Resource One
CREDIT UNION
Member owned. Not-for-profit.

MAY 28 '14 PM 1:30 BOARD

May 21, 2014

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

Re: Resource One Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

This letter represents the views of Resource One regarding the NCUA's proposal on Risk-Based Capital. Resource One is based in Dallas, Texas and serves approximately 48,000 members. As an employee of Resource One, I would like to take the time to address my personal concerns regarding the proposed Risk-Based Capital Rule. While I support requirements for credit unions to be strong financially, I believe this proposal could have a detrimental impact to the ability to grow. The NCUA needs to reconsider the proposal Rule and I would like to comment for potential conceivable alternatives:

First and foremost, the current system works, credit unions came through the last Recession just fine. Since Resource One was originally chartered, it has shown consistent and efficient growth. Although I believe the NCUA is making efforts to improve capital risk, there seems to be inconsistencies in its current state.

The proposed compliance date of 18 months also seems a little unrealistic. Basel III allows banks 5 years to comply. Delay the enactment to December 31, 2017, allowing Credit unions 3 years to prepare and adjust their balance sheets effectively. Allow management be better plan for the potential proposal.

Regarding loan's risk weights, member business loans and mortgage concentrations do not appear to be aligned with the actual risk for credit unions. A home equity loan would carry a higher risk weight (100% to 150%) than a credit card loan (75%). As arbitrary, although obvious, as it may seem, should to be reexamined and revised.

Additionally, discounting the allowance for loan loss balances to a 125% risk rating does not correlate with the purpose of the proposal. The risk-based nature of a credit union is evident in allowance accounts. The proposal takes control of credit risk management from the management team and the Board. The 125% risk rating premium will cause credit unions to alter their business plans and manage their balance sheets around a ratio.

The proposed RBC regulation also uses risk weights to compensate for interest rate risk with the investment risk weights. There are different proposed risk weights for investments based on the maturity levels of those investments. Although the risk weights would be fixed, the level of interest rate risk would vary depending on the economic variables.

In regards to CUSOs, applying a 250% risk-weight to an investment CUSO will restrict credit unions from continuing business with them. Contingent on the success of the CUSO, there should be a lower tier depending on the type of CUSO. As an example, a small investment service or Home & Life Insurance CUSO should be weighted less than one that deals in loan participation or other risky ventures.

NCUA should reconsider the deductions of the NCUSIF deposit from equity. The proposal implies that the deposit has no value and should be expensed versus the current method of capitalizing the deposit. It becomes more difficult to prove the asset has forthcoming economic value when it carries no value within the proposal calculation.

It appears that NCUA's risk-based capital ratio is attempting to mirror the Basel III model used by banks. However, the RBC proposal covers additional requirements aside from credit risk; it also inherits interest-rate risk, concentration risk, liquidity risk, operational risk, and market risk. This especially penalizes credit unions because unlike banks, they have no alternative methods to raise capital except by earnings.

The RBC proposal has a weight-risk of 150% for delinquent loans, while banks are only at 100% risk-rate. This excessive discrepancy between credit unions and banks is simply unfair. Keep in mind that banks report delinquency after 90 days while credit unions do it after 60 days.

The one with most disparity is the Examiner discretion. This item in the proposal seems the most troubling because an Examiner can arbitrarily increase the required capital that a credit union will need to maintain. The is particularly troubling considering that the proposal is already more stringent than the banks and allowing the Examiners to require additional capital could result in unrealistic and inconsistent capital guidelines with no ability to know how to measure that additional required capital.

Again, I appreciate allowing me to express my comments on the RBC proposal. I respectfully encourage you to consider improvements to the proposed Risk-Based Capital Rule in accordance with my views included in this letter. Thank you again for the opportunity to voice my opinions and comments on the proposal.

Sincerely,

Cleo Segovia

Cleo Segovia
Financial Analyst