May 27, 2014

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

Re: RIN 3133-AD77, Comments on Proposed Rule-Prompt Correct Action-Risk-Based Capital (RBC)

Thank you for the opportunity to comment on the proposed risk-based capital rule. Credit Union ONE is a state-chartered credit union with almost $830 million in assets and over 111,000 members. We are headquartered in Ferndale, Michigan.

While we feel there is a need for improvement in the risk-based capital standards, we feel that the current proposal falls short in several areas. Those areas are interest rate risk and risk-weightings assigned to certain asset classes. As it currently stands, the RBC proposal would be better suited as an early-warning indicator for regulators than as a final rule. To develop a "one size fits all" rule that attempts to measure credit risk, interest rate risk and concentration risk is nearly impossible. The proposed rule should try to address one risk as completely as possible, such as Basel III, which assesses the credit risk component. Interest rate risk and concentration risk could be assessed during field examinations.

Interest Rate Risk (IRR)

The current proposal attempts to assess IRR, but does not take into account the liability section of the balance. This is impossible to do as this portion of the balance sheet can provide offsets to the risks on the asset side of the balance sheet. If a credit union has a strong member certificate program or uses long-term borrowings to offset the risk of holding fixed-rate first mortgages, they are not given credit under the current proposal.

Also under the current proposal, Treasuries are assigned a 0% risk-weighting. While this addresses any potential credit risk it totally disregards any interest rate risk, while other investments have up to a 200% risk-weighting. Is the 200% risk-weighting solely for credit risk or is a portion for interest rate risk as well? This is an example of why all types of risk can be monitored through one set of numbers.

Credit Union Service Organizations (CUSO)

CUSOs are an integral part of the credit union movement. Although there have been a few mismanaged CUSOs, there are many that are well run and operated. They allow credit unions to offer products and services that they may not be able to offer on their own. Many credit unions could not offer first mortgages or member business lending if it were not for CUSOs as these they do not have the financial capacity to add entire departments to offer these products. By placing a risk-weighting of 250% on investments in CUSOs the NCUA would be deterring credit unions from forming CUSOs. CUSOs also show the uniqueness of the credit union movement as credit unions will pool their funds to form an entity that will benefit not only the owners of the CUSO, but those purchasing services from the CUSO.

Individual Minimum Capital Requirement (IMCR)
In §702.108 it states that "The review of a risk mitigation credit requires a substantial commitment of NCUA and credit union resources. In practice, it is very difficult to determine the validity of the credit union's mitigation efforts and how much mitigation credit to allow". In §702.105(b) there are ten items in which the NCUA may find that higher capital levels are appropriate. In §702.105(c) it states that determining the appropriate minimum level of capital for an individual credit union cannot be done solely through the application of a rigid mathematical formula. That comment seems counterintuitive to the entire proposal in which is based on a rigid mathematical formula. If this proposal is approved there must be equal measures given to credit unions to reduce their capital levels as there are to increase minimum levels. Furthermore, allowing each examiner to independently and subjectively raise the required minimum capital requirement for a credit union will create an inconsistent approach to determining when the capital requirement should be increased and by how much, and will produce differing results dependent upon the lead examiner.

Risk-Weightings
There is some inconsistency when comparing like investments and loans. A 30-year fixed rate mortgage that is not delinquent and does not exceed 25% of assets is assigned a risk-weighting of 50%, while a mortgage-backed security made of similar loans would carry a risk-weight of 150%. The proposal does not differentiate on whether mortgages are made to secondary market standards. A mortgage not written to follow secondary market standards much more illiquid, yet a mortgage-backed security, which is highly liquid carries a risk-weighing three times higher. While the amount of first mortgages, up to 25% of assets carries a risk weighting of 50%, A+ rated auto loans carry a 75% risk-weighting. Also, any non-delinquent consumer loan carries a risk-weighting of 75% without regard to the credit quality of the loan. So a pool of A+ rates auto loans would have the same risk-weighting as a pool of D rated auto loans.

Credit unions are severely penalized, as they should be, if they do not have a comprehensive understanding of the asset-backed investments that they own. In this circumstance the risk-weighting would be 1,250%. There are other types of investments and loan products which could cause losses to NCUSIF if the credit union does not have a comprehensive understanding of the product. The maximum risk-weighting on any of these is 200%.

The point to be made is that it is difficult create a risk-weighting matrix that covers the many attributes of loan and investment portfolios.

Basel III, the risk-based system being implemented in the banking industry, has lower risk-weightings on most loan and investment categories. This could lead to a competitive disadvantage for credit unions as we would have to hold higher amounts of capital for the same products. This in turn could lead to lower rates on savings accounts or higher rates on loans or credit unions discontinuing offering products.

Department of Insurance and Financial Services (DIFS) Letter on CAMELS Rating Determinations
In a correspondence from DIFS, regulator of Credit Union ONE, dated April 10, 2014, it states,

"The ability of management to identify, measure, monitor and control the risks of its operations is also taken into account when assigning each component rating. It is recognized, however, that appropriate management practices vary considerably among financial institutions, depending on their size, complexity, and risk profile."

In the same correspondence under the section of Capital Adequacy it states,

"The capital adequacy of an institution is rated based upon, but not limited to, an assessment of the following factors:

- The level and quality of capital and the overall financial condition of the institution.
- The ability of management to address emerging needs for additional capital.
- The nature, trend, and volume of problem assets, and the adequacy of allowances for loan and lease losses and other valuation reserves.
- Balance sheet composition, including the nature and amount of intangible assets, market risk, concentration risk, and risks associated with nontraditional activities.
- Risk exposure represented by off-balance sheet activities.
- The quality and strength of earnings, and the reasonableness of dividends.
- Prospects and plans for growth, as well as past experience in managing growth.
- Access to capital markets and other sources of capital, including support provided by a parent holding company.

The correspondence clearly states the difficulties in implementing a "one size fits all" approach to proposing a risk-based standard.

Timeframe

The proposal states that the amendments would go into effect approximately 18 months after the publication of a final rule in the Federal Register. We feel that this is too short of a timeframe. Once the final rule is adopted credit unions may wish to restructure their balance sheets and the 18 month timeframe limits the changes that can be made. Banks have until 2019 to implement Basel III. Credit unions should be afforded the same timeframe in implementing the proposal.

Based on our comments and those comments from others within the credit union industry, we feel that the NCUA needs to review this proposal and make significant changes or limit scope of the proposed rule.

Thank you again for allowing us to comment on the proposed rule and for considering our concerns.

Respectfully Submitted,

Scott Sommers
Credit Union ONE
Senior Vice-President/Chief Financial Officer