



MISSOURI CREDIT UNION ASSOCIATION

May 28, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428
regcomments@ncua.gov

RE: Don Cohenour – PCA Risk-Based Capital
RIN 3133–AD77
12 CFR Parts 700, 701, 702, 703, 713, 723, and 747

Dear Mr. Poliquin:

On behalf of Missouri's 1.3 million credit union members, the Missouri Credit Union Association (MCUA) would like to take this opportunity to express our views on the National Credit Union Administration's (NCUA's) Prompt-Corrective Action – Risk-based Capital proposed rule. NCUA's proposed rule seeks to establish new, more stringent risk-based capital (RBC) standards for credit unions that NCUA defines as complex. The new definition of "complex" includes those credit unions whose assets exceed \$50 million.

Credit unions with asset sizes smaller than the threshold will also certainly be affected, however. MCUA's comments should be read to include those credit unions with assets that exceed \$40 million instead of the proposed \$50 million in order to accommodate those credit unions that will soon grow to the \$50 million mark. Those credit unions will have to plan for the requirements of the proposed rule before reaching the threshold. At this time, the state of Missouri has 42 federally-insured credit unions with assets over \$40 million.

Definition of Complex

MCUA objects to NCUA's proposed definition of "complex." The Federal Credit Union Act (FCU Act) directs NCUA to develop a risk-based net worth system for complex credit union that is based on the "portfolio of assets and liabilities of credit unions."

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NCUA must look beyond the mere asset size of a credit union to determine whether it is defined as “complex.” It is MCUA’s opinion that the proposed rule’s definition is not consistent with the requirements of FCU Act and must therefore be revised.

Calculation of Risk-Based Capital Ratio

The proposed rule would restructure NCUA’s current PCA regulation to involve a calculation of a capital to risk assets ratio, analogous to Basel III requirements for community banks; however the risk weights would be substantially different. MCUA most strenuously objects to the use of risk weights different from those applied to community banks. Further, with regard to categories of assets which have shown historically lower loss experience at credit unions as opposed to banks, we suggest those lower loss experiences should be used to determine the risk weights.

In addition, the proposal would require a well-capitalized credit union to maintain a 7% net worth ratio and a 10.5% risk-based capital ratio. Under these new requirements, MCUA has identified seven Missouri credit unions that would fall from well capitalized in the current system to adequately capitalized in the proposed system. MCUA believes the proposed rule is punitive to otherwise well-managed institutions. It has not been demonstrated or explained how it was determined that additional capital to return a credit union to well capitalized status should be required by NCUA.

The 42 federally-insured credit unions with assets over \$40 million in Missouri would see their cushions over well capitalized shrink by a combined total of \$0.1 billion if the proposal were in effect. These credit unions now have a cushion over well capitalized equal to 294 basis points. Under the proposed rule the cushion over well capitalized would decline to 209 basis points. This represents a -84 basis point change in the cushion over well capitalized. As a point of reference, the change in the cushion over well capitalized is equal to 42 percent of the ROA earned by these credit unions in 2013.

A total of 33 credit unions, 79% of the state's total, would see their cushions over well capitalized shrink if the proposal were in effect. The median increase in capital needed to maintain the current cushion above well capitalized is 93 basis points for these credit unions. In all, 16 credit unions would experience a reduction in the cushion above well capitalized of at least 100 basis points. There can be no argument that the proposed rule is a regulatory requirement for increased capital. NCUA is well aware that credit unions face limitations on acquiring additional capital that are not faced by other types of financial institutions. Insisting on additional capital may result in slower growth or reduced products and services available to members.

Effective Date

MCUA does not believe that an effective date of 18 months after the publication of the rule in the Federal Register would give credit union enough time to implement this proposal. We implore NCUA to consider that the Basel III requirements were

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implemented over a multi-year period. Credit unions must be afforded at least the same treatment.

As always, we appreciate the opportunity to respond to NCUA's Prompt-Corrective Action – Risk-based Capital proposed rule. We will be happy to respond to any questions regarding these comments.

Sincerely,

A handwritten signature in black ink that reads "Don Cohenour". The signature is written in a cursive style with a large, stylized initial "D".

Don Cohenour
President

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