Mid Oregon Federal Credit Union

Comments on Proposed Rule: PCA–Risk Based Capital

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For Review
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May 23, 2014

The Honorable Debbie Matz
Chairman
National Credit Union Administration Board
1775 Duke Street
Alexandria, VA 22314

RE: NCUA Risk-Based Capital Proposal

Dear Chairman Matz:

Like many of our peers and our credit union trade association, the Board of Directors and Executives of Mid Oregon Federal Credit Union support risk-based capital reform for credit unions. This includes changes to statutory capital requirements, leverage ratios and supplemental capital. However, by simply layering more capital requirements on a flawed system, this proposal fails in its attempt to achieve more rational and appropriate capital requirements. Additionally, we disagree that the proposal impacts "only a few credit unions".

You have by now received over one thousand letters from credit union professionals, volunteers and trade associations stating and restating similar points. The following is a list of the biggest concerns from the Board and Management of Mid Oregon Federal Credit Union:

- The proposal is misguided because it layers on top of the existing statutory standards a risk-based system that in many areas is more stringent than the Basel system for small banks
    - The existing one-size-fits-all PCA is ineffective in its ability to appropriately assign reserve requirements relative to risks, or lack thereof. The proposed RBC proposal, building on top of a flawed system, therefore, would be just as inappropriate.
- NCUA has not done enough to justify the need for the proposal.
    - While the FDIC fund became technically insolvent during each of the last two financial crises, the NCUSIF performed very well, under current PCA rules.
- The proposed rule would require credit unions to raise billions in unessential capital in order to maintain the same proportion of capital buffers they currently have.
    - Because most credit unions do not have access to supplemental forms of capital, raising this amount of capital through retained earnings alone would be challenging.
- The proposal would constrict credit union lending, particularly residential mortgage and member business lending, and could have a particularly adverse impact in rural and low-income areas.

  - Credit unions would be forced to realign their books, reducing assets deemed 'risky' by the rule, and reduce credit availability, particularly mortgages and business loans which are assigned high risk-weights.
  - The impact of the proposed rule would be particularly damaging to rural and low-income areas because there are several credit unions in these areas which have higher concentrations in agricultural and business lending. They are either exempt from the member business cap because of their historic concentration in business lending or because they are a low-income designated credit union.
- The risk-weights in the rule are poorly calibrated
  - Residential mortgage loans and member business loans--the weights would be double the comparable Basel weights. This despite the fact that for these two categories of loans, credit union losses trend at about half the loss rates of community banks. This would severely restrict or eliminate mortgage and business lending to credit union members.
  - Risk weighting of investments is over simplified.
    - An example; term of investments, regardless of the type of investment, is weighted similarly. A six year, fully insured certificate of deposit, with no market risk and low withdrawal penalty is no more at "risk" than a shorter term CD.
- The ability to impose even higher capital requirements on a case by case basis is unmanageable.
  - Decisions and judgments made at the regional and local level by NCUA staff are often incongruent with NCUA leadership. (Abuse of DORs) It would be impossible, to properly manage this authority that has the power to severely disrupt a credit union's ability to serve its members.
  - Examiner subjectivity without grounds for individual appeal would lead to unfair and inconsistent application of the rule.
- NCUA's dismissal of concerns about the RBC proposal because it impacts only a few credit unions is inaccurate.
  - The impact of this proposal over the long term is what concerns credit unions. Our ability to respond to business opportunities, known and unknown, which will benefit members, should be a concern for every credit union as well as the NCUA.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,

Janet F. Uffelman

Janet F. Uffelman, Chairman

Wm R. Anderson

William R. Anderson, President/CEO