UnitedOne
CREDIT UNION
Strength In Members

May 28, 2014

To: regcomments@ncua.gov

Mr. Gerard 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

Dear Mr. Poliquin:

I'm writing on behalf of UnitedOne Credit Union (UOCU), which serves Manitowoc, Sheboygan, Kewaunee and Door counties in the State of Wisconsin. UOCU serves 20,000 members and has $184 million in assets. UnitedOne appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise Prompt Corrective Action related to Risk-Based Capital.

UnitedOne agrees there may be a need to modernize capital standards to identify excessive risk in credit union balance sheets. However, management feels the current Proposed Rule will have negative effects on UOCU members and discourage long term strategies necessary to the survival of the credit union. UOCU is asking the NCUA to consider revising risk weightings to more reasonably assess concentration and interest rate risk and to better align the proposed risk-based well capitalized requirements to existing net worth requirements.

This Rule is especially troubling with the current thresholds being proposed in that they would force credit unions to make choices based on compliance rather than safety and soundness or member service. For example, UOCU could decide to cease or limit mortgage activity or business lending, to the detriment of our members. At the end of the day NCUA is supposed to be focused on safety and soundness yet it seems they are placing undue hardships on credit unions instead.

Unfortunately, under this proposal management would be forced to reshape the credit union's business model as it relates to long term investment and lending strategies which will negatively impact the member experience and make the credit union less competitive with banks and other competing financial institutions. The Proposed Rule, in its current state could inhibit UOCU's growth and discourage the credit union from investing in branches and new technology.

The credit union industry came through the worst recession in history with few problems so the question needs to be asked, "Is it necessary to implement a proposal where most credit unions will see reduced buffers above being well capitalized"? Most credit union failures, including the Corporates, centered around high concentration levels that are part of the annual examination process. As opposed to implementing risk-based capital standards that appear to unfairly measure interest rate risk and concentration risk, should the NCUA consider better defining risk weights in combination with the need to improve examiner skills? Below are the comments that UOCU is asking the NCUA to consider in developing the final version of the Risk-Based Capital Rule.

UnitedOne Credit Union Comments:

UOCU has concerns in regards to the implementation timeframe of eighteen months.

The proposed timeframe for implementation is too short. Credit unions should be given ample time to restructure their balance sheets to meet the standards imposed in the final rule. We recommend not less than three years. Ideally, the rule should phase in over a two- to four-year timeframe. Credit unions are already staggering under the pressures of all the new and modified regulations they are dealing with as well as the confines of building reserves only from retained earnings. More credit unions should not crumble just because of a short implementation timeframe for an onerous – and unnecessary – new rule.

Several of the risk weightings under the Proposed Rule appear to be too general or excessive. Under the Proposed Rule, credit union risk weights would be higher than that of banks requiring credit unions to hold more capital than banks for the same assets. This is a major concern to UOCU as it would place credit unions at a competitive pricing disadvantage in an already highly competitive marketplace. In addition, using higher risk weights on long-term assets to deal with interest rate risk is misleading without considering liability maturities.

<u>Cash Held at the Federal Reserve</u>
UOCU has been holding a larger amount of cash at the Federal Reserve as an alternative to short term investments and as a source of liquidity. Under the Proposed Rule, cash balances being held at the Federal Reserve are given a 20% risk weighting. Given that the Federal Reserve has been designated as a source for emergency liquidity for the entire credit union industry, there appears to be little risk in holding cash balance at the Federal Reserve. Under Basel III, central bank reserves are deemed to be highly liquid assets during a time of stress and carry a 0% risk weighting. UOCU believes cash balances being held at the Federal Reserve should be given a 0% risk weighting in the final version of the Rule.

<u>Investments</u>
Under the Proposed Rule, investment risk weightings for credit unions are significantly higher than that of banks. The NCUA risk weights appear to be punitive and somewhat inconsistent when compared to banks thus putting credit unions at a disadvantage. All Treasury securities and those securities guaranteed by the NCUA or FDIC carry a 0% risk weight, no matter what the maturity. Other Agency backed securities with no credit risk, such as FNMA and Freddie Mac, are risk weighted based on weighted average life time buckets. Investments with weighted average lives greater than 5 years are given punitive risk weights of 150% for 5 to 10 year

average lives and 200% for average lives greater than 10 years. This compares to 20% risk weightings for similar securities in the banking model. In addition, a 30 year whole loan mortgage on UOCU's balance sheet would carry a 50% risk weighting while securitizing the same loan into a 30 year FNMA security, with enhanced liquidity, would carry a 150% risk weighting. UOCU believes the final version of the Rule should more closely mirror bank risk weightings for investments so as not to create such a competitive disadvantage.

Real Estate Loans

Under the Proposed Rule, no distinction is made on the risk weightings assigned to mortgage loans of various maturity and repricing terms. A 30 year fixed rate mortgage gets the same risk weight as a 1 year adjustable rate mortgage and a 30 year fixed rate home equity loan gets the same risk weight as a variable rate home equity line of credit. As opposed to implementing risk-based capital standards that unfairly lump all mortgage loans together there should be more diversity in the risk weighting. Over the past 5 years, UOCU has been selling all long-term fixed rate mortgage production. As a result of holding only adjustable rate and 10 year fixed rate mortgages, UOCU's balance sheet is well positioned for a rising rate environment. The mortgages being held in the balance sheet either have short term repricing characteristics or are producing strong, stable principal cash flows that limit exposure to rising interest rates. Under the Proposed Rule, there would be no difference between UOCU's capital requirement for its diverse mortgage portfolio and the capital requirements for a credit union that holds all 30 year mortgages in the balance sheet. UOCU believes that the capital requirement for adjustable rate mortgages and shorter maturity fixed rate mortgage loans should be lowered in the final version of the Rule to fairly take into consideration the reduced risk associated with these adjustable and shorter term mortgage loan products.

Also in regards to the mortgage loans being weighted based on the percentage of assets. It is my understanding and experience that those that have a larger portfolio also have larger staff and greater expertise at what they are doing. Why then is the risk weighting basing it on the percentage of assets? The percentage of portfolio should be left to concentration discussions and risk weight the mortgages based on terms.

The NCUSIF deposit should not be deducted from the risk-based capital numerator.

The National Credit Union Share Insurance Fund 1% deposit is being ignored in the risk-based capital calculation. The NCUSIF deposit is a valid asset that can be refunded for various reasons including conversion to a bank or savings institution charter, a credit union electing private insurance instead of NCUA or voluntary liquidation. In addition, the deposit can specifically be attributable to a failed credit union providing an additional buffer against NCUSIF losses in addition to the failed credit union's capital. If a credit union did convert to a bank charter the NCUSIF deposit would immediately be included in the risk based capital numerator. UOCU recommends not deducting the NCUSIF deposit from the risk-based capital numerator.

UnitedOne Credit Union has concerns about the examiner being able to impose higher capital requirements on a case by case basis.

The Proposed Rule gives the NCUA authority to require a higher minimum risk-based capital ratio for individual credit unions based on NCUA examiner expertise. This discretion could lead to unfair and inconsistent interpretation and application of the Rule and will lead to mistrust between credit unions and the NCUA. It also leads to arbitrary decisions that cannot be backed with details and becomes challenging for credit unions to plan if the rules are unclear. UOCU strongly recommends the elimination of individual minimum capital ratios from the final version of the Rule.

In summary UOCU feels the current Proposed Risk Based Capital Rule may be too general in assigning risk weightings, focuses on a regulator's model designed to identify concentration and interest rate and not member needs, has the potential to override the Board's and Management's judgments on business strategy and risk and leaves the credit union subject to examiner and Agency abuse by allowing for arbitrary higher minimum capital limits. The Proposed Rule, in its current form, will most likely reduce the risks to the NCUSIF but at a significant cost to credit unions and their members through reduced returns and higher-cost residential and member business loans. In addition it will place credit unions at a competitive disadvantage as it would require far more capital than what is required for banks, especially when considering a credit union's inability to raise supplemental capital. UOCU feels that with modifications to the Proposed Rule based on objective criteria, the final version of the Risk-Based Capital Rule could in fact be a significant improvement over current Risk Based Net Worth.

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

Sincerely,

M McClelland

Michelle McClelland
Chief Financial Officer