CENTRAL CREDIT UNION OF ILLINOIS

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www.centralcu.org

(708) 649-6400
(708) 649-6449 FAX

Bellwood
1001 Mannheim Road
Bellwood, IL 60104

Orland Park
9850 W. 159th Street
Orland Park, IL 60467

May 28, 2014

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

Subject: Comments on Proposed Rule: PCA–Risk-Based Capital RIN 3133–AD77

Dear Mr. Poliquin:

I am writing on behalf of the Central Credit Union of Illinois Board of Directors, management team, and members. We appreciate the opportunity to comment of the Proposed Rule: PCA–Risk-Based Capital.

Central Credit Union has assets of $85 million and 13,400 members. Most of our members live in the metropolitan Chicago area. Our credit union is considered well-capitalized under both the current and the proposed regulations.

We support the concept of a risk-based capital structure, but we believe the current proposal has a number of flaws that should be corrected before a risk-based capital structure is adopted. These are some of our concerns:

1. **Demonstrated Need--**We do not believe NCUA has adequately justified the need for the rule with its current risk-weights.

2. **Phase-in Period--**An 18-month phase-in period is too short of time to implement these types of major changes, especially when no immediate need has been demonstrated. Many of the assets held by our credit union and other credit unions are mid to long-term in nature. If the rule is adopted, credit unions should be given a longer, multi-year phase-in time to reshape their balance sheets before the new rule is fully implemented. Community banks were given six to eight years to phase-in Basel III.

3. **Risk-Weights–**We are most concerned about the risk-weights given to many assets under the proposed rule. They seem arbitrary and punitive when compared to the risk-weights applied to community bank assets under Basel III. The risk-weights for credit unions are often much higher than community banks even though FDIC incurred more than 8

times the deposit insurance losses per $1,000 of insured shares than the NCUSIF from 2007 through 2013. No logical explanation has been provided for these differences. If the risk-weights for credit unions are higher than community banks, it will be very difficult for credit unions to compete. In some cases credit unions will need to limit some types of services–e.g. home mortgages and small business loans to their members and the communities they serve.

The following risk-weights are some of the weights we believe need to be addressed:

a. **Federal Reserve Deposits--**The risk-weight for cash on deposit at the Federal Reserve Bank should be 0%.

b. **Share Secured Loans--**Share secured loans should have a lower risk-weight because credit unions have access to the pledged collateral. Historically, our credit union has had close to 0% losses on share secured loans.

c. **First Mortgages--**The risk-weights assigned to first mortgage loans exceeding 25% and 35% of assets are too high and not consistent with Basel III. In addition, the weights do not take into account the length of the term of the mortgages and their loan to value ratio of the collateral. Our credit union limits the maximum term of our fixed-rate first mortgages to ten years. And, many of our first mortgages are for five and seven year terms. In addition, many of our first mortgages have loan to value ratios less than 50%. The risk-weights in the proposed regulation would greatly overstate our risk for these assets.

d. **Investments--**The weights placed on investments should be reevaluated. They should not have higher risk-weights than Basel III. Credit unions are very limited in the types of investments they can hold. With the exception of funds held at the corporate credit union, Central Credit Union's investments are 100% guaranteed by the federal government.

   Longer term investments should be rated similar to Basel III. In some cases, under the proposed rule, credit unions would be required to allocate between 2.5 to 10 times the amount of capital required of a bank for the same level of risk.

   If the concern is interest rate risk, it should be addressed and managed by evaluating the impact of changes in interest rates on both sides of the balance sheet, not by looking only at the asset side. If longer life assets have higher risk rates, then there should be a reduction if there are also longer life liabilities. But, we believe the best solution would be to manage liquidity and interest rate risk with the other regulations already in place.

e. **Delinquent Loans--**The reserves percentages for delinquent loans are 150% for credit unions and 100% for banks. In addition, credit unions calculate delinquency at 60-days and banks use 90-days. We believe the higher risk-weights for credit unions should be lowered and brought into line with global standards.

f. **Allowance for Loan Loss--**The allowance for loan loss account should not be limited to 1.25% of outstanding loans. A 1.25% limit will have the unintended consequence of putting conservative credit unions in a position of choosing between conservative loan loss accounting and capital management. And, if there are changes in accounting rules, credit unions could be further penalized.

g. **CUSOs--**Cental Credit Union does not hold an equity position in any CUSOs. Nonetheless, we are concerned about the high risk-weights given to CUSOs under the proposed regulation. We currently use the services of some CUSOs. They enable our credit union to provide additional products and services at a reduced cost. We believe the risk-weightings for CUSOs should be reevaluated. Rather than give a 250% risk-weighting to all CUSO investments, we believe multiple factors should be taken into consideration.

h. **NCUSIF--**The NCUSIF deposit should not be excluded and classified as an "intangible asset". By excluding it from both the numerator and denominator, there will be a dramatic reduction in the resulting ratio. It will be the equivalent of having written it off. The NCUSIF is fully refundable in the event of a conversion or liquidation. It represents 1% of our assets and is a significant portion of our capital. The NCUSIF cooperative insurance fund has enabled credit unions to maintain the strongest federal insurance fund over many years. It should not be written out of the equation.

4. **Negative Effects/Unintended Consequences--**We believe the negative effects of this proposed rule are greater than what NCUA has stated. In addition, we believe NCUA has

not sufficiently studied possible unintended negative consequences.

a. **"Well-Capitalized Buffer"--**It may be true that most credit unions will remain well-capitalized. But, many credit unions will have a significant reduction in their "well-capitalized buffer". In Illinois there will be a $97 million reduction in the buffer.

b. **Reduction of Services--**Many credit union boards may be pushed to significantly alter their product offerings or pricing. They may also find it more difficult to compete successfully with banks that enjoy more favorable risk-weights for similar types of assets. The high risk-weights given to credit union assets may limit the availability of low cost credit union mortgages and small business loans. This would have negative effects on members, credit unions, and communities.

5. **Authority to Impose Higher Requirements--**The capital rule should be uniform for all credit unions. The ability for examiners to require higher capital amounts for individual credit unions is not justified. The risk-based model, if adopted, should stand on its own. NCUA already has the authority to address issues of safety and soundness via other means.

Concluding Remarks

We appreciate NCUA's efforts to initiate a risk-based capital rule. However, we believe NCUA has taken an unwarranted, extremely conservative approach. Over the long-term, we believe this approach will have too many negative, unintended consequences. It will weaken the ability of credit unions to compete and thrive in the market place. There are already many other regulations governing the safety and soundness of credit unions. A more moderate risk-based capital rule with revised risk-weights similar to Basel III would be a better approach.

Sincerely,

Joan Jensen

Joan Jensen
President/CEO