Washington Gas Light
Federal Credit Union

May 23, 2014

Mr. Gerard Poliquin
Secretary to the NCUA Board
1775 Duke Street
Alexandria, VA 22314

RE: Washington Gas Light Federal Credit Union Comments on Proposed Rule: PCA - Risk-Based Capital

Dear Mr. Poliquin:

We support and appreciate the initiative of the NCUA to strengthen the capital position of the credit union industry. Establishing fair and reasonable measurements for determining capital needs based on a calculation of the risk-weightings of a credit union's assets makes good sense and is already being used by other types of regulated financial institutions. The model used by these other regulators should be closely followed by the NCUA.

We believe that a matter of such great importance to credit unions requires additional time and consideration to be given to this proposed rule before it becomes final. We feel that some of the proposed risk-weighting levels should be adjusted and a longer phase in period to get to full implementation is needed. Our comments on those matters follow.

CUSOs

CUSO investments should be weighted at 100 percent to align it with loans to a CUSO. The proposed 250 percent risk-weight for investments in CUSOs is arbitrary and suggests that loans to CUSOs are 2.5 times safer than investments in CUSOs. CUSOs continue to serve as great avenues for credit unions to be able to provide more and better services to their members by the pooling of their resources. Without CUSOs, it would not make economic sense for individual credit unions to provide certain services to their members. Our credit union would be less likely to invest in CUSOs going forward if the capital requirements to do so increased. The management and regulation of the capital strength of individual CUSOs should mitigate the risk in owning CUSO investments.

Investments

The proposed rule would unfairly penalize credit unions and shows a bias towards lending and against investments. Investments bonds in U.S. government agency or government sponsored enterprise securities carry a lower credit risk than most loans and more emphasis should be placed on the strength of the investment security issuer and underlying collateral than on an interest rate risk in assigning risk-based capital. Default risk should be considered more strongly than interest rate risk in these capital needs calculations. The NCUA risk weighting of investments should be in alignment with those used by the FDIC in their risk-based capital calculations, Washington Gas Light Federal Credit Union

Non-Delinquent First Mortgage Real Estate Loans
The proposed risk-weights for non-delinquent first mortgage real estate loans are too high and penalize too many credit unions for concentrations of loans that are not inherently risky.
The proposed rule uses the non-delinquent first mortgage real estate loans risk-weights to compensate for concentration risk. The FDIC weights non-delinquent first mortgage real estate loans at 50 percent regardless of the concentration in the portfolio.

The risk-weights do not take in to consideration any factors that could indicate that the loans are more or less likely to default, including the loan-to-value ratio of loans or credit scores of members who get the loans. These factors should be used to lower the amount of capital required to be held for loans that are safer than others. Our credit union would be less likely to offer these types of loans to our members going forward if capital requirements to do so increase.

Default risk and collateral values should be considered more strongly than concentration risk in these capital needs calculations. The NCUA risk weighting of non-delinquent first mortgage real estate loans should be in alignment with those used by the FDIC in their risk-based capital calculations.

Member Business Loans (MBLs)
NCUA's proposed rule risk-weights for MBLs are punitive for credit unions chartered for the purposes of MBLs. NCUA should give credit unions chartered historically for business loan purposes a different set of risk-weights that doesn't require them to abandon their core mission for their membership and their MBL portfolio should be given a risk-weight of 100 percent and managed through examination and supervision. Any final rule should give credit to credit unions with proven minimal losses in business lending. Risk-weights should also be broken down for types of loans such as agricultural MBLs or commercial real estate MBLs.

The risks to the portfolios of these special credit unions, including concentration risk, should be managed through the examination and supervision process, not through these capital risk-weights.

Credit unions with proven minimal losses in business lending should be given credit for their diversified portfolios and proven underwriting standards. Risk-weights should also be broken down for types of loans such as agricultural MBLs or commercial real estate MBLs and given appropriate risk-weights based on their actual risk.

Corporate Paid-In Capital
Corporate paid-in capital is risk-weighted too high at 200 percent. Paid-in capital would be more appropriately weighted at 125 percent to recognize that the corporate credit union structure is now a less risky asset than was during the crisis. A weight that reflects the actual risk for paid-in capital to corporate credit unions would benefit natural person credit unions, corporate credit unions, and the share insurance fund. The proposed risk-weight does not reflect the actual risk of this asset. The proposed rule suggests that corporate paid-in capital is two times as risky as a dollar invested in a mortgage loan in excess of 35% of assets. This could serve as a disincentive to credit unions to invest in corporate credit unions.

Implementation Period
The 18 month proposed implementation time period is not nearly enough time for credit unions to make changes to their balance sheets in a safe and sound manner. Any implementation period should be at least 3 years from the passage of any final rule in order to give credit unions enough time to raise capital through retained earnings or make changes in their operations since most credit unions are not allowed or able to raise supplemental capital to instantly increase their risk-based capital ratios. A 3 year implementation period more appropriately compares to the time frames given to the banking industry by their regulators during the implementation of the BASEL standards.

Supplemental Capital
Supplemental capital authority is needed now more than ever considering the restrictions brought on by this rule. Allowing eligible credit unions access to supplemental capital, in addition to retained earning sources, will help ensure healthy credit unions can achieve manageable asset growth and continue to serve their member-owners efficiently. Supplemental capital authority is not the answer to the entire industries worries about capital, but it is a powerful tool that should be given to all credit unions. NCUA should call on Congress to pass a legislation solution that modernizes capital standards to allow supplemental capital and directs the NCUA Board to design a risk-based capital regime for credit unions that takes into account material risks instead of the current proposed rule.

Goodwill
Removing goodwill will present a disincentive for healthy credit unions to become merger partners for troubling or failing credit unions because of the possible significant negative effect to their risk-based net-worth ratio. Goodwill should be added back into the numerator for the risk-based capital ratio.

Goodwill within the risk-based capital ratio numerator presents two significant issues to consider. First, it penalizes credit unions for their past actions. Goodwill is present on the balance sheets of credit unions that have recently been involved in mergers. This proposed rule could remove the benefit that credit unions recently involved in mergers currently account for.

Secondly, this can present significant problems in the future. The credit union industry has seen significant consolidation in the past few years and this is a trend that is likely to continue. Without goodwill available to help balance out the equation going forward, a healthy credit union is less likely to agree to take on a troubled credit union as a partner (even at the request of NCUA). This is going to make it harder and more expensive for NCUA (and the industry as a whole) to find merger partners for troubled or failing credit unions which will ultimately lead to more expensive liquidations for the Share Insurance Fund.

Our credit union has as a strategic initiative been actively looking for smaller or stressed merger partners to join with us so that by combining we are able to better serve all members and so removing goodwill from the risk-based capital ratio numerator would have a negative impact on our proceeding with doing a merger.

Washington Gas Light
Federal Credit Union

Sincerely,

Lynette W. Smith
Lynette W. Smith, President and CEO

Stephen W. Lilly
Stephen W. Lilly, CPA, Vice President of Finance