unique funding profile.** The proposal doesn't properly capture this critical distinction. Nor can it. **Risk-based capital is simply far too crude of a tool to address interest rate risk.** Note that the proposal would result in a 30 year fixed rate Agency mortgage backed security having a capital requirement that is three times as great as a 30 year fixed rate mortgage loan (150% risk weight for the security compared to 50% risk weight for the loan). This despite the fact that the security has much less risk than the loan (virtually no credit risk, and much less liquidity risk). **The mortgage back security has far less risk than the loan, yet its capital requirement is three times higher.**
2. **We disagree with proposed risk weightings which differ from those used by banking regulators, without adequate justification**. The proposal currently assigns a 20% risk weighting to deposits held at the Federal Reserve Bank, compared to the 0% risk weighting assigned by banking regulators. A deposit in the Federal Reserve Bank has negligible risk, and the risk is the same whether the deposit is owned by a community bank or a credit union. **Setting this blatant example aside, there is no economic justification for a credit union to be burdened with a higher risk weighing on any of its assets than its community bank competitors.**
3. **We disagree with the proposal's deduction of the NCUSIF Deposit from risk-based capital.** This inappropriately lowers a credit union's risk-based capital ratio, without adequate justification. Please note the following:

ELEVATIONS
CREDIT UNION

a. A credit union's deposit in the NCUSIF is undeniably an asset under generally accepted accounting principles. And it's an asset that has significant value to a financial institution, in that it reflects the presence of federal deposit insurance. And it would be an asset available to fund the liquidation of a credit union.
b. This asset would be refunded to a credit union if they withdrew from the fund and obtained private share insurance or converted to a bank. Note that this aspect provides another example of a perverse and unintended incentive for a credit union to convert to a bank. **Rather than face the loss of this source of regulatory capital, a credit union could simply convert to a bank and retain its value. They could then utilize this capital to support additional lending within the communities they serve.**

4. **We disagree with the proposal's utilization of 10.5% as the threshold for being deemed well capitalized. The threshold should be lowered to 8.5%, in order to be comparable to community banking's Tier 1 Capital Ratio (Tier 1 Capital divided by Risk Weighted Assets requirement, <u>inclusive</u> of banking's capital conservation buffer).** The NCUA should look to the Tier 1 Capital Ratio (rather than Total Risk-based Capital Ratio) in evaluating comparability between the two industries on an "apples to apples" basis, given credit unions do not have the capability of issuing supplemental capital (which is included in the numerator of banking's Total Risk-based Capital Ratio).
5. **We disagree with the proposal's provision to provide for an individual capital requirement.** This provision adds no value, given NCUA already has sufficient authority under existing process to require additional capital where necessary.
6. **We disagree with the proposal's implementation timeframe of only 18 months.** Credit unions will need more time, in order to adjust their strategic plans and balance sheets. In comparison, commercial banks have been provided with much more time to implement the major evolutions that have occurred over the past 26 years (from Basel I to Basel II to Basel III).

In closing, we support the implementation of a risk-based capital approach for credit unions. But the proposed approach is flawed beyond repair. **We strongly advocate that the NCUA propose a risk- based capital approach that relies upon Basel III requirements for community banks as its template.**

Sincerely,

Michael Calcote

Michael Calcote
Chief Financial Officer

Cc: Commissioner Chris Myklebust, Division of Financial Services, Colorado
Mark Robey, SVP Regulatory Affairs, Mountain West Credit Union Association
Gerry Agnes, Chief Executive Officer, Elevations Credit Union