Tower Federal
Credit Union

Martin M. Breland
President and CEO

May 28, 2014

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

Re: Comments on Proposed Rule: PCA, Risk-Based Capital; RIN 3133-AD77

Mr. Poliquin:

Conceptually risk-based capital is a good idea for credit unions. It would strengthen our system to have capital requirements in alignment with underlying risks that credit unions are incurring. However, this rule as drafted misses the mark in two significant ways.

First, the rule treats credit unions as if they are far more risky than banks, when in fact natural person credit unions are inherently <u>less</u> risky than banks. The recent financial crisis demonstrated that, as a result of their governance structure, credit unions take a more responsible approach to lending than banks do. Also, credit unions rely on consumer savings for their primary funding sources, which are far more stable than the wholesale funding sources that large banks tend to rely on. This factor causes large banks to have vastly more liquidity risk than credit unions. Credit unions should be subject to less stringent risk weights than banks, reflecting their lower risk profile, instead of the more stringent weights they would be subject to under NCUA's proposal. Capital requirements that are artificially far more onerous than those of banks could discourage credit unions from providing valuable financial services to members.

Second, the rule does a surprisingly poor job of aligning underlying credit union risks with appropriate risk weights, relative to each other. Following are seven examples where NCUA should consider modifying risk weights to more appropriately reflect relative underlying risks.

1. Variable rate home equity lines of credit with mortgage insurance have virtually no rate risk, and negligible credit risk relative to consumer loans, (and even less credit risk relative to credit cards). Despite these differences, these lines are treated in the rule as more risky than credit cards (75% vs. 100%). The weights for these lines should be set to half that of consumer loans.

2. First mortgages should have the same overall weighting as community banks i.e. 50%. If NCUA wants to retain the concentration tiers, then make the first tiers lower than 50%, to get an industry average closer to 50%.

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3. Most CUSO investments are in CUSO's that have no debt. In these cases, the equity investments are "secured" by the assets of the CUSOs, and arguably have less risk than loans to CUSOs. For CUSOs with no debt, set equity investments at the same risk weighting as loans to CUSO's (100%).

4. By pulling the NCUSIF deposit out of equity entirely, the proposed treatment puts the NCUSIF on roughly the same risk level as the most risky derivative instruments. A risk weight similar to other asset categories should be assigned to the NCUSIF deposit, e.g. 100%.

5. Credit Union investments are primarily treasuries and agency debt, which are virtually risk-free and should be weighted at zero.

6. Non-federally insured student loans are similar in risk to consumer loans, and should be treated the same as consumer loans.

7. Servicing rights have two basic sources of significant risk. One risk is the kind of robo-signing / abusive practices risks that banks engaged in during recent years, but credit unions did not, and the other is interest rate risk. However at today's rate levels the risk of a significant fall in rates is negligible. If rates rise, servicing rights will increase in value because the "risk" here is the inverse of other rate risks, such as the risk of holding mortgages. In a very real sense, servicing rights actually help to "hedge" those risks. However, the proposed rule treats the rights as if they add tremendous risk.

I hope you find these perspectives valuable. Please do not hesitate to ask for additional information or clarification of any of these points. I would be happy to assist in any way I can.

Sincerely,

Martin Breland

Martin M. Breland
President/CEO