May 28, 2014

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

(Via email regcomments@ncua.gov)

Re: Navigant Credit Union – Comments on Proposed Rule: PCA – Risk Based Capital

Dear Mr. Poliquin:

Thank you for the opportunity to comment on the Proposed Risk Based Capital (PRBC) rule. Navigant Credit Union is a RI state-chartered, federally insured and well capitalized community credit union with $1.5b in assets serving the financial needs of over 64,000 members. While we understand and agree with a risk-based capital structure for credit unions, we believe the proposed regulation has unintended consequences that will impact Navigant Credit Union and its ability to provide value to its members as it has done for almost 100 years.

As currently drafted, we understand the PRBC rule has three primary objectives:

1) Establish a risk weighting system that helps credit unions better absorb losses,
2) Replace the Risk Based Net Worth (RBNW) method with one that is more commonly applied to depository institutions worldwide, and
3) Use a framework for assigning risk weights that would promote a more improved understanding and comparison amongst all types of federally insured financial institutions.

While we support the NCUA's efforts to address the weaknesses in the current capital management framework, we are concerned that, as presently drafted, the PRBC falls short on meeting these objectives and will have unintended negative consequences for the credit union industry as well as its members and communities served.

As proposed the rule remains meaningfully inconsistent with the Risk-Based Capital (RBC) measures applied by the FDIC, Federal Reserve, and OCC. For example, the new rules appear to be more punitive for assets with maturities deemed to be long term (e.g. 200% risk weight for 10 year+ government agency debenture) versus assets that present a higher degree of downside credit exposure (e.g. 100% for all delinquent first lien mortgage loans and 150% for all other delinquent unsecured loans). Similarly, a consumer loan is assigned a risk weighting of 75% whereby junior liens, typically secured by a personal residence, in excess of 20% of assets are assigned a risk weight of 150%. This proposed approach is especially punitive to a credit union such as Navigant that specialize in secured mortgage lending and possesses a sizable portfolio of bonds issued by government sponsored entities (GSEs). A result of the new rule may actually reduce the ability of credit unions to absorb losses and compete. Given limited access to the capital markets, the ability of a credit union to absorb losses is directly related to its ability to generate new capital surplus through earnings. This is an increasingly difficult task for many credit unions as margins have been contracting on average for over 10 years while the cost of doing business has escalated upward. As a result, credit unions are contemplating longer-term strategies to scale the business and increase asset size in a manner that achieves a higher core earnings base and, as a result, strengthens the protection of their capital base. This necessitates a meaningful change in culture and strategy since in many cases it requires a greater comfort level with operating at lower yet prudent capital ratios, on average. If the credit union industry performed better in the recent economic downturn than the banking industry, why is the proposed regulation more stringent than the current banking regulation?

Under the proposed rules, credit unions will have less flexibility and capacity for growth, which will limit opportunities to increase earnings and capital surplus. The credit union industry will likely operate with higher capital ratios, but present greater potential long-term risk to capital (weaker earnings). Also, the competitive disadvantage that already threatens many credit unions in most areas of lending will worsen. This is of particular importance to the smaller institutions, which characterize the majority of the credit union industry.

A few other unintended consequences may result as well.

1) With reduced growth capacity there may be less local market lending activity as the economy strengthens and demand for loans increases, particularly the housing sector.
2) Credit unions may alter the manner in which they hold liquidity, maintaining larger positions in cash and shorter-term investments resulting in increased opportunity costs and leading to lower earnings and less capital replenishment, further reducing lending capacities.
3) The inability to grow core earnings to outpace continued increases in overhead costs could result in further contraction of the industry to achieve cost reductions and operating efficiencies.

Navigant Credit Union is a well capitalized institution with a wide variety of services and products available to its growing membership. Management works diligently to strategize new initiatives and measure the impact these initiatives will have on the credit union's ALM position. The Board prides itself on having an active ALCO and ALM process that includes the use of internal (third party modeling) and outside consultants. In 2009, Navigant was examined by a capital market specialist with no significant findings noted. This is true for subsequent examinations.

Navigant Credit Union would remain well capitalized under the new ruling but its capital cushion would shrink by approximately $16.3 million. Navigant currently has a cushion over well capitalized equal to 458 basis points on total assets. Under the proposal the cushion would decline to 346 basis points on total assets, a 112 basis point decline. As a point of reference, Navigant earned a 39 basis point ROA in 2013.

In summary, the NCUA Board's proposed RBC rule for credit unions remains highly inconsistent with those rules applied for banks and other depository institutions in a manner that is significantly more punitive. As a result, credit unions will be faced with two choices: 1) accept lower capital ratios and, therefore, be forced to restrict loan growth; or 2) maintain a shorter average life for its assets and accept the lower income stream or rate of return on assets, thereby reducing the creation of new capital to support loan growth. In either case, credit unions will be forced to play a reduced role in supporting their membership and communities.

Industry earnings trends suggest that credit unions cannot afford this extra cost of capital, as meaningful loan growth will be necessary to offset contracting net interest margins, higher overhead and a greater cost of doing business.

As prescribed, these rules may very well have the unintended consequence of increasing capital exposure(s) and related risk to the NCUSIF.

We urge the board of the NCUA to either:

1) More closely align the Risk-Based Capital risk weight system with the credit risk centric approach that is applied by the FDIC, FRB, and OCC; or
2) Reassess and reduce risk weight percentages to better fit the proposed methodology in a manner that does not result in unnecessarily punitive and growth constraining required capital levels.

We understand that NCUA takes comments very seriously to ensure that good public policy is produced and we thank you for the opportunity to comment on this proposal.

Sincerely,

Gary E. Furtado

Gary E. Furtado
President & CEO