MISSISSIPPI CREDIT UNION
ASSOCIATION

May 21, 2014

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

RE: Comments on Proposed Rule: Risk-based Capital; RIN 3133-AD77

Dear Mr. Poliquin,

The Mississippi Credit Union Association is the trade association that represents the interests of our 83 credit unions (and their members) in the state of Mississippi. Our credit unions have combined assets totaling over $4.6 billion with nearly 572,000 members. Thank you for the opportunity to comment on the proposed Risk Based Capital Rule.

While we understand and support risk-based capital, we fundamentally disagree with the proposal as it is currently written. Most importantly we question the need for any changes to the current system. Our credit unions (with their current risk based capital system) recently endured the worst financial crisis since the Great Depression. Their financial health has remained strong and viable, and therefore, there's no justification for changing the current capital system. Nor has the NCUA demonstrated a compelling need for these changes.

Under the proposed rule, credit unions in Mississippi would need to generate nearly $12 million in additional capital to maintain their current cushion above the level that is considered "well-capitalized" under the new rule. This means boards of directors will be reluctant to make decisions to promote credit union growth. Member services will be impacted. And CEOs will be forced to manage to regulatory demands to acheive the "ratio". Our credit union boards and management have demonstrated the ability to manage and allow for risk within the current risk-based capital system.

The proposed risk weights appear to be arbitrary, unreasonable, and excessive. For example, real estate loans greater than 25% of total assets are weighted heavier than those balances under 25% of assets. This implies that for every dollar a credit union lends in real estate loans above the 25% threshold, those loans are considered more at risk than the first. That is simply

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not true. The real issue is interest rate risk (not credit risk). And the proposal doesn't consider adjustable rates or real estate loans with shorter terms. It only considers aggregate real estate loan balances.

Another example is a 5 year insured investment is risk weighted 50% heavier than a delinquent first mortgage loan. Also delinquent signature loans have the same risk weighting as a 5 year insured investment. These weightings appear to be illogical and inconsistent.

We believe that the proposal places our credit unions at a competitive disadvantage (particularly with real estate loans) by simply requiring additional capital for each dollar loaned over a certain threshold of total assets. The proposal doesn't consider variable rates or terms. And all first mortgage loans do not carry the same risk.

The proposal considers each credit union over $50 million in assets to automatically meet the definition of a "complex" credit union. This is a mistake. Defining credit unions based on their asset size alone (without consideration of their asset composition and operational complexity) is too simplistic. According to the Federal Credit Union Act, NCUA must take into account a credit union's assets and liabilities in determining its complexity. The proposed rule does not do this.

We disagree with giving examiners authority to require additional capital above 10.5%. This requirement is based solely on examiner's subjective judgment. And this authority would undermine the board and management's capital and strategic planning. Why establish limits if examiners will be allowed to override them? If a credit union meets both capital tests, NCUA (and individual examiners) should not be imposing their own higher capital standards. This is classic regulator overreach that should be removed from the proposal.

The proposed rule ignores the National Credit Union Share Insurance Fund 1% deposit in the risk-based capital calculation. Eliminating the deposit from the numerator deprives credit unions of a low risk asset.

If the NCUA's position is that inclusion of the NCUSIF deposit represents double counting in terms of taxpayer protection, this is true only if the entire credit union system fails. But on an individual credit union basis, the NCUSIF deposit represents a valid asset and should be included in the numerator of the risk based capital calculation.

The proposed risk weights for long-term assets attempts to address interest rate risk concerns. However, interest rate risk can only be estimated when considering re-pricing intervals for both liabilities and assets. And our credit unions have done a great job of managing these intervals for many years.

NCUA has already published regulations dealing with interest rate risk. We believe it is inappropriate for NCUA to try to account for interest rate risk by risk weighting only assets. And NCUA should not try to deal with interest rate risk in the proposed rule.

The proposed transition period of 18 months is not a reasonable amount of time for credit unions to prepare for the new requirements. Some credit unions will need time to restructure their balance sheets. Credit unions have a limited ability to raise capital and should be given as much or more time than banks have been given.

Most credit failures result from poor underwriting decisions, fraud, mismanagement or bad strategic policy. The proposed rule does not – or cannot – address these causes of failure. And the truth is that no amount of capital will solve these problems.

Our credit unions have generated net income and raised capital over many years. This level of capital has worked and withstood the recent economic challenges. Our boards and CEOs have demonstrated the ability to manage their balance sheet risk in good times (and bad). The need for capital reform is illogical and not needed. The risk weights are unreasonable, and the transition time frame is insufficient. We ask that NCUA withdraw this proposal and replace it with more sensible reform such as access to supplemental capital and more reasonable risk weights.

Thank you for the opportunity to comment. We appreciate your consideration of our views regarding the risk based capital proposal.

Sincerely,

Sonny Green

Sonny Green, CPA
Vice President
Mississippi Credit Union Association