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May 27, 2014

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

Re: Proposed Rule on Risk Based Capital (RBC)
RIN 3133-AD77

Dear Mr. Poliquin:

Utilities Employees Credit Union (UECU) appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on the proposed rule. UECU is a $1.1 billion federally-insured, Pennsylvania state-chartered credit union. We provide financial benefits to 44,000 members, largely utility workers and their family members.

NCUA plans to replace the risk-based net worth (RBNW) method currently used by credit unions to apply risk-weightings to their assets with a new risk-based capital ratio method that is more commonly applied to depository institutions worldwide. The NCUA Board has cited that the new methodology will improve the comparison of assets and risk-adjusted capital across financial institutions. In addition, NCUA notes in the Federal Register publication that "Section 216(d) of the Federal Credit Union Act requires NCUA to formulate a risk-based net worth requirement that takes into account any material risks against which the net worth ratio required for an insured credit union to be adequately capitalized (the 6% net worth ratio) may not provide adequate protection." Therefore, the proposed rule has been designed to provide capital protection against a broad range of risks, including credit, interest rate, liquidity, operational and market risks.

The intended outcome of the new rule is to limit losses to the NCUSIF, by helping credit unions to better absorb losses and to establish a safer, more resilient, and more stable credit union system, particularly during times of financial stress. The nation has just gone through the worst economic downturn since the 1930s. While NCUA reported 102 credit union failures during this period, the number of failures pales in comparison to losses incurred by the banking industry. Throughout this difficult period, during a time when loan losses escalated with high unemployment and a sharp drop in home prices, and Corporate Credit Union Stabilization costs were imposed on credit unions, the overall industry net worth ratio remained upwards of 10%, far above that required to be well-capitalized under the current system.

UECU recognizes the need for a properly balanced and credit union specific structure for risk-based capital, as an alternative to the current net worth standard. That said, we believe the proposed rule goes beyond a rational structure. NCUA's attempt to capture a broad range of risks using a single metric results in risk weightings that are punitive across most asset classes, when compared to the bank's Basel framework. History has demonstrated no substantiated need for higher levels of capital industry-wide, and our fear is that members will be penalized as credit unions look to increased loan rates and fees to compensate for the higher capital requirements and costs.

In addition to the general comments above, we offer the following observations on specific areas within the proposed rule that raise significant concerns to the organization:

Examiner Imposed Capital Levels
The proposed regulation provides individual examiners with authority to impose higher capital requirements for individual credit unions. We view this as the most alarming component of the proposed rule, and believe it should be removed. Providing individual examiners with discretion to mandate an additional individual capital requirement is grossly subjective, overrides the RBNW outcome, and will likely lead to confusion, and inequity among credit unions.

Interest Rate Risk Considerations
Through the proposed rule, NCUA has looked to incorporate a variety of risks that credit unions face, including interest rate risk. However, the rule focuses solely on credit union assets, without consideration of balance sheet liabilities and related risk mitigation. Effective management of the balance sheet considers both sides of the equation, and credit unions will utilize certificates of deposit, borrowings or other strategies to reduce the risk of adding longer term loans and investments. Without consideration of mitigating factors, the proposed rule will create unnecessary capital requirements.

Equity
The proposal currently limits the amount of the Allowance for Loan and Lease Losses (ALLL) that is included in the numerator of the RBC ratio, to 1.25% of risk assets. NCUA estimated that as of mid-year 2013, 468 of the 2,237 complex credit unions had an ALLL greater than 1.25% of risk assets. Several years ago, the Financial Accounting Standards Board issued a proposed statement which transitions the valuation of the ALLL from an "incurred loss" model to an "expected loss" model. The expected loss model is more forward looking. Depending on the recommended methodology, this could have material implications to existing allowance for loan loss values, and could further penalize credit unions when limiting the portion of the ALLL that is counted in the RBNW calculation. We do not see the logic of excluding any portion of the ALLL within the RBC numerator.

Risk Weights
The proposed rule attempts to incorporate multiple types of risk exposures into a single set of metrics. As a result, many asset classes, including loans and investments, are risk weighted at substantially higher levels than under the Basel model used for banks, which captures primarily credit risk. In one example, one-to-four family first mortgage loans are assigned a 50% risk weight under Basel, whereas credit union first mortgage loans are laddered based on concentration as a percent of assets, and the risk rating may climb as high as 100%, or twice that required of a bank! NCUA cites concentration risk, inadequate underwriting practices and high risk products as support for these risk weights. Yet, credit unions in general did not submit to the lax underwriting standards that plagued the real estate lending practices of the large banks prior to the Great Recession. We see no substantiation for risk weights on credit unions that would exceed those assigned to bank asset classes.

In conclusion, we support the efforts of NCUA to pursue a balanced RBC system, but believe that in its current form the proposed rule's unintended negative repercussions to the industry and the millions of Americans that rely on credit unions would far outweigh any future savings from lower losses to the Share Insurance Fund. We appreciate the opportunity to comment on the proposed regulation, and extend our thanks for your time in reviewing the comments.

Respectfully,

Utilities Employees Credit Union

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