EAGLE
COMMUNITY
CREDIT UNION

May 27th, 2014

The Honorable Gerald Poliquin
Secretary of the Board
National Credit Union Administration
regcomments@NCUA.gov

Re: Prompt Corrective Action – Risk Based Capital
RIN: 3133-AD77

Eagle Community Credit Union recognizes that the NCUA is primarily concerned with the safety and soundness of all credit unions and that the new proposed Risk Based Capital requirements are being implemented to address what is perceived to be an undercapitalization of credit unions in the industry and increase our ability absorb losses in the event of another significant financial event.

While the NCUA states that the proposed rule is being put into effect to create a system of measuring risked based capital that is more consistent with measures used by Other Federal Banking Regulatory Agencies it in fact penalizes credit unions by the inconsistent application of risk weights among the varying asset classes.

Currently Eagle Community Credit Union is considered "Well Capitalized" under NCUA Regulations as well as the risk based capital standards. The imposition of the proposed "Risk Based Capital" rule would adversely affect the credit union by dropping it into the "Adequately Capitalized" rating tier. This would most likely increase the regulatory burden currently being placed on the credit union in terms of both time and cost. A restructure of the credit unions balance sheet to bring it into a "Well Capitalized" status would impair earnings in a very unfavorable market. As we all know, the primary source of capital for credit unions is the retention of earnings, by realigning the credit unions balance sheet into lower yielding assets margins will be further compressed resulting in a reduction in net income.

Others may argue that there are other ways in which the credit union can its capital needs. Reducing expenses, lowering total assets increasing non-interest income are all options. At Eagle Community Credit Union all of these options have been considered since late 2008.

Actions Taken:

There have been branch closures, layoffs, curtailment in lending. Expense reductions can only be carried so far, they have resulted in the deferment of implementing new technologies, replacing fixed assets and implementing solutions that will improve both employee productivity and provide the services that are expected of members by their financial institution.

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Reducing earning assets inherently creates a reduction in income. It often does not coincide with a reduction in related expenses and ultimately impairs earnings thereby curtailing capital growth. The credit union has seen loans decline from $191 million as of December 2008 to $111 million as of December 2013. The credit union imposed moratoriums on specific types of lending during the recession in an effort to reduce risk and curtail losses. In the current economy we are still finding it very difficult to increase consumer loan volume and prudence dictates that we avoid what we still consider high risk (fixed rate mortgage loans) due the potential for a significant increase in market rates.

Increasing non-interest income:

The credit union has monitored fee income closely and increased fees when market factors allow. Still, one of the primary purposes of credit unions is to offer reasonably priced services to our members providing them a viable alternative to higher priced institutions.

Alternatively the credit union has increased non-interest income by providing additional services to members at a reasonable cost. Often through partnering with outside providers to deliver these services and increase credit union revenues. A recent conversion from VISA to MasterCard is projected to increase the credit unions interchange income by over $1 million over the next ten years, as well as generate an additional $80 thousand in one time conversion related bonuses.

Asset Reduction:

Credit union assets have actually increased since December 2008 as a result of member's flight to safety. The increase in deposits coupled with the historically low interest rates during this period has impaired earnings through the reduction in net interest margins. Even though the credit union has lowered dividends to historic lows the resulting in a cost of funds rate of 28 basis points deposits have continued to increase.

Another consideration in the Risk Based Capital proposal is that there is no consideration given to the liability side of the balance sheet. No mitigation capital component related to benefits received from the low cost member deposits held by the credit union.

The realignment of the balance e sheet undertaken by management and the Board of Directors to reduce risk and curtail losses has not been considered. The end result has been to reduce income by limiting higher risk lending and increasing lower risk investments in Government back securities. The proposed rule will now penalize the credit union for taking what we feel is appropriate action to reduce risk and losses that were inherent in the balance sheet during prior periods. The higher reserve limits on investments under the proposed rule will only increase the difficulty in managing future improvement.

Improvement in balance sheet risk has been mitigated by the establishment of reasonable concentration limits on all loan and investment types. The risk is effectively monitored through the credit unions ALCO process and managing too Board approved NEV and Net Interest Margin guidelines under a variety of interest rate and financial change scenarios.

Risk Reduction:

Other actions the credit union could utilize to reduce risk will negatively impact the Risk Based Capital requirements as proposed. Utilizing borrowings or increasing long term deposits as a mean of reducing interest rate risk will increase the credit union's Risk Based Capital requirement as proposed. The recent ruling prohibiting credit unions under $250 million in assets from utilizing simple derivatives as a means of reducing interest rate risk limits the credit unions ability to address ALM issues in an effective manner. Our ability to utilize these risk mitigation strategies would require a special waiver from the NCUA.

Capital Requirements Comparison:

Capital information related to Eagle Community Credit Union as of December 31st, 2013 is listed in the table below:

Net Worth	8.20%
Current System	6.40%
NCUA Proposed System	9.90%
Basel III	13.20%

Under the NCUA's proposed Prompt Corrective Action Rule Eagle Community Credit Union would be classified as Adequately Capitalized. The reason for the reduction in Risk Based Capital is directly related to the disparity between the risk based requirements imposed on credit unions as opposed to those imposed on community banks and financial institutions under Basel III.

Significant increases in capital requirements for investments of all types, non-delinquent mortgage loans and member business loans are just a few of the examples that increase the capital requirements imposed on credit unions.

Some of the disparities in capital requirements between the proposed regulation, the current process and Basel III guidelines affecting other institutions are as follows:

Investments:

Increases in the risk weighting of investments are partially addressed with proper application of GAAP through the recording of unrealized gains and losses as well as the recognition of losses related to impaired investments. There does not seem to be a logical reason to increase the risk burden above that of other financial institutions. The effects on operations and risk are better measured and monitored through an effective ALM process.

Mortgage Delinquency:

The impact of potential losses on loans of all types, consumer, business and mortgage loans are addressed in the financial institutions Allowance for Loan Loss reserves. When applying additional risk based capital requirements there does not appear to be a sound basis for increasing a credit unions capital requirements above those of like financial institutions. The disparity places the credit union industry at a competitive disadvantage. The perception being perpetrated by the proposed regulation is that credit unions are not capable of originating quality loans.

Member Business Loans:

Penalizing credit unions, over and above the limitations imposed on commercial banks for originating member business loans in terms of requiring higher capital levels appears to be in direct contradiction to increasing the industries presence in the small business market. The increase in capital requirements again appear to be imposed in a subjective manner that assumes that credit unions are not suited to originate member business loans.

Conclusions:

The disparity between the NCUA's Proposed Risk Based Capital and that imposed under Basel III for other financial institutions will adversely affect Eagle Community Credit Union. We also feel that it will negatively affect other credit unions in the small-asset range $50-250 million. Increases in reserve requirements that in total appear to relatively equal, in fact, are weighted against credit unions in operational areas that comprise our core business and financial opportunities. This will give rise to Risk Based Capital requirements that are greater than our competitors and increase the amount of oversight imposed on us by the NCUA.

The difference in risk weightings applied to commercial banks under Basil III and those applied to credit unions under the proposed regulation form a base for the perception that credit unions as a whole either generate assets of inferior quality or that they are not qualified to invest with a reasonable amount of care.

Imposing higher capital requirements on loans and investments, whose risk is captured and reflected in other areas of the credit unions financial statements, increases the already heavy burden on the credit union to generate income and meet capital goals. Dropping from a "Well Capitalized" to "Adequately Capitalized" status is expected to increase the credit unions regulatory burden, potentially resulting in increased examinations, lost productivity from an already minimal staff and increase examination related expenses.

I sincerely hope that you will consider aligning the proposed Risk Based Capital requirements with those of like financial institutions. While change is inevitable the disparities in risk weighting between credit unions and other financial institutions places us at a distinct competitive disadvantage.

Thank you for the opportunity to comment on the proposed regulation.

Regards,

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