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Baltimore County Employees
Federal Credit Union

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May 28, 2014

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

Via e-mail: regcomments@ncua.gov

RE: Comments on Proposed Rule: Prompt Corrective Action – Risk-Based Capital.

Dear Mr. Poliquin:

Baltimore County Employees Federal Credit Union serves the employees and retirees of the County Government of Baltimore County, Maryland as well as many of their family members in the central Maryland area. We currently have over 27,000 members and $338.5 million in assets. We are a conservatively managed credit union with a CAMEL 1 rating. We provide loans for our public servant employee group members for the many needs they have throughout their lives. These include many that will fall in the higher risk category of the proposed rule simply due to their longer-term nature, although they are subject to strict underwriting standards. We are concerned about meeting these needs of our moderate income members under the proposed rule.

We believe this proposed rule to be without merit. Credit unions remained strong through the worst financial crisis in our lifetime. We have managed our institutions to weather low interest rates, financially burdensome compliance requirements, and fundamental changes in the markets we serve. We have supported our members through reductions in employment and in the values of their assets. There is no reason to assume that credit unions will not be able to continue to do this work without this proposed change in capital.

While the concept of risk-based capital is sound, we think the proposed rule will place an unwarranted burden upon credit unions. Most affected credit unions would need to increase the amount of capital held in order to stay well capitalized. More importantly, the risk weightings proposed will be a disincentive to continue or enter into lending programs needed in our communities, particularly member business and mortgage lending programs. The risk weightings will prevent many long-term investments, reducing income to support member programs and benefits, and inevitably pushing members to credit unions' competitors.

All in all, the proposed rule serves to weaken, not strengthen the Credit Union system and its participants.

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<u>Proposed risk-weights -</u> A number of the risk weights, especially for mortgages, member business loans and CUSO investments do not appear to be appropriately designed for credit unions. Using higher risk weights on long-term assets to deal with interest-rate risk is misleading without considering liability maturities and other mitigating factors such as the underlying quality of the assets and the overall management of our institutions.

<u>NCUSIF 1% Deposit to be ignored</u> - NCUA's requirement that the National Credit Union Share Insurance Fund 1% deposit be ignored in the risk-based capital calculation should be reconsidered. The justification for removing the deposit is unclear, yet quite significant.

<u>Examiner discretion to change risk ratings -</u> NCUA would assume additional authority to impose higher capital requirements on individual credit unions. Unlike under the existing statutory net worth rules known as Prompt Corrective Action (PCA) regulations, credit unions would no longer have clear rules to avoid prompt corrective action if the agency establishes its authority to use "judgment" on a credit union to make changes to risk ratings. This opens the door to inconsistent and arbitrary application. It would also diminish the boards and management to make financial judgments and oversee policy. Our recommendation is to remove section 702.105(c) from the rule entirely.

<u>Implementation Date</u> - We also recommend that the proposed implementation date of eighteen months after becoming final be extended. This proposed time frame does not give credit unions sufficient lead time to plan for and implement the new risk based capital ratio requirements. This is important as many credit unions will need to alter their balance sheet composition to comply.

Conclusion
Baltimore County Employees Federal Credit union recognizes the value of its capital as a source of funding to shore up a balance sheet under duress. We understand the need for regulatory oversight. In that spirit, we are asking NCUA to carefully weigh the comments received and consider withdrawing this flawed proposal in favor of opening a new with the credit union community regarding warranted and balanced risk-based capital reform. Short of that, at the very least, we urge NCUA to pursue the appropriate amendments to this rule that will ensure a viable, well-balanced risk-based capital system is implemented.

Thank you for the opportunity to comment on the proposed rule Prompt Corrective Action – Risk-Based Capital. If you should have any questions, please contact me at 410-828-4730 extension 7013 or regina.english@bcefcu.com.

Sincerely

Regina English

Regina English
Controller

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