MOUNTAIN AMERICA
CREDIT UNION

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May 23, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

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

NCUA Board:

On behalf of Mountain America Federal Credit Union, I am providing the following comment letter regarding the National Credit Union Administration (NCUA) proposed risk-based capital rule approved by the NCUA Board in January 2014. Mountain America is located in West Jordan, Utah, and we serve multiple employer groups and associations in Utah and four contiguous states with a membership of 465,000 and assets of $3.9 billion.

We very much appreciate the opportunity to provide our thoughts on this far-reaching regulatory proposal. We desire to express some of our concerns about the potential negative impact of the proposed rule on credit unions—if finalized in its current form. It is our hope that you will consider our suggestions for improving the rule as you move forward in the rulemaking process.

The proposed rule is one of the most significant regulations we've seen from the NCUA. The long-term impact of this regulation will be felt by all credit unions. Whereas Mountain America would remain well-capitalized under the proposed rule, the rule still has aspects that need to be addressed.

If this proposed rule is allowed to pass, every significant strategic development made by credit unions will be made under the careful analysis required by this rule. The long-term impact on the credit union industry will be slower growth, increased costs and a fundamental change to how credit unions operate. Because the proposed rule can bring about major consequences for credit unions, it is essential that the NCUA gets this right.

We suggest the following changes to the proposed rule:

1. Reconsider the necessity of the rule
2. Eliminate language allowing NCUA to impose subjective capital requirements
3. Modify risk weights to be less punitive

Rule Necessity

The NCUA states that the proposed risk-based capital rule impacts only a handful of credit unions adversely. In truth, all credit unions will be affected—even the nearly 6,300 credit unions that have capital in excess of 10.5%. A sizeable portion of reserves will no longer be available for investment, expansion, innovation and enhanced member services.

Do the benefits of managing the risk of a few credit unions justify creating such an overreaching rule? Perhaps the risks on credit unions' balance sheets could be handled better on an individual basis by skilled examiners. An examiner's finding would be as useful as the proposed rule. From what we have seen, we don't believe that this rule is justified or necessary.

Subjective Capital Requirement Increases

The proposed rule allows the NCUA to impose higher capital requirements on credit unions on a case-by-case basis. In essence, the NCUA is providing a moving goal line. No requirements or justifications are required to make the higher capital determination. Such blanket authority is unacceptable and dangerous.

If the risk is effectively addressed by the proposed rule, no additional arbitrary authority should be included as part of it.

Risk Weights

We have significant concerns regarding the proposed risk weighting. The activities of successful credit unions throughout the industry will be hindered by the excessive risk weights assigned to profitable activities. Those risk weights are assigned without regard to how well a credit union manages the risks on its balance sheet. Many credit unions will be forced to choose between engaging in profitable, member-benefiting practices or meeting the punitive risk weight requirements imposed by this proposed rule.

For example, the risk weight assigned to investment in a Credit Union Service Organization is 250%. Yet, collaboration among credit unions is the only way many credit unions are going to be able to compete effectively in the financial sector. Credit unions are able to gain benefits of scale through collaboration provided by common ownership of CUSOs. If the risk weight on CUSOs is allowed to stand, credit unions will be reluctant to invest in them because of the high risk weight. The excessive risk weight on CUSO investments will, over time, endanger the very credit unions the proposed rule claims to protect.

Similar high risk weights are assigned to those engaged in business lending or mortgage lending. Both of these types of loans can be very beneficial to credit unions and their members. While all present some level of risk, a properly managed lending program is not any more risky than any other type of loan portfolio. The risks assigned by the NCUA don't take risk mitigation or risk management into account; the high risk weights simply penalize credit unions engaged in business or mortgage lending to any significant degree.

We have strong concerns over the risk weight on perpetual capital investments in corporate credit unions. The NCUA established new rules for corporate credit unions to minimize any investment risk. Now, investments in corporates are to be assigned a 200% risk weight.

Please reconsider the risk weights. The unintended consequence of assigning punitive risk weights to profitable activities—that can be effectively managed—could be damaging to the credit union movement. Credit unions will shy away from products with higher risk weights. The results of shying away from profitable and member-benefiting products will weaken the entire industry rather than strengthen it.

Thank you for the opportunity to comment on this proposed regulation. While we do not believe the current proposal is sufficiently balanced and should be withdrawn, we respectfully encourage the NCUA to consider some of the recommended improvements to the proposal contained herein.

If I can be a source of any further information on this comment letter, please do not hesitate to contact me.

Sincerely,

Sterling Nielsen
President/CEO