Bellwether
COMMUNITY CREDIT UNION

May 27, 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

Dear Mr. Poliquin:

Bellwether Community Credit Union (BCCU) is appreciative of the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal (Proposal) to make changes to Prompt Corrective Action relative to Risk Based Capital. BCCU is a NH state-chartered credit union serving the citizens of New Hampshire with 30,000 members, $393 million in assets and an 11.46% capital ratio with a 6.88% risk based requirement under Prompt Corrective Action (PCA).

BCCU supports the general premise that capital requirements need to be sufficient to ensure a safe and sound credit union system that serves nearly 100 million members. BCCU also believes capital standards should not be more onerous than necessary and that they should not be increased in lieu of effective regulatory oversight at the individual credit union level. It is our preference that NCUA utilize the existing PCA standards as they have served the natural credit union industry well. Credit unions survived the Great Recession meeting the needs of millions of Americans while other financial institutions floundered. The industry's capital and the management of the same were more than adequate to weather that shock to our system. However, if the NCUA feels compelled to impose additional restrictions on member capital, we believe it should be done in a manner that is commensurate with the industry's track record of managing through difficult and challenging times.

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The impact of the proposed RBC requirement on BCCU is substantial and we strongly recommend substantive revisions to the proposal and the implementation timeframe. At first glance, it would appear this Proposal would not affect our credit union because we maintain a "well capitalized" rating under this scenario. However, in the Proposal, the cushion (capital in excess of regulatory requirements) above the well capitalized classification is cut from 4.47% to 2.48%, a reduction of over $7.7 million. The capital we hold above the 7% necessary to be considered well capitalized is strategic in nature and in an amount determined by our board to be in the best long-term interest of our members. Efforts to restore this cushion to its current percentage would have a negative impact on our members.

Several aspects of the Proposal give us cause for concern including the concept of tiered risk weighting within an asset class. For example, tiered risk weighting within the real estate loan asset class appears fundamentally flawed. This requirement could eventually force us to redirect resources from higher risk weighted activities to others based on what appears to be arbitrary national standards and not local member needs. If this is an attempt to manage concentration risk, we would respectfully suggest that a higher capital requirement is not a replacement for a regulatory review of management's plan to meet member needs and the corresponding risk mitigation strategy. BCCU currently enjoys a reasonably balanced asset mix. However, we have seen many credit unions develop a strong competency in a particular area of lending. Strong member demand can cause higher growth in certain asset classes. Well managed credit unions will create effective policies, hire/maintain staff expertise and ensure adequate oversight to more than offset any concentration risk. We believe the latter to be a more effective risk mitigation strategy.

The same is true for weighted risk ratings for investments based on weighted average life (WAL). This concept all but ignores risk mitigation strategies on the liability side of the balance sheet, the possibility of off-balance sheet hedging (derivatives) and the cash flows of other assets. Like many credit unions, BCCU has invested significant resources in the area of asset/liability management. We have developed in-house expertise and sound policies, we utilize third party consultants and sophisticated models and routinely conduct analysis commensurate with our risk profile. The combination of these factors is a more effective and targeted risk mitigation approach than a one size fits all plan centered on increasing capital reserves.

Another concern with the Proposal is it is more stringent than Basel III's risk-based capital requirements for community banks. Natural person credit unions weathered the Great Recession far better than banks and at a minimum should be subjected to no more than the same capital reserve requirements than the banking sector. To place additional burdens on an industry (Credit Unions with assets over $50 million) that consistently demonstrates a lower risk profile than banks will put credit unions at a competitive disadvantage especially given the lack of access to supplemental capital.

BCCU also feels strongly that any revisions to PCA should be implemented over an extended period of time. We see no valid reason for an 18-month implementation timeframe as outlined in the Proposal. Basel III allows the banking sector a five year "phasing" of an additional capital buffer. Once again, at a minimum credit unions should be allowed to do the same. This will give credit union boards' sufficient time to develop and implement capital reserve strategies that will minimize the impact on members.

Finally, we would be remiss if we didn't express our serious concerns with the Proposal's provision of requiring "additional capital" on a case-by-case basis. Specifically, we believe the "subjective judgment" aspect of the Proposal to be especially troubling. While the Proposal calls for the establishment of a process to challenge additional capital requirements, we find this authority to be unnecessary and likely to lead to inconsistency in the application of risk-based capital requirements.

In closing, BCCU believes the implementation of the Proposal as it stands today will have significant and negative impact on credit union operations. The universe of remedies available to credit union boards and management to meet capital standards as well as any cushion they believe is prudent for their specific operation will harm members and/or make us less competitive in the market. Members may be forced to pay more for loans or find that their credit union is not offering some of the loan products they have benefited from in the past. Fees for services will likely rise while investments in delivery channels and new services may decline. All of these things and more will reduce the relevance of credit unions to millions of members.

Thank you for the opportunity to comment on the Proposal. Please feel free to contact us with any questions.

Very truly yours,

Michael L'Ecuyer
President/CEO